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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

INQUIRY INTO TEXTILE, CLOTHING AND FOOTWEAR

DR D. ROBERTSON, Presiding Commissioner
MR P. WEICKHARDT, Associate Commissioner

TRANSCRIPT OF PROCEEDINGS

AT MELBOURNE ON TUESDAY, 3 JUNE 2003, AT 9.02 AM

DR ROBERTSON: Good morning. We're one minute early but we'll get started. I'm sure you can fill the gap. Welcome to the public hearings for the Productivity Commission Inquiry into the assistance arrangements for textiles, clothing and footwear. I am David Robertson, as some of you know, and my fellow commissioner is Philip Weickhardt. The inquiry started with a reference from the treasurer on 19 November last. I'm going to explain just exactly what he asked us to do because some of the submissions, not necessarily the ones this morning, have misinterpreted what our function is, I think. So the inquiry was directed to evaluate the effectiveness, efficiency and appropriateness of the current assistant programs in pursuing structural change and an internationally competitive textiles, clothing and footwear industry; secondly, to identify and analyse impediments to the long-term viability of the TCF sector; third, to identify and analyse policy options consistent with our international obligations which would promote a viable and competitive sector, bearing in mind regional impacts and workplace issues.

Now, in undertaking this inquiry, the commission was reminded that the government desires to (1) encourage the sector to adjust to become internationally competitive at lower levels of assistance, and secondly, to improve the overall performance of the Australian economy.

Our position paper, the review of the TCF assistance, was released in April after extensive consultations. Philip and I, together with the staff, have met with more than 70 organisations in both capital cities and in regional locations. Almost 100 submissions were received and read and I would like to express our thanks and the thanks of the staff for the courtesy and help extended to us during the inquiry so far. The position paper contains our preliminary assessment of TCFL industries and their prospects in rapidly changing economic and social circumstances and invites comment on our analysis.

The purpose of these public hearings is to provide an opportunity for interested parties to discuss their views on the public record. These discussions and further written submissions will be taken into account in preparing our final report to the government at the end of July. We're holding hearings here in Melbourne today and tomorrow and then in Geelong on Thursday and then next week we're going to Sydney.

I would also like to point out that we have a tight schedule in these hearings, some days tighter than others. We have read your submissions. So rather than repeating that material, we would much prefer the discussion to focus on specific policy issues which the commission has asked to be considered and has been asked to consider in its terms of reference. We would particularly welcome your comments on the position paper drawing our attention to any areas where you believe we may not have fully understood the way in which the industry operates or where you believe our analysis or conclusions are not adequately explained in facts or reason. We would appreciate comments on that; also explaining your views on the SIP options would be appreciated, that is to say, the strategic investment program. We outlined certain changes in our report - in the position paper, that is - and it would be helpful if we got your views on what we're thinking about. The same also applies, I think, to appropriate programs of assistance for displaced workers which is also touched on in the position paper.

We like to conduct our hearings as informally as possible. I would remind you that the commission's act does require people to be truthful in their remarks, although we don't ask you to swear on the Bible or any other kind of document. A transcript will be made of the proceedings and will be placed on the commission's web site as soon as possible. For this reason, comments from the floor are not appropriate during the sessions. At the end of today's proceedings and of the other days too, if time permits, I will provide an opportunity for anyone who wishes, to make a brief comment.

I would remind you that all remaining submissions and any written follow-up on issues discussed at these hearings should be with us by 20 June because we have to report by 31 July. Now, with these introductory comments I think we can begin, but before I turn to our first group of participants, I'm asked to tell you that there's coffee and tea at the back of the room. You can go and get that any time you wish. There will of course be breaks during the day anyway but do feel free if you feel desperate for a cup of coffee or cup of tea.

So with those introductory remarks, I would like to welcome our first representatives from the TFIA - I always get those initials mixed up. I would ask you, for the record so the transcript can establish exactly who says what, if you would introduce yourselves, even though I know you all quite well.

MR EDGAR: Thank you. I am Andrew Edgar and I am the joint chair of the industry policy committee of the Council of Textile and Fashion Industries.

MR McDONALD: Tony McDonald. I'm the executive director of the Council of Textile and Fashion Industries.

MR GARRETT: John Garrett. I'm also the joint chair of the policy committee.

MR EDGAR: Thank you. Chairman, perhaps if I could begin. Firstly, the TFIA welcomes the opportunity to participate in today's public hearing and we certainly see it as part of the ongoing process which will culminate in the preparation of a final submission by the TFIA which will certainly be with the commission by 20 June. I think one of the things that we would like to say up-front is that we appreciate the comprehensive nature of the work undertaken by the commission and the fact that between having the brief to conduct the inquiry and the publication of the position paper, I guess there is a general feeling within the industry that you're able to embrace the diversity of the industry remarkably well in a very short period of time and it is that diversity which really is one of the great challenges as far as the Council of Textile and Fashion Industries is concerned to try and bring industry comments together to a really focused opinion, and I'm sure you will appreciate that that opinion is extremely diverse from one part of the industry to another and you will have already experienced that. So certainly we will be making that final submission by 20 June.

Tony McDonald will talk a little further this morning about the detail in that but one of the - or there are two very important aspects that have really only just come together. One is a very comprehensive industry survey conducted by the TFIA which is an attempt to try and quantify some of the effects of recommendations or suggestions included in the position paper and also the work that has been undertaken by the TCF and L forum on market access issues and that's an area that John Garrett will talk further on this morning. So just by way of introduction we would just like to touch on what we would regard as some core issues and things that we have got to continue addressing in this particular debate.

The TFIA has already submitted that the appropriate course forward to address industry growth reconfiguration and new initiatives requires a continuation of a policy mix of tariff and direct assistance programs. I think it's the combination of those two things which we are addressing and if you take either of them in isolation, obviously there is very strong opinion in the industry that we want to optimise both of them. We are certainly sympathetic with the arguments which are being, I guess, promulgated by, for instance, the TCFUA union where they are not supporting any form of tariff reduction whatsoever; even the legislated reduction in January 2005.

Certainly when you start talking to individual member companies, there is very strong feeling from those companies who have a very deep commitment to Australian manufacturing that any tariff moves are going to result in employment losses. I'm sure that that is not news to you. It's something that you have really foreshadowed in your position paper. It's a question of how that process is managed. But what we are trying to address as an industry council is the continuation of that policy mix which really exists at the present time.

The TFIA firmly believes that a continued direct assistance program providing encouragement for strategic investment and continued structural adjustment must be maintained for at least the period 2005 through to 2015 and it is really that 10-year program which we believe is extremely important in terms of delivering the certainty which the industry is seeking, that we see as an essential part of the policy recommendation. We would further suggest that the funding involved in that strategic investment program for the 10 years is maintained at existing levels and those levels, you know, in very broad terms involve a program of the order of $1.4 billion over that 10-year period.

The industry council is today, I guess for the first time, saying that if the federal government is able to deliver a program which covers that 10-year period that if it is able to demonstrate that the proposed tariff changes are in line with international movements or really market access reforms, that the applied tariff rates in Australia for most TCF products could continue to be reformed. Now, obviously we are cognisant of the fact that part of your brief is to determine the likely effects of lower tariff levels. There is not an open invitation there for you to maintain existing tariff levels and what we are saying is that the industry is able to contemplate change if the total policy mix is delivered. So therefore these continued tariff adjustments, having established the commitment to continue the direct assistance program, and demonstrated market access improvements, would be of the order of - and we're saying that for the apparel rate of 25 per cent, we see an end point in 2015 of 10 per cent, a halfway rate of 14 per cent on 1 January 2010, and obviously the legislated rate of 17 and a half per cent on 1 January 2005.

In the textile/carpet/associated products rate which is presently 15 per cent, the end point that we're seeing is 5 per cent with the exception of the carpet rate which will be addressed separately by the Carpet Institute of Australia, so let us regard this comment as really relating to the textile rate, and we see that running from 10 per cent on 1 January 2005, 7.5 per cent on 1 January 2010, and 5 per cent, 2015. The footwear rate, presently 10 per cent; 7 and a half per cent on 1 January 2005; 5 per cent, 2010; and 5 per cent, 2015. So I emphasise that the carpet rate will be talked about separately. But those comments are made very much against the background of the total package being delivered and we are very mindful of the fact that those companies that are deeply involved in manufacturing, in really any of those sectors, will certainly not necessarily be supportive of that particular view, but we believe that it is realistic to partly meet the government's tariff objectives of lower levels of protection in exchange for the delivery of the 10-year program and the direct assistance.

We don't really need to highlight again the significance of the TCF sector. That has been sort of done and made very clear in your paper but obviously we're very mindful of the current level of employment, the upper-end figure being 80,000 people, and we would just restate the point that obviously tariff change will result in employment change and one of the purposes of the survey that is being conducted by the TFIA is to try and quantify that and give you an educated opinion as to what the likely effects are going to be. So what I would just now like to do is get Tony McDonald to comment on that industry survey and the market access work and then if we can then hand over to John Garrett and John will talk about the direct assistance mechanism, some of the points which will be further discussed and developed in the 20 June submission, and then he will also comment on the market access area.

MR McDONALD: Thanks, Andrew. Yes, I think there are some issues on the drivers that we see might be appropriate for future direct assistance programs that John will get into, but just generally what we're trying to do with the survey is, as can be seen from the commission's own three options, there are very different approaches if you limit it to those three to how you might organise and run a direct assistance program. Coupled with the different tariff scenarios, there is also obviously very different outcomes and different implications depending on the type of business or whether it's capital intensive or labour intensive. What we're trying to do is we have commissioned an independent survey. It's being done through Melbourne University to seek companies' views and quantification of the outcomes under different perhaps identifiers, being exports, employment, investment et cetera, over a number of different years under different scenarios.

Now, that survey work is coming together. We haven't yet analysed it but the commission will certainly see not only the survey results but also our analysis in the 20 June submission. We see it forms a core part of it and will help us to respond to the commission's request for further advice on direct assistance. It would be fair to say that the TFIA has had some fairly interesting discussions internally about what is the appropriate SIP or direct assistance mechanism. There is some criticism of the SIP scheme, but by an enormous margin the benefits of the scheme in its current form outstrip any criticisms in our view. However, there's always room for improvement, particularly in the areas of the application of the innovation definition, the appropriate rates for assistance under particular grant types; issues like that are the core of what we will be trying to give a determined and considered response to in the 20 June submission to the commission.

I think really the issue we're struggling with at the moment - but it's no news to the commission, I suspect - is the labour-intensive versus capital-intensive aspects of any program designs. Coupled with that, there's also some options for - I think the term was the "beauty contest" type of approach, and again we will try and incorporate those industry views into a final position from us. The other issues that should be perhaps discussed, and the commission may well have some comments on them, is about the options for de-linking value added and things like that which I know are not new to the commission but we will have to address those in our submissions because at the moment I see them floating a bit. We're just not quite ready to finalise our positions on them.

One thing you could say is that to date, there has been overall very strong support for improvements in the reconfiguration assistance programs. The current type 4, 5 assistance programs under the SIP scheme to our knowledge have been perhaps a bit less successful than was anticipated in their design stages. Hence, we are very committed to coming up with a program that will in fact deliver the restructuring elements perhaps a lot more speedily than has happened to date. We're not limiting our consideration of SIP, replacements, ongoing future direct assistance et cetera to those provided by the commission because my recollection is that you didn't want us to. There are three options in the paper, but certainly a combination of elements of each of those might in fact be the right outcome. So again we'll be looking to push those through.

In terms of the market access issue that Andrew touched on, we've only last Thursday night received a report from overseas that is extremely comprehensive. I have a copy of it that I'll leave with the commission today. It covers tariff and non-tariff barriers, and John will be speaking in more detail about our responses to the commission comments on those market access issues in the position paper. Having said that, I think it's probably best if we move straight on to the drivers that we see as appropriate for direct assistance and, John, I'd ask you to take up from there.

MR GARRETT: Thanks, Tony. As Tony said, we have in fact spent an exhaustive period of time identifying what these key drivers would be for a continued scheme and believe that these should remain focused on the appropriate longer-term sustainability of the industry. We believe these drivers should include mechanisms to encourage domestic reconfiguration more appropriate to the industry needs and those included in the current programs. All of these relate to eligible product manufactured in Australia, so I make that point.

Just quickly going through those, the first one is capital investment, if you like an update of latest technology. To remain competitive, firms will have to continually update plant and equipment, investing in the latest technology. This will need to be at a faster replacement rate than would be the case under normal payback periods. New investment will be geared towards continuing productivity and efficiency improvements, world's best practice manufacturing and cost containment.

The second area is export and export market development broadly. The comment there is that, as Australia's market opens up even more with further tariff reductions, we must further develop our export markets to compensate for the contracting local market to ensure that we have some degree of scale within the Australian manufacturing industry. The problem that we have is that we have immense barriers in accessing other markets, and I will go to that a little later, if I may.

The third area is integration into global supply chains. Global integration will be important for both efficient sourcing of materials and effective penetration of new markets. Highly skilled and capable workforce: as we introduce the new technologies in developing new products and servicing new markets, the skills required will also need to be enhanced, and this is a major challenge for us. Effective research and development: this is vital in order to generate new product designs, process improvements and environmental management.

Value added: there's a lot of debate in the industry with respect to the application of value added. There is a very significant value add in the industry, and sustainable value adding must be a core aim of any industry development program as we see it. Mechanisms and future development programs should be developed that reward value-added activity for each of the subsectors of the industry, for example, you may want to change some of the current methodology of evaluation value add. At the moment it's quite restrictive, but there is a lot of debate and we'll come forward with a clear position in our submission on the 20th.

Innovation: this, as we're all aware, has been subject to a huge amount of debate. The definition of "innovation" applied under the existing SIP program seems to relate more to technical connotations derived from engineering-type applications. The government and industry will have to work together to determine the most appropriate definition for the TCF sector to ensure that the true innovation as it applies to the sector is recognised. The debate between a number of different sectors of the industry has been going on for some time, as you're aware. It is a very difficult thing for us to come to grips with, because the application of innovation across the subsectors is really quite different.

Regional initiatives: the TCF sector is extremely important for the fabric of various regional centres with significant TCF activity, and the future assistance programs must attempt to take into account the locality disadvantages of this regional base. We have some recommendations that we will be putting forward. There are obviously significant disadvantages for those people that are in regional areas. The recruiting and the retaining of staff is but one of them, infrastructure costs are but another, transport costs is the third, but there are significant areas and, as we know, the importance of the regional employment is very significant, especially in areas such as places like Benalla and Geelong, to name two.

I would just now, if I may, go across to market access. In the position paper the commission suggests that trade liberalisation by other countries is irrelevant to Australia's action on tariffs. I have to say that the commercial application of this makes it very difficult for us to accept that position. What is needed as we see it is a closer equilibrium of assistance arrangements between Australia and the rest of the world in tariff and non-tariff barriers. As the Australian market opens and import share escalates, it is vital for Australian exports to grow commensurably to maintain volume throughput. If Australia's access to other countries is hindered, we will lose critical mass and relative competitiveness as our local market share erodes. This is a key issue for the industry.

The TCF and L forum, as Tony said, has commissioned a report on the international market issues and this will be submitted to the commission. I'm a member of that forum, and this report notes that the global textile and clothing industries will be far from free competition even after 2005. It highlights the many and significant tariffs and non-tariff barriers and subsidies exist, even in so-called open economies. The reports that the largest TCF exporting countries tend to have the highest tariffs. For example, in most Asian countries the report notes that tariff rates for textiles are in the range of between 20 and 30, and for clothing, 30 to 50 per cent.

However, on top of this, the report highlights the growth in importance of NTBs since 1995, stating that these barriers have mushroomed all over the world as an effective result of the reduction of tariff. The report states that whilst it is true that many countries have been reducing tariffs and even eliminating quotas over the last 10 years, the situation for NTBs seems to be the contrary. The report highlights that a wide variety of NTBs are applied throughout the industry by all major TCF-producing countries, both developed and non-developed. Indeed, it's suggested that subsidies and grants are applied by virtually all countries throughout the world. Given this global environment, it is important to ensure that these TCF manufacturers in Australia that are viable in a free international trade environment are not unnecessarily damaged by too-rapid implementation of a unilateral tariff reform by Australia.

It is important to recognise that other countries will take whatever action is necessary to support their domestic industries, regardless of their rhetoric in international forums. Take for example the US. Even with our own FTA negotiations, they will clearly not shift from their rules of origin, because these are the most supportive arrangement for their own industries, and that is a major issue for us. Equally, we note that, despite the US's bilateral agreement with Vietnam, it quickly implemented quotas once Vietnam's penetration of the US market accelerated.

I would also just like to make a point with respect to non-tariff barriers. To give you a commercial example, if you look at the Asian region, there are two free ports. One is Singapore and one is Hong Kong. The truth of the matter is that those two free ports are really just transitional ports and most cargo goes through those ports into the other Asian countries. It is not an uncommon position where people sell into Singapore and then, to enter other markets around that region, they pay what is termed as a brokerage fee, which is effectively a method by which someone receives a certain amount of money and that particular cargo is then transported into that respective country under the tariff barriers.

A good example is China, where a lot of the goods go in through Hong Kong. Again there is a brokerage fee which is paid. The deal is done by the Hong Kong Chinese and then the goods appear in China, and in a lot of cases, and previous cases, they have in fact ended up by being on barges up the river. So effectively you've got a method of entry which bears no relationship to the tariff level, and in countries such as China, for example, when we go and sell and you've got to get on a plane, you've got to go a long distance from Australia, you've got to stand in the queue with a lot of other people in the international marketplace who are selling, and then the position is that unless you're prepared to pay the brokerage fee, the chances of being successful are very remote. You're then required in most cases to do the deal in the local currency, and in a lot of cases they have what could only be determined as quite extraordinary terms of payment, in some cases two and three years, and that is not an uncommon occurrence. So these sorts of things from a commercial aspect are very important broadly when we talk about market access. Those are just two examples. That's all from me at the moment.

MR EDGAR: Thank you, John. Tony, do you want to just comment on the 2008 review recommendation?

MR McDONALD: Yes. You will recall that in our initial submission we did ask for a review prior to 2010 adjustments. Again we do note the commission's comments. However, the industry's view is that there must be a review of reforms in international environment in respect of both tariff and non-tariff barrier issues; (1), we don't believe to schedule that review would in any way undermine the industry's certainty. In fact, I would argue that it would go the opposite way. Without a review there are all sorts of adjustments that may be occurring internationally that we have no opportunity to take into account in our policy framework. We would say that the core issue is that the implementation of any further reductions in 2010 without assessment of global reforms in this direction, which is a downward direction for us, would cause significant greater uncertainty going forward, or alternatively it may instil greater certainty but that certainty is in an exit direction.

So we did take note of the comments from the commission, but our tariff direct assistance package and the tariff adjustments that we can take into account are directly related to market access issue from our perspective, and hence you need to have that review in 2008 and we will still be requesting a review of the externalities, which is the tariff and non-tariff barriers offshore, and whether in fact Australia is still well ahead of the pack in terms of its adjustment rates. That's what our position on that review is.

MR EDGAR: Okay. Just the other issues, Tony, that will be covered, such as EOAP, policy by-laws, do you want to just comment on those?

MR McDONALD: Just very quickly on those because I think we're probably in agreement with some of the commission's recommendations in a lot of those areas. But the current policy by-law system, we agree that there's at this stage no need for amendment to those policy by-laws as they stand. The expanded overseas assembly provision scheme hasn't been engaged by industry anywhere to the extent that we envisaged by the government. We'd argue that that was because when it was designed, it was designed based on a scheme operating in both the EU and USA that were actually major benefits through a quota system that applied to non-EOAP benefits, hence it had certainly greater value. We'd love to see some mechanism come into play that would increase the value of the EOAP strategically, but of course as the tariff goes to 17 and a half per cent, which is the tariff rate that applies to the majority of EOAP products, again the actual net benefit is reducing. So we're looking for some answers there but we haven't got them as yet. Again, on 20 June we'll have to have had some final thoughts and recommendations in that direction, and it could be that allowing total duty-free entry of EOAP product might be appropriate, but again that has to be strategic.

In terms of the 3 per cent duty applied to raw materials under the import tariff concession system, we fully support the removal of that revenue duty, but we do not agree with the commission's recommendation on the excluded goods schedule. We've had a hell of a lot of experience with that, and what actually happens is that the excluded goods schedule is there because there is substitutability and the ability to engineer down a lot of products. The reality of the situation was when sporting footwear was put off the excluded goods schedule, it led to domestic manufacturers of substitutable footwear being continually harassed and demanded to respond to tariff concession applications to the extent where a number of them just were finding it quite difficult to be very frank with you and stopped responding, which automatically led to some decisions by customs to enable imports of product that were far from sporting goods in our view, because the term "sporting goods" was never properly defined. It says to include, from memory, for example, having cleats or stops attached to the sole, which is very similar to a work boot. Things like this are the reason for the excluded goods schedule existing in the first place. We'll obviously expand on it in a more documented way in the submission, but there is evidence to say that it's doing its job at the moment and should be left as it is.

I think the only other issue was the antidumping matters that I want to touch on. The TFIA fully supports the recently introduced proposed amendments to the Customs Act. Our main issue with the antidumping was the economies in transitions and the treatment that they received under the antidumping legislation. Should that legislation pass in its current form, I believe that it would put us on even ground with everyone else around the world in the determination of dumping from those economies in transition.

I think the commission was reporting some other comments by parties about sporadic dumping and the difficulty to address that. My view has never been, and the TFIA still would hold, that an import of a particular, say, men's shirt does not mean that that is the only men's shirt that you could target for an antidumping action. The purposes and the descriptions of like goods under the antidumping laws are wide enough to incorporate a definition that looks at future shipments of similar products; albeit you might have a sporadic shipment that instigates the investigation, in the longer run there's a wider range of products that can be encapsulated in any measures. So we would again expand on that for the commission in this final submission.

MR EDGAR: Okay. Thanks, Tony. That really brings to a conclusion the general comments that we wish to make, and we're in your hands for general discussion.

DR ROBERTSON: Okay. There are a lot of points there. I suggest you read Andy Stoeckel's article in yesterday's Financial Review on the antidumping legislation.

MR McDONALD: I'm well aware of Mr Stoeckel's views on antidumping generally.

DR ROBERTSON: Let me see. It seems there's been a bit of backtracking on your part. You seemed happier with the sort of positions we took in the position paper when I last spoke to you. Now you're pushing the envelope a bit, it seems to me.

MR EDGAR: I'm sure you'd be disappointed if we didn't.

DR ROBERTSON: No, I don't think so. No, I'm not surprised. But one of the things to bear in mind, I think, is that by 2015 this industry will have had 27 years of adjustment as a generation, and how long can it go on?

MR EDGAR: If I could just comment on that. I don't see that as a problem. The Australian TCF industry has had a very long history. It has employed an enormous number of Australian people in all sorts of different parts of Australia, and I think it has played a very important part in our economy, and particularly when one addresses the way migrant labour, new arrivals, start integrating into the Australian economy. It has played a tremendously important role in that, and I think that we cannot just flippantly say, "Let's pull the rug out now," because there are 80,000 people still employed in the industry and I think we shouldn't approach that lightly.

What we are trying to do as an industry is approach the challenge in the most balanced way we can in terms of saying the existing policy mix is moving in a direction, albeit slowly from your perspective, but we do believe that there is an endpoint which is achievable but that endpoint may take another 10 years to get there, so that's really the position we're adopting.

MR GARRETT: I think there has been a huge impact from companies to try and internationalise their businesses and that's been demonstrated by very high levels of capital expenditure, innovative process improvement, all these sorts of things and there's no doubt that that journey is well under way, but it is going to take an adjustment process for some time yet.

DR ROBERTSON: That's one of the reasons in my introductory comments I referred to what we were asked to do, and if you remember, the government is concerned about improving the overall performance of the Australian economy, so then you have to take into account the fact that almost all over manufacturing, except PMV which is going to go down to 5 per cent in 2010, have adjusted in a decade and this industry is getting three times that. That's why I'm a bit concerned that you're pushing that envelope. I think we went as far as we thought was practicable in the position paper in terms of the way the rest of the economy works. Philip?

MR WEICKHARDT: A few requests, and you might want to respond to these now, or you may wish to respond to them in your final submission: the first one is opposite SIP and any future scheme. We, in the position paper, articulated a number of criteria that one might have in mind, not all of which were mutually compatible in any future design of a SIP scheme. I think your comment on the way in which - I recognise this will be a composite answer - but the way in which your association views the weighting and the relative importance of those criteria would be helpful in terms of thinking about any future design of assistance.

However, I have a number of particular questions also. Your original submission, as did a number of individual companies, referred to the fact that perhaps the type 3 criteria might be paid in the form of duty credits rather than as it is at the moment; explaining why you felt that was a good idea would be useful. You also talked about perhaps de-linking type 3 claims from type 1 and 2 and indeed, others have gone as far as to say, "Perhaps type 3 claims should be completely eliminated and simply the rate of subsidy under type 1 and type 2 claims increased." Again, your views on those matters I think would be useful. I think my final points, about this issue of market access, I am sympathetic and I understand your comments about market access and yet it is, I think, in some industries often used as a rhetorical debating point and those that shout it most loudly are sometimes those that are less likely to ever actually be internationally competitive enough to avail themselves of that mechanism.

I guess specific examples where companies have demonstrated, through access to other markets and indeed by growing their local market share, that they are truly internationally competitive and yet they are frustrated by either tariff or non-tariff barriers through further accessing other markets I think would be a helpful way of us understanding the magnitude of the problem, rather than it simply being, if you like, a fairness type of debate.

MR McDONALD: One of the things there, Philip, is that it drifts also back to the overall volume of demand in the domestic market, and import replacement people that don't have an export focus are providing also for service industries but for the raw material supply chain the overall quantity to make viable a vertical supply chain and some parts of them are certainly export focused, others aren't. So it's not just about those that are exporting, it's about the whole package that makes the whole thing work, so we will certainly expand on that for you and that's what we were driving at as your market access helps drive through this, strengthens domestic market as well.

MR WEICKHARDT: As somebody pointed out at the modelling workshop, there are lots of people who, even with domestic customers, would argue that the customer is totally irrational, unfair and prejudiced because they won't buy from them and in many cases it's simply because the customer doesn't receive enough benefits. In some cases that's true in export markets too. As you say, it's damn tough. The customer is a long way away and the question is: are you really providing something the customer wants or are you just regarding the fact that they won't buy means they are unfair, prejudiced or crooked or bent or something?

MR GARRETT: All of them.

DR ROBERTSON: But certainly there are sectoral differences and I think that's the point you make. Tony, can you comment on the duty credit question regarding type 3.

MR McDONALD: We can certainly expand on it in our submission but it was to do with some budgetary issues in terms of the way the expense is reported and also the duty credits have - they were driving actually competitiveness in the domestic market as well because what they are is actually encouraging imports as much as anything, because they are an offset of import duty either for raw materials or finished goods but we need to further expand that clearly for you so we will do that.

MR WEICKHARDT: The question arose because in the automotive area, they're tradable, people get 98 cents in the dollar for them, so I guess one question is, "What's the advantage of people getting 98 cents in the dollar versus a dollar?" sort of thing.

MR EDGAR: That will certainly be addressed. The other one is really the other issues relating to type 3 which is de-linking and so forth and it's your intention to bring that together from the industry survey.

MR McDONALD: From the survey and from some other work that we're doing and, of course, some further industry meetings because that is probably the most sensitive area at the moment for the industry.

MR GARRETT: And the weighting of the key drivers with respect to - - -

MR McDONALD: Yes, which Philip mentioned there.

DR ROBERTSON: Did you have any thoughts on what might be done to ease the burden of the workers made redundant by the progressive change? I mean, the progressive change is not only what we're doing on tariffs, it clearly goes much further than that in the marketplace.

MR EDGAR: Correct.

DR ROBERTSON: There are problems, as you referred to, in terms of non-English-speaking older workers and the difficulty they have in finding jobs and it seems to us that maybe we do need to look at something along that - - -

MR EDGAR: I think it's a very important part of the process. I think the AIG submission addressed and suggested seven different things. John, was that it?

MR GARRETT: Yes.

MR EDGAR: I haven't got a copy of it with me but it involved retraining and relocation assistance and so forth and I think that their submission did address those areas very well and we would certainly be fully supportive of that.

MR GARRETT: We did in fact stay away to some extent of the workplace issues because we felt that they had been covered by the AIG submission and we did refer to that.

MR EDGAR: Yes.

MR WEICKHARDT: Can I raise a question about the work you're doing about future forecasts. I mean, at the end of the day, forecasting in any industry is problematic and there are many occasions where top-down surveys or top-down forecasts are more reliable than bottom-up ones. But forecasts in this industry have ranged from absolute disaster to quite positive outlooks, the forecasts about SIP uptakes by the industry suggested much, much greater uptake rates than have occurred. The TCF forum report suggested that we've been through a period of decline but there was a positive view of the world going forward. How are you confident that this new forecast is going to be any more reliable than some of the previous ones which have been pretty wide of the mark?

MR EDGAR: Certainly forecasting, getting information from the industry is a very difficult challenge and I think this is really what I tried to refer to at the beginning of the submission, that there are many different opinions, the size of companies varies enormously, their focus on their position in the industry and the breadth with which they view that is extremely difficult and different. The one good thing about this survey is that it is certainly targeted at the chief executive or the business owner. It is being conducted with a combination of a pre-distributed questionnaire followed by a telephone, "Please answer the questions." But what you will find in any of these results is the assessment people make about the likely effect of tariff on employment, that's the main one.

We were faced with the same challenge at Yakka, that we responded to the survey; we've got 450 people directly involved in manufacturing. We were asked the questions, "What was the likely effect?" and all you can say is really you've got to put your mind out five years or 10 years and you can say, "Well, my best assessment is that that 450 will be 250," for instance.

MR WEICKHARDT: Assuming everything else in the world is - - -

MR EDGAR: Correct, that's right.

MR WEICKHARDT: Exchange rate and - - -

MR EDGAR: Yes, but many other things can change, that's one of the difficulties. But, yes, there is going to be variability in the answer but I think the trend is there in terms of the reductions that we've already had. We used to see 120,000 people in the industry, we're now talking about 80,000. Will we be looking at 50,000 in 2010 or 2015? That's really the type of assessment.

MR GARRETT: Could I just respond to your comment on SIP. You mentioned that in fact we felt the uptake was going to be somewhat greater than what it has been. The SIP program is basically two years old. I think there are a lot of adjustments that people had to go through the process of learning about SIP, how to make the claims to try and facilitate that process and my understanding is that in the second year of the program the uptake has been significantly greater and in fact there was a suggestion that there may in fact be a requirement for some modulation. So I think that we are seeing a fairly substantial ramp-up in the uptake of the SIP program as we currently see it.

DR ROBERTSON: I raised the labour question. Let me raise the other tricky one which is regional. Two of you in fact have plants in regional plants of Victoria. One of the things that strikes us is that clearly there's a difference in the workforce. The workforce in places like Wangaratta and probably in Geelong, I'm not sure, is more English speaking and tends to be more male and more stable. So those all seem to us to be advantages that might in fact encourage people to stay in those regions. Since the last report in 97 there has been a certain amount of redeployment out of some of the smaller towns in Victoria, but towns like Geelong and Wangaratta are actually not doing too badly. I mean, their unemployment rates are below the national average and in both instances we've got a feeling from people we've spoken to that there's quite a lot of optimism. That doesn't mean they don't object to tariff cuts because that might change it.

But the fact is that in our travels I think we found that if we had to be unemployed, we'd probably choose Wangaratta or Geelong rather than Melbourne. I just wondered, do you get the feeling that in fact there is still withdrawal from these regional centres or that in fact they've become stabilised for the very reasons I've mentioned as an employer?

MR EDGAR: Regretfully, yes. Our company has gone through the closure of two regional factories in the last three years, one in Wangaratta and one in Shepparton. However, we still have a major facility in Wodonga and, yes, it has the attributes that you point to, predominantly more English speaking, more stable, lower WorkCare-type claims, but does suffer some other disabilities which John mentioned. I think the industry is very suited to regional areas - and I'm talking as a clothing person now, not a carpet person - and certainly the focus of some of the activities within our own company would be directed at trying to support that Wodonga-type base as an ongoing manufacturing facility for the company, but John - - -

MR GARRETT: Could I take somewhat of a contrary view. We have factories, as you're aware, in Geelong and also in Benalla. The interesting thing about Benalla is that that is our highest labour turnover throughout our group. For many years we've been trying to establish why this is so. It would appear that in a lot of cases the workforce see themselves as being somewhat casualised, that is, that it's not really their real job, their real job may very well be in the farming community or something, and we find that people enter it as a second income as distinct from a first income and when the activity on the farm wraps up, well, then we lose those particular people. I mean, that's one example.

Another example in Geelong, although perhaps it doesn't totally address these issues, but we put together a twisting and heat set facility in the northern suburbs of Geelong and it was a state-of-the-art greenfield site and what we did is that we decided that we would employ the longer-term unemployed people in the Geelong region. I have to say it's actually been an unmitigated disaster. We've had the highest level of absenteeism, we've had the highest level of accidents. Our workers compensation bill has gone through the roof. You would think the assumption that you made would be not unreasonable, but it certainly hasn't happened in those two particular locations for us, both in regional Victoria.

MR EDGAR: That's interesting. Our experience in Shepparton was a younger workforce, and the labour turnover was extremely high. Again, were they the committed people that you might have in terms of, say, a larger centre like Wodonga where the labour turnover is remarkably low? So there was that comparison. I think Shepparton people view the cannery and these other sort of part-time opportunities as a means of boosting their income and they'll do two jobs and then they'll go walkabout for three months or something like that.

DR ROBERTSON: That's actually disagreeing with me, in the sense you're saying that there isn't a more stable workforce in regional areas.

MR EDGAR: In some regional areas. I think when you get to the larger centres, you do get stability and it would be interesting to ask people who have got factories in, say, Bendigo what their experience is. Our experience in Wodonga would certainly support what you're saying.

DR ROBERTSON: Wodonga is, in regional terms, quite a large town.

MR EDGAR: Albury-Wodonga, yes, it's a large centre.

DR ROBERTSON: And it also draws on people from Wangaratta, we understand, which is less than an hour's drive away.

MR EDGAR: Yes, correct.

DR ROBERTSON: I see, so there's not any positive side on the regions particularly.

MR GARRETT: No.

DR ROBERTSON: I think, John, your point about employing long-term unemployed, of course, is asking for trouble. I'm not - - -

MR GARRETT: I'm not sure that you should be saying that.

DR ROBERTSON: But we know that the longer people are unemployed, the more difficult they find it to get out of bed in the morning and that kind of thing.

MR GARRETT: We went through a major training process as well and they spent three and four months at the local TAFE college, we introduced them to the concept of work. We did all of those sorts of things so we actually believe that we actually had a position where when they started with us, they were going to - because it was a greenfield site so we had the opportunity of time, so we believed that when they started with us, they had this work culture; that hasn't been our experience.

MR WEICKHARDT: Can I come back to SIP. Your original submission was entitled Certainty and Fairness. "Certainty" I understand; "fairness" is always in the minds of the beholder, but I suspect the treasurer would say certainty and fairness in terms of budgetary assistance means having a certain quantum of money. Not surprisingly, most of the submissions that we've received from people who aren't receiving as much as they'd like to from SIP say, "We'd like the scheme enlarged, opened up to smaller business, innovation test, grand export support," all these other things, but if that simply means that more people are claiming from a certain quantum of money, the money is smeared out to sort of a wider group of people. Not surprisingly, those people who are getting what they think is a good crack from SIP are saying, "Don't change any of the rules at all." I mean, do you in the industry have any view as to this issue about, if you're trying to make a difference, whether this ought to be a focus which means that there will be the "have nots" inevitably. I mean, if it's smeared out across the entire industry, I think you get 1.6 per cent of sales which, quite frankly, I suspect you would probably not even want to bother about.

MR EDGAR: No. Look, we are certainly sympathetic to that thinking and I think one of the things that we will be responding to is the suggestion of competitiveness in applications but I think the major point that we would be wanting to make is that the clothing sector of the industry, where there is a lot of employment, a lot of diversity, hasn't really been a recipient of what we would say was its fair share of funding. That doesn't mean everybody who sows something together should be eligible to get money. I think the process that the system takes people through at the moment of having to prepare business plans, having to put financials on the table, the department or somebody has got to be prepared to look at that critically. I know it is very difficult to put anybody in a position of saying, "No, I'm sorry, your business doesn't measure up for this, that and the other reason," but I think there has got to be a degree of vetting of the viability, eligibility of the applicant.

MR GARRETT: It does need to be strategic. It does need to focus on those businesses that have a future, not in the businesses that are going to exit the industry over a period of time. I mean, there may be some issues that you look at in terms of restructuring assistance under the strategic investment program, but it needs to be certainly strategic. I mean, my understanding is that something like 80 per cent of the output of the industry is in some way participating through the current program. So I think that overall, we would have to say that it has been a very successful program.

When it was originally put in place, it was going to be a competitive scheme and I think the way it was developed was on a competitive basis, but I don't think that was probably politically desirable. It really had the government picking winners and I think that that's always a very difficult thing. I think that we just need to be very careful, as Andrew has stated, that it is still strategically focused and it has a number of hurdles which are appropriately set, not unfairly set, but appropriately set, so that those people that are able to participate in the program perhaps don't have to go through the administrative hoops that are required under the existing scheme.

MR WEICKHARDT: A couple of the submissions, I think, have specifically talked about the possibility of quarantining a quantum specifically to small businesses which might have somewhat easier or less onerous criteria commensurate with the size of those businesses. It might be a small quantum. Again, if you, in your final submission, make any comments about those suggestions, I think that would be useful.

MR EDGAR: Yes. Well, some of the fashion design orientated areas of the industry - you know, it may be appropriate, but certainly we'll take that on board and address it.

MR WEICKHARDT: Thank you.

DR ROBERTSON: I have endless questions here but I'm not sure they're all necessarily directed at you. I think we have to be careful about allowing other countries, trade policies, to influence our own because of course it's a cost to us if we do that. Now, I agree with all the comments you made about what's happening to TCF and all the restrictions that are going up, but if we do the same thing, we're going to cut off our nose to spite our face and we have to be very careful about that. I was interested in your description, John, of trying to export via Hong Kong and Singapore. In effect what you're saying is that the trade restrictions don't matter at all as long as you pay the guy who has got the barge going up the river, which is what it comes down to.

MR GARRETT: Of course if they didn't exist, we wouldn't have to pay them.

DR ROBERTSON: No, but you would still have to pay to get the stuff in and you would then have to pay a tariff.

MR GARRETT: Now you've got a double whammy.

DR ROBERTSON: Yes, that's right. But on that particular point, how far do you think there are many companies in the whole of the sector who really make export a major part of their activities? We can understand why people would say, "We can't get into these markets," but, "Do they try?" is the question. You know, it strikes us that there are a lot of companies who frankly are not interested in exporting. There are obviously some who rely heavily on exporting like, you know, Rip Curl and some of these brand names, but is that generally true, do you think, or is it just - - -

MR EDGAR: I think what we have got to be prepared to do is try and give you a disciplined answer to that question. I think anecdotally, yes, we can point at various individual companies where it is very important but I think we have really got to try and address it on a sector-by-sector basis and within the clothing industry, yes, there are some very good examples. Within the more capital-intensive ends, yes, it's important. The textile industry has the same thing but I understand where you're coming from and I think we should make that a specific section of our response to you.

DR ROBERTSON: That would be useful, thanks.

MR EDGAR: Okay, thanks.

DR ROBERTSON: Because just talking about these things vaguely, it sounds fine.

MR EDGAR: No, I know, that's right.

DR ROBERTSON: Especially to a politician.

MR GARRETT: It is a little bit a chicken and egg thing too to some extent. I mean, as you see more import penetration, the requirement to go out and seek other markets to keep the scale within your business becomes far greater a priority.

DR ROBERTSON: Yes.

MR GARRETT: So in some cases, exporters have been required to export and they have been dragged along kicking and screaming. I mean, I give you our example: in the early 80s we were internally focused. We didn't have a view on export at all and it was really only when we looked at the potential policies that would be developed over the next 10 to 15 years that we recognised that if we wanted to maintain scale, we would have to be significant exporters. By and large, those sorts of decisions, I think, are made in a lot of cases because of the changes to the external environment.

DR ROBERTSON: Could you itemise that in this submission because the carpet industry is a significant industry and the story John just told would be useful for us.

MR EDGAR: Yes, certainly carpets and textiles.

DR ROBERTSON: I suppose I had better get off to a good start and not run over time on the very first one. Is there anything further you would like to say?

MR EDGAR: We have welcomed the opportunity to talk this morning and I think in summing up, it really is very important to acknowledge that the TFIA is talking about a continuation of the current policy mix. We are, however, talking about a 10-year program but if the government in its wisdom is prepared to deliver the sort of package that we have foreshadowed, then the industry will have to live with some of the consequences of the inevitable reduction in tariff levels, and providing the right adjustment assistance is there, we have got to get to that end goal, but we do acknowledge there needs to be an end goal. Thank you.

DR ROBERTSON: Thanks very much. John, you're on next. Do you want to take a break, a comfort break, or a cup of coffee?

MR GARRETT: A good idea.

DR ROBERTSON: We'll take 10 minutes.

DR ROBERTSON: I think we will get back to business because I don't want us to run over. Would you introduce yourself again, John.

MR GARRETT: Yes. John Garrett from Godfrey Hirst Australia Pty Ltd. Can I just again - you will all be sick of me by the end of the day because this will be my second of three. Thank you for the opportunity of coming again. As you're aware, Godfrey Hirst put in, I think, a reasonably comprehensive submission in its own right and we have also put a very small submission in in writing just to give you an idea of some of the things that we would like to tackle today. What I would like to do is, at the risk of repeating some of the things that were in our submission, I would just like to have quickly a thumbnail sketch of Godfrey Hirst just so that you have got a context in which this discussion may take place.

We are in fact Australia's largest carpet manufacturer. We employ approximately a thousand-odd people and we are located in Geelong, Benalla, and we have extrusion facilities in Melbourne. We are rated in the top 30 carpet manufacturing companies throughout the world. We're totally vertically integrated from fibre finished product; fibre processing in both wool and synthetic. We're the only synthetic extruders of bulk continuous filament yarn in this country through our extrusion facility in Bayswater called Fibremakers Australia. We have twisting and heat-setting facilities in Geelong under Riverside and we have a spinning factory in the regional town of Benalla, and we also have a spinning factory in Geelong.

We have a very significant level of capital investment. Over the last five years Godfrey Hirst has invested in excess of $100 million in our business. This year, in addition to that, we have a further 27 to 28 million dollars worth of capital expenditure. We have extensive training in graduate recruitment processes and programs and we have comprehensive product development programs. We are involved in the exporting of product. Our exports have doubled over the last 10 years and now represent about 15 per cent of our productive output and we export to more than 20 countries.

DR ROBERTSON: That was 15?

MR GARRETT: 15.

DR ROBERTSON: Yes.

MR GARRETT: If I may just quickly talk about the current arrangements in place for the industry, and specifically our company. The tariff pause and the strategic investment program have provided a conducive environment for Godfrey Hirst to continue with its level of investment and export processing. There has been some criticism in the past on the previous program which was the import credit scheme but we see that as really a positive leveraging position as far as Godfrey Hirst is concerned. We were in fact able to export product despite the fact that we were disadvantaged on cost. It provided effectively a platform for us to develop our export program and we leveraged off there into the strategic investment program. So we have invested heavily, our innovation is significant, and I have mentioned about our exports and we believe that the current strategic investment program should remain unchanged until 2005.

We believe that Australia must have industry policies that are consistent and stable and encourage positive adjustment. I mentioned before that we can't develop and implement these things in isolation from our trading partners and competitors. The Productivity Commission, in its position paper, addressed a number of issues. One of the things that it concluded is that there could not be indefinite special assistance program for the TCF industries. Godfrey Hirst does not in any way support indefinite assistance but believes that there should be a process of adjustment.

Godfrey Hirst is still restructuring in reinvesting and all the costs and benefits have yet to be realised. The Productivity Commission also concluded that any bargaining coin attached to Australia's TCF tariff is likely to be very limited. Godfrey Hirst strongly opposes unilateral tariff reductions. Our comment is that I think it would be unreasonable of us to expect that other countries see themselves as doing a favour for us in the future. I think we should take that into consideration. The Productivity Commission concluded that the magnitude of the adjustment task that still lies ahead provides a reason for erring on the side of caution and certainly we agree with that.

Our recommended approach on tariffs and SIP and other matters: on tariff we believe that the tariff should be held at 10 per cent. We looked at the concept of the evaluating international progress with some sort of review process prior to 2010. We believe that that should be in place. We tried to come up with some sort of a process by which we could evaluate what that international progress might be. The problem is, do you look at a basket of countries and do you determine that if six out of the 12 or eight of the 12 or whatever it might be, if they have moved to a tariff rate which is similar to Australia, is that therefore a reasonable level of international progress or do we look at maybe - I don't know - a figure of 80 or 85 per cent of wool trade in carpets are subject to Australia's level of nominal tariffs, is that considered to be reasonable progress? We're having difficulty with that, I have to say, and as I mentioned before, there are as many non-tariff barriers to us in export and so therefore that is a very difficult question for us to address.

The strategic investment program: we believe that the strategic investment program has worked. We believe that it has certainly encouraged capital investment.

We believe that it also encouraged innovation in product design and process design and Godfrey Hirst has in fact been a major recipient of it. We believe that that particular investment program - although only two years old, I think it should be given a chance to work. The commission also asked for some comments about perhaps areas that it could be improved. One of the areas that we looked at is the possible increasing of the value-added cap from 5 per cent to 10 per cent. As a capital intensive part of the industry, we do see that to some extent the value add or the calculation of value add tends to favour labour-intensive activities. We looked at a number of areas and it would seem to us that as you invest in more and more plant, given the traditional way of calculating value add, in fact, our value-add output appears to decrease rather than increase. So that in fact places it at somewhat of a disadvantage, but that may be one thing that we could look at.

The other one, we could perhaps increase the type 1 payments from currently 20 per cent to 30 per cent and one of the things that we were quite keen on is that to look at demand-driven investment expenditures. it's all right to go out and invest heavily in plant and equipment and process and product, differentiated product, move into export markets, but once into export markets, there are a whole lot of other activities that effectively could drive demand for product and it may be an opportunity to look at some demand-driven investment program, for example, overseas distribution networks, warehousing, supply functions, those sorts of things.

We believe that the existing funding levels should be extended and include, for a 10-year period, from 2005 to 2015. The other issues that we tried to develop as a company is looking at some extra support for regionally based firms. We're heavily involved in the regional area. There are disadvantages that I have mentioned in the paper that I have provided. With shallow labour markets, regional dependency and infrastructure effect - I'm actually not quite sure how we totally address these issues but it may be possible that within the industry development program it may be possible to have some sort of an uplift factor for those companies that are involved in regional activities. Perhaps it would be possible that part of that uplift factor could also relate to labour adjustment programs for displaced workers as the tariff rates decrease.

Industrial relations: we agree in sort of broad principle with the AIG in terms of flexibility and regulations and we also agree with the comment that was made by the commission that there needs to be some sort of a process in place to act as a circuit breaker for the review of employee entitlements which we see as a major issue as we move forward in industrial relations activities.

So in conclusion, Godfrey Hirst, as we see, has made significant progress during the current program and we believe that it has been very successful. Further adjustment is still required to be internationally competitive in the lower system environment. We believe that there should be no more unilateral tariff cuts and that should be subject to a review process prior to 2010 and there should be an industry development program which is similar to the existing strategic investment program.

In terms of the submission, that we have made and the written submission that I have given to the commission that's pretty much what Godfrey Hirst wants to say and would be very happy to answer questions.

DR ROBERTSON: Thank you, John. One or two of your proposals on SIP seem to be biasing its use towards the larger firms like increasing to 30 per cent the amounts that can be provided. We have to balance that against the number of people who want small firms to get into it, and we certainly don't think that the SIP total sum should be increased at this stage.

MR GARRETT: Could I just respond to that?

DR ROBERTSON: Yes, sure.

MR GARRETT: Because my understanding is that 80 per cent of the industry output is in fact covered by SIP participants, so I understand that you may want to broaden it, but with 80 per cent of the output covered by SIP I would have thought that that would have been seen to be a fairly successful program.

DR ROBERTSON: Yes, sure. But we still get appeals from the smaller companies saying that they're being left out, and I suppose their argument would be, "We're small new guys on the block. We've got brilliant ideas. We need assistance to keep going," and if we made proposals that said only the big guys should get more money at the expense of the small ones, because we are talking about a fixed quantum, I think that might lead us into a bit of a problem with a lot of the other firms that were in the TFIA, for example, clothing in particular. Are you suggesting that SIP should be increased in value or are you literally thinking that a bigger proportion of what we have should go to the larger firms?

MR GARRETT: No, I'm saying that I think that SIP is working quite well as it is and I believe that the funding mechanism should be put in place for the existing level of funding per annum from 2005 through to 2015, which I'm saying will in fact complete that adjustment process.

DR ROBERTSON: What about if we stuck by our proposal in the position paper, which is halving it halfway through?

MR GARRETT: I note that, and I also welcome the fact that the commission addressed lots and lots of issues within that position paper. I just feel that what you will effectively do is the industry will be underdone in that process. I think that there's a lot of adjustment. I mean, from a company point of view we've made it n absolute priority for our company to be internationally competitive. We understand that there may be further changes within our structure to look at some of the more capital-intensive parts of our business, and they may change over time, but our key driver is to invest in plant and equipment, process improvement, innovation, differentiating product, exporting. Those are the things that we think are the key drivers for the industry to be successful from the Godfrey Hirst perspective as we move towards that 2015.

We are concerned - Philip mentioned before that issues such as the exchange rate are very important. We did some modelling some time ago which showed that there was a trigger tariff rate that seemed to apply in our industry, that once the exchange rate hit about 65 to 66 cents US and when the tariff was sitting at about 10 per cent, which has been structured for 1 January 2005, that then therefore created the opportunity for people to invest in infrastructure to become major imports. That doesn't obviously preclude the existing manufacturers who already have the infrastructure to do that as well. We have seen already import penetration double, albeit from a small base. It's gone from 10 per cent in the early 90s now to 20 per cent.

The problem that we have is that the scale of our industry is so small in Australia. We're servicing effectively 20-odd million people. We have some advantages in the sense that we're sort of in a non-strategic part of the world, but everything that we do is difficult because we are down at the bottom end of the world and every time we have to export, we've got huge transport costs with logistical difficulties, and our problem is that as the import penetration tends to go, then the potential for us to lose scale is significant. Once we lose a certain level of scale, then we restrict our ability to provide competitive product to be able to export. So there is somewhat of a conundrum as we move forward.

DR ROBERTSON: Transport costs work both ways, of course. They're partly provision for your protection.

MR GARRETT: Yes, as I said, there are sort of disadvantages and advantages. The problem that we have is that as a company, for us to achieve any reasonable scale we need to have somewhere between 30 and 40 per cent of the Australian market. That's a pretty significant ask, so with 20 per cent of the market which is already import penetrated, you're left with 80 per cent to participate in and you're going to get 40 per cent of the 100. So it's effectively 50 per cent of the market of the available market that you require, so it's quite an ask. So we see that this trigger tariff and exchange rate issues are very important to us. I don't want to continue with the area of exchange rate, because who knows what the exchange rate is going to be in 2005 or 2008. That's problematical, but there are major issues that face scale manufacturers like ourselves.

MR WEICKHARDT: John, can I just work a bit more on this issue of your competitiveness and scale required. As David is saying, the issue of the sort of barriers that other people have to overcome to access the Australian market are significant. First of all, they have to overcome the freight disadvantages you referred to in your submission with bulky carpets. There are peculiarities in the Australian market just as there are in every market, and they are sometimes to the local manufacturer's advantage. I mean, the fact that you've referred to the FTA with the US and said that you're concerned about some safeguards being put into place to prevent the market being flooded with cheap imports, that would suggest to me that you're concerned as to whether or not you really are truly competitive with the US producers, and if that's the question, is market access a relevant issue? It comes back to my previous sort of question: if you can't defend your home patch, why should you be able to be successful exporting?

MR GARRETT: There are two issues here. Firstly, something like 75 per cent of the world's carpet is produced in the United States, and of that, about 97 to 98 per cent of it is synthetic. So they have huge scale issues. Our position as an Australian manufacturer is that we believe that we have some competitive advantage in the production of wool product. We are the largest producers of wool carpet in the world. Therefore our focus on export has clearly got to be where we have some advantage, and that is wool. The concern that we have with respect to the FTA is that the proposal is that they're moving towards the yarn forward rule, which would mean that - - -

MR WEICKHARDT: They move?

MR GARRETT: It's called a yarn forward rule or fibre forward rule. What that does is it would preclude the opportunity for us to have a concessional tariff rate into the United States unless we in fact manufactured our yarn within Australia. At the moment that doesn't represent a problem for us, but as things move and as we look at optimising opportunities in labour-intensive areas, it may mean that as we move forward that would be a significant disadvantage for us. All I'm saying is that if that's a safeguard that they've got which is important to them, we must consider that.

In terms of the US market, as I said, 75 per cent of the world's carpet is manufactured in the US, of which 98-odd per cent is synthetic. It would be possible for them to marginally cost a very small percentage of their production, set up an infrastructure over here - and I've mentioned the trigger tariff as we see it - and it would be possible for them to then be a very large player in this part of the world. We see the import penetration as being inevitable. What we want to make sure that we do is that we have a platform which enables us to replace that import penetration with higher levels of export. What we've done as a company to quarantine ourselves a wee bit, if that's the right expression, is that we've gone vertical in terms of integrating our business and we now produce all of the vertical structure down to fibre processing, both in nylon and wool, so effectively we've tried to bring back into our business the value-adding components that we previously imported. So that import replacement was a significant part of our initial platform but it was combined with a major drive towards exports.

MR WEICKHARDT: I think what's happened in other Australian industries where companies have become truly internationally competitive, they've tended to focus on particular areas where they are so competitive, and in doing so they may relinquish other parts of the domestic market because they concede they're not competitive in those areas, but they would aspire to and probably do get in some cases 100 per cent of the domestic market in those areas where they're competitive but then need to export in those areas to replace the volume they've relinquished where they're not so competitive. Is that the sort of scenario you're sort of postulating here, that you would sort of move over because some parts of the US import which were fairly traded - I don't think, the honourable commissioner sitting on my left, we're going to get into a debate about your taking antidumping measures to protect yourself against marginally priced exports, but of course you're able to do that if you think they're unfairly priced. But in the case of some of the US exports I guess it may well be they're much more competitive than you and you may just want to relinquish that part of the market.

MR GARRETT: There's a whole lot of things that impact on that, not the least of those being that, as I've said, what we've tried to do is to go vertical as a business and to capture that value-added component. But notwithstanding that, when we go to the international market and we try and purchase raw materials, we are subject to a lot of variables which are outside of our control. For example, the major producers of flake effectively in the hands of just a few major companies, major corporations, and what they tend to do is that they tend to price their ingredients in different parts of the world. So the fact that we're in this part of the world, therefore we have a relatively small take-off compared to say the United States or Europe, where they have a major take-off - there is a price difference. So we're already disadvantaged in terms of the variable price relating to ingredients.

As I said, we have offset that by capturing some of that value added. Clearly our strategy is to focus around the area that we believe that we have some degree of competitiveness, which is in wool. There are virtually no woollen manufacturers in the United States except for the odd very small operator. The fact that we're only competing in 2 per cent of the market means that we're effectively a niche player, but that niche is a very large niche in the context of our business and it provides an opportunity for us to grow that particular part of the marketplace. So that's the focus as far as the United States is concerned and to a lesser extent in the UK. In the Asian market the majority of our export program is around hospitality, so it's driven by major hotels, usually between three, four and five-star. The issue for us is that there is major investment happening in Asia, including China. The impact of that we haven't yet seen, but it is conceivable that there will be further import penetration into our market and most certainly into the Asian markets, the areas that we are currently competing in.

Our problem is that we're not part of a trading bloc. Most of those countries in that region are part of the ASEAN bloc, and if you happen to have a manufacturing facility in that part of the world, then you have a concessional tariff rate to go into the other countries. We understand that China is also looking at that, to be part of the ASEAN bloc or to have bilateral arrangements with some of those members, so that's an area that we are somewhat concerned about, because we are certainly disadvantaged from the market access position.

MR WEICKHARDT: Can I just add a sort of supplementary in this area about the competitiveness of the local industry and the ability to sort of resist imports. You've talked about the idea of SIP being enabled to allow restructuring, and I think you in your submission talk about restructuring within a group.

MR GARRETT: Yes.

MR WEICKHARDT: I sort of understand the concept. Certainly if you look at the carpet industry in Australia, you'd say if you were starting with a greenfield, it wouldn't be recreated the way it is. It has sort of grown like topsy through various rationalisation programs that have occurred. But do you have in mind a mechanism by which that sort of restructuring, particularly within groups, could be allowed under SIP without opening up all sorts of opportunities for rorting? You wouldn't have to be very creative to devise mechanisms by which you could sort of redivide, subdivide and go round the merry-go-round in that sort of process if you wanted to sort of manipulate a scheme of that sort.

MR GARRETT: I do agree that it would be subject to manipulation or potential manipulation. I would like to think that we could in fact develop a process where restructuring could take place. It would have to be subject to significant rigour, as you've suggested. There is in fact under the existing SIP program the opportunity as it relates to regional players where that requires two regional entities, which would then merge into one. I'm not sure of how much that's been accommodated within the industry, but certainly that does provide perhaps an opportunity for us to rationalise some of our regional operations. But, yes, we need to do further rationalisation. There's no question about it.

There is some comment that's been made with respect to second-hand equipment being part of that. I don't know whether that's what we should be doing. I would have thought that as we strive towards international competitiveness, the focus needs to be on new plant and equipment. We need to be at the leading edge of technology. The only way we're going to survive as a company and as an industry is to make sure that we're right up there with the rest of them, and that certainly has begun to happen. As I've said, there's been lots of rationalisation that's taken place. You've really only got two major players left within the industry and then half a dozen what we call tier 2 players, who represent the vast majority of the product produced in this country.

DR ROBERTSON: I'm intrigued. One of the problems we've heard about from a number of firms in this sector has been that the banks don't lend money. You've over the last, what, six years invested something like 128 million, according to the figures you suggested. Did you have any trouble raising that money?

MR GARRETT: There are always problems raising money.

DR ROBERTSON: Yes, but I mean, you weren't pushed up against the wall in that?

MR GARRETT: No, not really. We've done it sensibly. We haven't gone out and bought all sorts of plant and equipment on a whim. We presented a proper strategic plan and we presented that to our bankers. We've done it progressively and appropriately and there is a significant payback on all of the plant and equipment that we've been involved in. So it hasn't been an easy task for us, but we've been able to go through that process.

DR ROBERTSON: It sounds as if it was a fairly normal process really for most companies, yes. I'm interested that you've picked up on the yarn forward condition in the NAFTA. It would seem to me that there's actually a huge opportunity there for you in the sense that wool carpet is not a big seller in the United States and possibly that gives you a competitive edge if you can market it properly. Of course, you would then have access to probably even more capital because if you could get one of the American companies interested in woollen carpet, you could get into partnership or something.

I'm not making this as an argument for the free trade area with the US, I'm just making the statement that if we do have one, then you could actually exploit quite a major advantage and increase your exports, or indeed not so much your exports as local production in the US.

MR GARRETT: We see many opportunities that may unfold. We are obviously concerned about the yarn forward, under which if in fact we moved out of spinning in our own right, we'd be precluded from taking the opportunity under the concessional tariff rate. We see that as being totally inappropriate. We should be in a position where we can source our inputs from any part of the world. I'm sure that you'd agree with that. The US market, I remember many years ago when I first went over there it was a bit mesmerising. You arrive in Los Angeles and there's this huge airport and buildings everywhere, and it just seems to be endless opportunities. It's not that easy, because although it's a big market, as I said, about 2 per cent of that market is wool. A lot of it is wool rugs. Some of it is in the woven area, which we can't participate in. It's unfortunately not targeted in a particular region; it's spread right across the country.

From a logistical point of view in the US, it's very difficult to move carpet around throughout the many regions and it's logistically a very big product. You've got to be able to warehouse it, and that part of it is not easy. We've been through a number of the things that you've suggested. We have in fact linked up previously with an American distributor, in fact two. They haven't been successful and we made a decision some three years ago that we would put our own flag in the soil and we would do it within our own right, and that's really the area that we're pursuing at this point in time. But yes, we do see some opportunities.

DR ROBERTSON: Good. There's one thing I find strange in your submission, and this is the idea that the tariff on carpet should be the same as that on towels and curtain hangings and what have you.

MR GARRETT: Yes.

DR ROBERTSON: They don't substitute in any way for your product. Why do you bother about it?

MR GARRETT: We are a finished textile. We don't understand - I mean, in finished textiles the tariff rate is a different tariff rate than carpets. Why aren't we a finished textile?

MR WEICKHARDT: In some cases it's lower. If you were a tea towel or a sleeping bag, you'd be lower. You haven't argued for that, I note.

MR GARRETT: You don't expect us to argue, do you?

DR ROBERTSON: I just find that a bit of a flaw in your presentation.

MR GARRETT: Okay. But I'll still present the argument.

DR ROBERTSON: I realise that.

MR WEICKHARDT: We look forward to that. Can I ask a question about labour market issues. You've said you broadly support the AIG recommendations and in fact you support the commission's comments on some inquiry into the entitlements issue. Could you elaborate a little bit. I'm conscious of the fact that you've had your share of industrial action and your recommendations on how this entitlements issue might be approached, and any solutions to the whole issue of labour market reform or making your operations more efficient would be welcomed.

MR GARRETT: As I said, we're broadly in agreement with the AIG recommendations that have been made. As you quite rightly pointed out, we had a major strike in 2001 and one of the major issues on that was employee entitlements. That was to some extent because the union had been involved in a number of closures in the textile area and their employees were not able to access their legal entitlements. So in a sense there was a sort of degree of sympathy for them, but the problem is that the impact on the business to look at employee entitlements and quarantine those entitlements out of the business, so effectively out of cash flow, would have had a huge effect on our business. We simply weren't in the position to move in that direction.

We believe that the federal government's GEARS program that's been put in place at least provides to some extent a safety net. I understand that there is an issue there, and that is that it's an administrative application as distinct from a legislative application, and I think it would be useful if that were to move into the legislative arena. That would provide a definite and absolute position as far as employee entitlements are concerned. We have said that we are quite happy to be involved with the union to try and sort through these issues, but recognising that as a company, we're just not in a position where we could quarantine that amount of money from our business.

MR WEICKHARDT: Do you see the solution to this being best carried out at an industry level, at an economy-wide level or at a firm level?

MR GARRETT: It cannot be resolved at a firm level; it just simply cannot be. I welcome the position that the commission took, and that is some sort of a tribunal perhaps that could be set up, or a commission of inquiry or something, that could maybe look at all these issues and get all of the participants around the table, including the AIG, the unions, employers, employer groups et cetera, and just to thrash the thing around. To some extent I think that perhaps all of those participants don't know some of the problems of the others within the process and they need to clearly understand some of these implications. But to answer your question, definitely not at the firm level, and I'd welcome some sort of a review process there.

DR ROBERTSON: We had your views on the regional issue earlier, so I won't repeat that question. Have you got anything further?

MR WEICKHARDT: Yes, can I ask another one, back to SIP. You talk about maybe ramping the entitlement issue to capital up to 30 per cent. Some people have suggested that, perhaps perversely, the SIP scheme, in rewarding capital investment, has aggravated the problem in Australia, that there's significant overcapacity and indeed has encouraged further overcapacity, which is rather than creating a more competitive scene here has created a less competitive scene. Certainly, there is significant overcapacity in parts of the industry. Do you have concerns that that's a risk in the segment of the industry you're operating?

MR GARRETT: I can only speak from Godfrey Hirst's perspective at this point in time. None of the investment that we've been involved in has increased in capacity. I mentioned to you that one of the key planks that we've driven for the business is to look at making our business more vertically integrated and capturing the value added. A lot of the investment has happened in that area. On the front end of the business, all of our investment activity has been around improving the efficiency of our plant. It's been about differentiating product so that when we go to international markets we have product which is truly differentiated. It's not simply a matter of making a wool carpet that looks like a synthetic carpet; it's making something from a styling point of view which is completely different. So that's really been our focus in terms of capital investment.

DR ROBERTSON: Okay. Anything you want to add, John?

MR GARRETT: No, I'm happy with that.

DR ROBERTSON: You can have another go this afternoon.

MR GARRETT: That's right. I'll prepare myself for that one.

MR WEICKHARDT: You can think about why carpets aren't tea towels.

MR GARRETT: That's right.

DR ROBERTSON: All right, thank you very much. We'll take a short break. The next session is at 11.15.

DR ROBERTSON: I think we'd better get going, we're running a little late on the timetable. Welcome, Gerry and Michele and your whole team there. At the beginning I pointed out how we're running this pretty informally. What I'd like you to do, because we take a transcript of the whole proceedings, when you first speak, could you announce who you are so that the voice can be then identified for the purposes of the typing. So I think it's over to you. Do you want to make a presentation, Michele or Gerry?

MS O'NEIL: Thanks, David. My name is Michele O'Neil. I'm the state secretary of the Textile, Clothing and Footwear Union of Australia and I have with me today a number of people. I firstly want to start I suppose by explaining to you why we have brought a team of workers here with us today to speak to you. We're concerned that this inquiry needs to consider the human face of our industry and both our rally and march that we've had outside today and our presence inside is an opportunity for us to, I suppose, bring to life the reality of this industry for many of its workers and many of the people that have spent a lifetime assisting the Australian textile and clothing and footwear industry to make great products and to sell them both here and internationally.

I am joined by a number of people. On my left is Ellen McGregor. Ellen is a worker at Bruck in Wangaratta and is here to tell both her own story in terms of her and her family's involvement in this industry, but also the importance of the textile, clothing and footwear industry to rural Victoria. On Ellen's left I'm joined by Le. Le is an outworker who works at home alone in her garage making products for the clothing part of our industry and she also wants to explain to you what it's like from her perspective to work as an outworker. On my right I'm joined by Gerry Kitchener who is the industry police adviser for our union who has been working, looking at the effect of further tariff cuts and the effect of changes in government assistance to our industry.

On Gerry's right is George Sammut and George is a long-term worker in the footwear industry that has worked in a range of different companies and has experienced losing his job and in fact his conditions and entitlements in some of those companies. Not by any means least behind me is Sandy Casey and Sandy was one of the two workers who worked on a special project that the union set up when close to 500 workers lost their jobs at Bradmill a couple of years ago and she worked with those workers to assist them in finding other jobs and, in some cases, training. So we're conscious of the time also and I want to make sure that I don't monopolise these proceedings because I think that the direct voice of the people I have with me is one that is very powerful, that needs to be heard.

I suppose the question that we start with is to pose a question about what worth an industry, a job, a skill and a sense of pride and dignity, because we think that the basic approach that's been taken to date by this commission has been a flawed premise. The flawed premise that we think has been taken to date is one that puts to one side the social and the human impact of job losses in the textile, clothing and footwear industry and puts it to one side in a striving what we consider is a very narrow ideological position in terms of the placing of Australia within an international context, that both doesn't acknowledge the human cost of job losses but also, I think, doesn't establish an argument in terms of why Australia should move ahead of the rest of the world in relation to tariff and non-tariff barriers that our continue to have in place.

We believe that the position paper that's been released to date fails to prove a case that it would be of any benefit to Australia of any further tariff reductions and that it actually exposes, I suppose, what we describe as the underbelly of this ideology, that there's continuance of advocating for a policy position to further reduce tariffs and industry assistance without at the same time having established an argument as to why it would be of benefit to the Australian economy, let alone of benefit in the ways that I have also spoken about today. Our understanding of looking at what's been done to date is that there is not evidence to support the recommendations, any of the models that are currently posed in the Productivity Commission position paper.

The commission's own economic modelling shows that the gains from removal of industry assistance are "very small" and estimate that it will cost, if you look at your own modelling - which we have a problem with in terms of its theory - but even for a moment if you put aside the debate about whether the modelling is sound or not, even on the Productivity Commission's own modelling the net benefit per Australian per year to reduce tariffs to the level of 5 per cent would be 75 cents per Australian per year. We think that's a shocking figure. We actually think that it's probably less. But even if just for a moment you take that figure of 75 cents as being accurate, then I think that there's not many Australians - when asked the question about whether they'd be prepared to not receive the benefit of 75 cents a year and maintain a strong and viable textile, clothing and footwear industry, my view is that there would not be many Australians who wouldn't be prepared to say, "Keep your 75 cents."

The Productivity Commission's economic modelling shows that the removal of TCF assistance will result in fact in a deterioration of Australia's current account deficit through an increase in imports. The commission, as you know, goes on to say that there's no absolute science can be brought to bear in weighing up these considerations. We agree, it's not an absolute science. So there seems to be an argument being put forward that the federal government should implement a policy of radically reducing tariffs and industry assistance based on intuition. There is no evidence in the position paper regarding the economic cost of job losses because the economic modelling that is used as the basis of the position paper assumes that all TCF workers will find another job if they lose a job in this industry. We think there is a fundamental flaw with that analysis.

It is not the fact that TCF workers who lose jobs in this industry find other jobs; some do. But when the most reliable studies to date show in fact that approximately a third never find other work, another third find work of a substandard value where they're not paid or in conditions of employment that are as good as they have been or as secure as they have been and the other third find alternative employment. There is no evidence in the position paper regarding the economic cost to regional Australia of further job losses. There is some reference to the modelling done on regional implications, but it's not based on any net job losses in regional Australia. It assumes that if Victoria loses jobs, other states gain. This is not based on reality and we say that our past experience shows that regional workers displaced by TCF closures find it hard to find new employment, especially where TCF assumes a high proportion of the total workforce. It's just not the case in regional Victoria that if you lose your job in a textile, clothing and footwear workplace that you will find another one.

There is a recommendation that the federal government consider providing assistance to companies through the strategic investment program to assist them to move their manufacturing offshore. We find this approach unacceptable. We believe that the strategic investment program is an important program that needs to continue and change which I will touch on in a moment. But to suggest that there should be any opportunity for companies to use the strategic investment program, to use taxpayers' money to move their manufacturing businesses offshore is opposed by my union.

There is no recognition in the position paper that women have borne the brunt of many of the job losses in our industry over the last decade. Full-time female employment has suffered the most since tariff rates began reducing. In 1985 there were 67,000 full-time female jobs in this industry. This had reduced to 30,000 by 2002. That's 37,000 women's jobs, full-time jobs, gone. Male jobs over the same time, full-time jobs, fell from 37,000 to 31,000. So you see a disproportionate effect of 37,000 women losing their job, over the same period of time where 6000 men - that's not to suggest that any one of those workers could cope with losing their job or that it's any harder or easier depending on whether you're a woman or a man, but it is the fact in relation to our members and workers in this industry that women have borne the brunt of job losses in the industry at a far greater rate than men.

It's also the case if you look at what happens to women's employment that women have great difficulty finding other full-time employment and are more likely to end up in casual and insecure underpaid employment than their male counterparts.

It's also not the case that there's been a proper analysis of the impact of non-English-speaking background workers of job losses. You all know that our industry has - one of its great strengths has been its diverse representation of migrant workers and workers who don't have English as a first language and in fact the industry has built itself in many cases around migrant labour. The impact of job losses on workers who don't have English as a first language again is much greater than those who are fluent in English.

There is, we believe, nothing in the position paper that provides evidence about the non-tariff barriers in place of our trading partners. We think that it's important that there be a proper analysis of what is actually happening in relation to the rest of the world. The statement that linking Australia's assistance policies automatically to overseas policies could disregard what is in Australia's national interest doesn't seem to be borne out by any evidence. We want some proof that unilateral tariff reductions are in Australia's interest and this doesn't seem to have been substantiated to date.

The Productivity Commission has presented no evidence on the question of whether consumers will benefit from tariff reductions. In fact in the position paper there is one paragraph that asserts that consumers would benefit from further reductions. There is no evidence that backs up that assertion. We have evidence in our union of workers who work for companies that have very famous brand names and those workers have tracked what's happened to the products that they've made when they were making them here in Australia compared to what's happened with those products and the price of those products when their jobs were lost and that company continued to make those products offshore. Our research, our evidence shows, that the price of those products has not dropped. So it's the case that in some cases you are able to look at a product and actually see its Made in Australia label and its Made in China label with the same product being made with no price differential in terms of what the cost of that product is to the consumer, and in other cases, products that were previously made by Australian workers moving to offshore production and no commensurate drop as far as what consumers pay for that product.

We say that there needs to be some further consideration of the following things: the economic cost of a sacked worker being on unemployment benefits. What does it cost to pay welfare and what revenue is lost through less taxation? What spending power is lost to the economy overall by this reduction in income? What's the flow-on effect of job losses to other businesses through both the closure of businesses and the loss of spending power? Are there resultant social costs through people spending long periods unemployed? Are these costs, sickness, depression, alcohol or drug abuse, calculated as being a real cost to society? Is the cost of lost skills ever calculated? If a worker has spent 20 years developing skills and these are no longer utilised, is this consideration an economic loss?

When TCF factories close, there's a calculation about the loss of business. Other businesses suffer as a result. Are the flow-on effects calculated for those companies who no longer supply or service machinery? Are the effects on their suppliers calculated? Is the cost to regional Australia of workers and their families having to move to seek other employment ever calculated? I want to touch on just a couple of things in detail. The commission argues that there is a benefit to manufacturers of the flexibility that comes from the use of outworkers. It is putting it mildly to say that we are outraged by the analysis of the supply chain and the way that outwork is described in the position paper. There seems to be a tacit support for the avoidance of payroll tax and the non-payment of workers compensation and super in the arguments that are put forward. It suggests that somehow the flexibility is both to the benefit of the companies and to the benefit of employees.

There has been substantial research done on the effect of working at home alone on workers and their conditions of employment. The commission's position paper selectively focuses on the minority experience rather than the documented exploitation of the majority. These comments expose the commission's lack of understanding of the supply chain and the structure of this industry. There is no basis for the claims that are made in terms of numbers of outworkers and there is an opposition to the need for further legislation. Our question is, how does legislating for minimum standards limit flexibility which is the suggestion made in the position paper? We either have an Australian community which sets minimum standards and says that any worker - whatever language you speak, wherever you came from, whether you're working in a garage or whether you're working in a factory or an office or on the 24th floor - has a right to basic, fair, minimum conditions of employment.

To suggest there's a trade-off, to say, "Well, it's better to have any job than a job that is paid below living standards." in this country is unacceptable. Then it is also the case that there is a need, and it's been proven by various studies including a federal government senate inquiry, for legislation to improve the conditions for these workers. The Home Workers Code of Practice is not a new instrument as suggested in the position paper. It's been in existence since 1996. It is now 2003. Any further exploitation of these workers cannot be justified. In relation to the strategic investment program, we support the continuation of government assistance and direct assistance to our sector. We believe it has provided necessary and crucial support to the industry over an important period of time and it's vital that that program or a similar one continue, but we want to make sure that program is one that hits the right point.

The recommendations that we have is that the strategic investment program should be maintained until at least 2015. They should be at current levels of funding, not at reduced levels or at half levels as proposed in the future by the commission's report. There are flaws in the SIP program that need to be addressed. It needs to be reviewed so it is no longer an elite program that only reaches a small percentage of TCF companies. We believe that many companies of the small and medium size are currently disadvantaged in their access to it. There should be a direct link between the strategic investment program and the keeping of manufacturing jobs in Australia. There are two specific issues in relation to SIPs, one that I've touched on already, a suggestion that somehow the money could be used for companies to move offshore and the second is a suggestion that the labour adjustment program that would assist workers in retraining and reskilling and moving out of the industry could also be funded out of the SIP program.

I want to paint for you a picture that is our experience. Imagine as a union trying on the one hand to support and represent companies and their capacity to get money out of the SIP program to reposition themselves to be competitive and viable in the future, at the same time competing with workers who have lost their job in the industry who are desperate to get financial assistance and support for retraining and finding other employment. To suggest that both of those groups of people would be within the same program competing for the same bucket of funds is one that I think is not in anyone's interest, because it is in our interest as a union to both support those companies to get the money they need to continue but also we have a very serious heartfelt responsibility for those workers who have lost their jobs. We don't want to be competing for the same bucket.

In relation to entitlements, I'm pleased to say that we welcome the recognition within the position paper that many of the industrial issues and concern in our industry have come out of some devastating loss of entitlements when workers have lost their jobs. We welcome a proposal that there be an independent review into the question of workers' entitlements, and we have outlined in detail in our submission the need to have this issue addressed as an industry approach.

It is not fair on those companies that we continue to have disagreements with and disputes with that they are the only companies that bear the brunt of the disgruntlement and fear and concern of thousands of workers about their entitlements. We want it to be dealt with by the industry. We believe that the Productivity Commission has a responsibility to press for the enactment of existing federal government promises to change the order of priority in Corporations Law so that workers and their entitlements come before secured creditors. This is an existing commitment of the federal government that has not been acted on.

In relation to labour adjustment, we have a lot of experience. I won't take time myself, because we have people here that can explain it to you in more detail, but we do welcome the acknowledgment within the position paper that this industry requires significant support, given the magnitude of adjustment that is still going to happen. The adjustment of course means people losing their jobs. We think that targeted assistance to workers in our industry is essential, and we believe that programs that actually deal with the type of workers we have, where they are, what their skills are and what their opportunities are, need to be developed. We have some experience in this, and Sandy will speak to you briefly about that. We also will provide further information to the commission about some successful work that's been done in the Victorian forests industry with the worker assistance program that has actually assisted greatly workers who have lost their jobs out of that industry that also provides a useful model in addition to the Bradmill model that you'll hear about today.

Lastly, we want to raise the fact that we think there's an absence of comment in the position paper about the important role of government procurement. Many millions of dollars of local, state and federal government are spent on procuring textile, clothing and footwear products, and both in Australia and some state governments, including in New South Wales and Queensland, there's particular policies and programs in place that recognise the importance of the Textile, Clothing and Footwear Industry Australia's manufacturing base having access to those tenders and orders. We think more can be done at the local, state and federal government level to ensure that Australian manufacturers have the advantage of being able to see that their governments spend money on products made in this country, and we would urge the Productivity Commission to consider issues about government procurement and make strong recommendations of that sort.

I'll stop there, and I'm not sure in terms of your proceedings, Philip and David, whether you want to address any questions to me or whether you would like to hear from my colleagues first.

DR ROBERTSON: I think it's better to hear the others, don't you?

MR WEICKHARDT: Yes, we'll see how much time you leave us at the end.

MS O'NEIL: Okay, thank you very much.

MR WEICKHARDT: Yes, we've got somebody else on in just over 30 minutes.

MS O'NEIL: Yes, we'll be fine. Firstly, Sandy; Sandy, do you want to introduce yourself first.

MS CASEY: Yes, good morning everybody. My name is Sandy Casey and I was a project officer with Life After Bradmill which was a project which was funded by Arthur Andersen after negotiations with the union and we received some funding to look after the workers who had been retrenched. What really came through with this position was that most of the workers desperately wanted jobs, and many of them had been employed with the industry for many, many years and were totally unaware of the changing nature of the workforce. They didn't know what a resume was. They just said, "I want a job," and they would go and knock on doors, and that isn't the way in which you do it nowadays, and many of them went and had to sit for tests. Now, these people had been working in factories, and their language was not English, and they had to do both written and oral tests and many of them were very, very frightened. It was quite a scare for them, so we had to walk them through this.

What also came evident was that many people didn't want to take retraining, mainly because they were at an age where perhaps they thought, "Well, what's the point? I'm 45, 50." Many of them would have liked retraining, but there was no money involved. It would mean there would be loss of earnings, and that was a problem. Another problem that we found was that we had no funding to sort of offer retraining programs, and they didn't want to get into the mainstream TAFE colleges. These people didn't know about Centrelink. They didn't know what benefits they would get and they were very, very nervous. There were many projects offering employment assistance, but these people needed sort of special one on one. They used to come and they'd tell us the stories, but mainly the biggest story was, "I want a job."

The project was very successful in a way, because it only ran for six months, and I hope there's never a need to run another one. But these people are very special because they've been in the industry for many, many years and they love the industry too, even though the work is really quite dirty and very noisy. It's their job, it's their dignity and it's their life. They've worked night shift or afternoon shift considerably for many, many years. Many of the workers also felt they had lost their self pride, they had lost their dignity, and they had commitments that they still wanted to maintain, and it was very important for them to have somewhere they could come and I suppose be listened to. They were very unaware of casualisation of the workforce and they were very reluctant initially to get jobs in the casual area. But many of them went in and eventually they got into permanent positions, but it took a lot of - how can you say - cajoling to get them to take that first step, because they wanted a permanent full-time job and they didn't realise that this wasn't the way it happens.

There's many, many stories I could give you about some of the personalities. We got a 50 year old into a retraining program with the council. We worked very closely with job networks and other job agencies, and it was very necessary for us to have someone who had been employed in the industry, because that person could understand what skills they had and could see what transferable skills would be useful in other areas, and that was really, really a very important part of the success of this project.

He was also trusted by the workers because they knew him, he had fought for them and he knew their strengths and weaknesses. Another important factor is that if such a project needs to work again, that we should have access to the workers before they are retrenched. Once they are retrenched, they go downhill. They may have got some money, but nevertheless the routine has gone and this is a big demoralising effort. The project must get in beforehand and get information so as it can set up profiles and begin resumes so that they can begin immediately looking for work, because that's what they want to do. Also many of them had, say, overseas qualifications, but because of their language skills they felt reluctant to perhaps pursue their area, and I think that's where the LAP programs and retraining would be necessary for such a project.

This project ran on a very small amount of money with two project officers and yet we managed to get 75 per cent back into employment. What we did find is that the women didn't use our services very much, but we did manage to get them all back into the textile and clothing and footwear industry out at Melton. Many of them thought Bradmill would restart again and were waiting until it would start up. It didn't. It became smaller and smaller, but that's what they wanted. They wanted to get back into the textile industry because it was their life. Thank you.

MS O'NEIL: Thanks, Sandy. Ellen, are you happy to go next?

MS McGREGOR: My name is Ellen McGregor. I work at Bruck Textiles and I live in Wangaratta. I've been a worker in the textile industry for almost 20 years, and the last 15 of those years at Bruck. 11 members of my family covering three generations are currently working or have worked at Bruck Textiles. I have two aunts who began at Bruck during 1948, my father-in-law who began in 1955 and an uncle who worked at Bruck for many years. My husband, my youngest son and two brothers-in-law have also worked at Bruck, and currently my eldest son and my sister-in-law are working at Bruck in the dye house and finishing departments respectively. I work in greige inspection which is a department within the weaving division.

In the time that I've been an employee at Bruck Textiles, I've watched as the number of employees has dropped. In March this year there were 35 of my fellow weaving employees made redundant, and as recently as last month, saw another 11 employees made redundant. I am concerned about losing my job if the government reduces tariffs further. I have passed the half-century mark in my life and I worry that if I lose my job now, I won't be able to find another one here in Wangaratta. I need my job because I have a family. I too have bills to pay, just like everyone else, and my husband started his own agricultural machinery business just two years ago and is finding it rather tough at the moment because of the effects of the drought. Therefore, I need my job more so now than ever before.

If the tariffs are reduced further, I believe the impact on workers will be devastating. Bruck Textiles was once the largest employer in Wangaratta with a workforce in excess of 1100 people. However, they can no longer claim that is so with a workforce of approximately 390. It is of great concern to me that if we were to lose this asset to our city, the flow-on effect would have major consequences for Wangaratta. One has only to consider the business houses around town who supply to Bruck on a daily, weekly or monthly basis and the effect this would have on them, their workforce and in turn their families. One could say that every business in Wangaratta would feel the effect one way or another. I urge you to consider the effect reducing the tariffs at this stage will have on our workforce at Bruck Textiles and on the Wangaratta community in general. Thank you.

MS O'NEIL: Thanks, Ellen. George.

MR SAMMUT: My name is George Sammut. I work in the boot trade for the last 41 years. 15 years, I came to Australia as a 15 year old. I started my apprenticeship as a 16 year old. When I finished my time, the two brothers that were running the factory, they decided there was too much friction going on. They closed the place down and all I got was a pat on the back and, "Good luck, George." I went to another firm in Richmond, and then they decided that they wanted to move that business up to Mordialloc and they gave the workers a choice, travel or leave. I went to another place. Unfortunately I had a car accident then. When I was in hospital, they burnt down, and I was out of a job again.

Then I went to a place called Verona Shoes which I was there for 23 years. I worked really hard for them. I was very loyal. They had a bit of bad luck. Well, the tariff cuts started to bite then and they started to lose a lot of their production. We were given that - you know, we will be safe; they'll do all right. They had some dealings with a firm called Figgins who supplied most of the big stores with footwear, and somewhere along the line they made some deals. We workers had no idea what they were doing. One day they call us in the office and they said to us that we were sacked on the spot and that they would rehire us as permanent part-time. I pointed out to them that was against the industrial laws and they can't sack us, they have to make us redundant first and pay us out, and then we've got a choice whether we'll take the jobs or not. Anyway, the union were called in and when they were asked if they've got funds to cover all our redundancies and payments, they said yes, they have.

About a week later again they call us into the office and they said to take two weeks off without pay. Some of us we were living day to day, you know, we needed the pay. So again the union was called in and when they were asked if they've got enough funds, they said no, they've got nothing. They didn't even have enough to pay us the four days that we have worked that week. When the union had done all the haggling, they decided they will pay us for the four days. Then the next day they changed the locks and we were locked out of the factory. About two or three weeks later they declared themselves bankrupt and there was nothing for us there. All the workers were out of a job. We found it very hard then, because the shoe industry was going downhill very fast. We couldn't get really good jobs.

I was very lucky, because being in the trade for such a long time, I knew a few people that could get me a job. I done a lot of walking around and doorknocking and I got myself jobs. Some of the workers that were working there couldn't get jobs. They went to a place called Diana Ferrari which in a couple of years' time they went offshore and that was the end of their work. There was no work there. I lost a lot of my redundancy and long service leave. There was nothing there. After the creditors got their first whack at what was left of the place, a few shoelaces was left for our whole work. There was nothing there.

I was lucky enough to get a job with another firm, which again they struggled and in about five years' time, about two years ago, we were made redundant - I was made redundant. I got another job which - I've been extremely lucky that I have been able to get jobs in the industry. Personally I take great pride because I have never received any government assistance. I have never been unemployed. I take great pride in that because although I'm in the lower scale of the earnings capacity, I still think that - I've got my pride, I am a human being and I deserve to work for a living. Now I'm just working at a place cutting sheepskin which is a really dirty job. The part that hurt most is because I was made a lot of promises after 23 years that they were going to pay me so much money to cover my daughter's wedding. I lost that. I had to take a personal loan which I could not afford which caused a lot of friction and hardships at the time.

When I asked the boss about a month before whether, you know, the place was going to fold, he said, "We'll be all right." I said, "Do you think I should get another job?" He said, "No, you've got too much to lose," which I did anyway, but I would like to put - this tariff cut is slowly killing the boot trade. When I was a kid, Abbotsford and Collingwood, every second block had a shoe factory there or a tannery. Now there's not much there. This tariff cut is slowly killing us, you know, and if the federal government keep doing this without getting any help, they're all finished, and I just ask that, to give us the right to work, because like I said, we have got our dignity and we have got the right to work a little. Thank you.

MS O'NEIL: Thanks, George.

MS LE: My name is Le. I have been a worker for eight years. I didn't choose to work at home, but I couldn't find a job in a factory. My life is very hard. I usually earn about $5 an hour. I have to work 12 hours a day, seven days a week because the pay is so low. My job is also seasonal. Sometimes there is no work at all. When there isn't work, I don't earn any money at all. I haven't had a holiday in eight years. I don't get paid for holidays like other workers. I get no superannuation or overtime. I can't get sick. If I am sick, I don't get paid and the boss find another worker to do the work. Sometime I had to work through the night to finish an order if it's urgent. If I don't finish it, I lose my job or the boss, they don't pay me.

My working conditions are bad. I work all day in my garage. It's cold and very dusty from the fabric I sew and this affects my health. I often suffer from stress and headaches because of the long working hour; the pressure to finish orders on time. I am always tired and I have no time to relax. Sometimes I have pain in my back and shoulder from sitting at the machine all day, but I can't stop. If I stop working, I won't earn money. My job is also very isolating. I work all day every day on my own. My family complains that I have no time for them because I am always working. I have to make time to speak to you today because I want you to understand how hard I working. Thank you for listening to my story. Thank you very much.

MS O'NEIL: Thanks, Le. Just in conclusion, many of our colleagues actually suggested or argued that we should not give credence to this inquiry in terms of either submitting or appearing in these hearings but we chose to, and we chose to because we wanted to make sure that this commission and inquiry had the benefit of hearing what you have heard today. We don't want you to consider this industry and its future cocooned from the living, breathing heart of it. My union has become an expert in dealing with trauma, with the slap-in-your-face reality of good hardworking loyal and skilled employees being dismissed, downsized, retrenched, restructured, sacked and relegated to the scrap heap.

Our industry has its flaws but its role in building Australia is significant. We make great products. We have changed and we will continue to change. We innovate, we export, and we strive for excellence, but we need a breather. We need industry policy that does not put Australian jobs and our industry out on a shaky limb while our trading partners have industries that are rooted in both tariff and non-tariff protection. We want a clean and proud industry which doesn't build its competitive advantage on frightened exploited workers in garages. We want to continue to build a highly-skilled, smart, cutting-edge industry which provides good wages, conditions and secure jobs, an industry that recognises the skill, pride, worth and dignity of its workforce. Thank you.

DR ROBERTSON: I want to adopt a positive approach. I won't take you up on any of the points you dislike about our report, although I'm quite happy to do so at some other occasion. I think the positive thing is that I was very interested in Sandy Casey and what she had to say and we read with great care the Life After Bradmill stuff that you sent us. Strangely enough in your submission you suggest that we need to return to the labour adjustment program. Now, I would have thought that the best thing to do would move in that direction with some of the qualities from the experience of Bradmill. In other words, not just provide money that's, you know, just paid out, and in the case of the labour adjustment program, the workers that receive the money weren't allowed to return to TCF which struck us as being an odd characteristic, and it was strange to us that you thought that might be a good idea.

But the Life After Bradmill, I think you're absolutely right, you have to try and deal with these problems before the crisis occurs, not afterwards, and if we could in fact think of a program that would assist people to get new jobs along the lines of the Bradmill exercise, in other words, if you can find jobs for them in other textile plants, in footwear factories and clothing groups, that seems to me to be a good idea, although of course they know that job security is not going to be that high, and if you can get some of them to retrain and move to other industries, clearly that's positive. So a combination of what's known as the labour adjustment program, together with something along the lines of Bradmill, would seem to be a positive step in dealing with the problems you focus on which is the employment side.

MS O'NEIL: Can I?

DR ROBERTSON: Yes, sure.

MS O'NEIL: We agree. Our support for the labour adjustment program, coupled with our promotion of what our experience that Life After Bradmill is is because we think we do need a merging of the two, but the experience we had with the labour adjustment program was that there was a very low take-up rate until we actually succeeded in having support given to have project officers that were based in the union that did the sort of work that Sandy has described; so what changed in the take-up rate was once we had people that could get into those workplaces before the workers were out the door, who could explain the program to them, and then work as an advocate, if you like, with existing training providers to assist. So I think your proposal is correct about looking at what were the strengths of both. We don't suggest in our submission that the aspect of not being able to re-enter the industry should be continued. I suspect we don't deal with it and I agree with you, I think it was a flaw in the previous program.

The other aspect of what Sandy described that's important though is that many of the Bradmill workers, when Sandy and Steve spoke to them about, "Well, what about retraining, what about the opportunity to learn some other skills?" their approach was, "I need a job." So it wasn't that they didn't want to be able to be retrained but because there was no income assistance, so there was no financial assistance that was part of the Life After Bradmill project, they were forced to look for other employment even if they might have ended up in better employment if they had taken a period of time to retrain and reskill, so the absence of any income assistance in that project meant that there was a real gap in terms of the skilling up of those workers.

So in summary, the aspects of the labour adjustment project that we think are really important is the combination of English language training as well as vocational training, and the capacity to have non-means-tested income assistance. Otherwise your comments in terms of a lot of the lessons about Life After Bradmill and bringing those things together, I agree with.

DR ROBERTSON: Philip.

MR WEICKHARDT: First of all, can I say thank you for appearing and thank you for everyone who came along and told their story. I'm glad you decided to do that. We may not get it right but if we don't get input, then the chances of us getting it right are diminished, so thank you for the time. I guess I wanted just to ask a question around the issue you alluded to of not being in an invidious situation of competing for a bucket of money in terms of either labour adjustment programs or helping people who are displaced from jobs versus investing in the future of the industry.

At the end of the day, our thought was not that a current-sized bucket of money called SIP would be fragmented further but that perhaps there were some advantages in somebody with real understanding of this industry overseeing a total program, because there is an overlap of the issue of both helping people out of industries that are unable to adjust as well as investing in those that are able to go forward, and while I understand there's a difficulty in deciding how a bucket of money gets divided up, somebody at some stage is going to say from government, "This is the totality of the money that's available for both helping people who are displaced and for investing in the new." So if the union don't want to be involved in that sort of issue of debating, well, if that is the totality of the funds available this is how they should be apportioned depending on individual issues that arise, how do you suggest that that debate be carried through?

MS O'NEIL: Two things; I think we understand that with any government program, you've got to deal with treasury and finance and with the finite amount of money that's available and at some point it's a political process, and that when you have programs that you support, then as part of the industry and as an advocate for our members and for the industry, then we would have a role in speaking to the federal government about levels of assistance to the industry. But the comment I made was about saying if you describe it as all the one bucket or the one program and you then have, I suppose, the competing forces within the industry and for ourselves, within ourself as well, within the union, we would support both aspects, then I think that it creates an artificial division and encourages lack of cooperation when we actually want to cooperate more effectively with the companies and the owners and managers of companies in this industry because there are things we disagree on, but in many cases issues to do with the future of the industry and industry assistance, we can work cooperatively together.

So the short answer is that we would rather be approaching two different government departments and lobbying for an effective level of funding and resourcing to TCF's specific programs out of both of those government departments than to have one program that was a definite amount of money, where there was competition with the two. Having said that, I agree with your comments that having the expertise and an overview and a capacity to bring those together and work effectively is smart, and I think that's right. It would be very useful to have an approach to the skilling of existing workers and the skilling and retraining of workers who lose their job within a framework of the future of the industry and you would have heard other people as well as our own submission talk about skill gaps in our industry. At the same time as we describe people losing jobs, we've got companies ringing me up saying, "I can't find a textile mechanic." So there are gaps, and having an approach to industry skill development as well as assistance to retrenched workers in a comprehensive way, we would support.

Ultimately, as far as the politics of money goes, we would rather have an argument about an established program that is aimed at assisting workers in training and retraining and income assistance separate from money that goes to companies for them repositioning themselves for the future.

MR WEICKHARDT: Can I just ask one more in that area though. The other comment you made in your original submission which I sort of understand entirely is your desire that SIP money is not paid to companies who immediately then become insolvent and disappear with the money and send it to Spain or wherever you allege they send the money.

MS O'NEIL: Los Angeles.

MR WEICKHARDT: Los Angeles. Indeed your submission and your presentation today are full of pretty heart-wrenching stories of people not getting entitlements and money being misappropriated. How do you believe this could actually be given effect to? Do you have any practical suggestions, apart from the sort of benefit of divine wisdom and foresight, how you actually make this implementable?

MS O'NEIL: I think the example we gave was assistance that was given to Coogi some few weeks before that company collapsed. Using that as an example, it was already on the public record in cases that we had been running in the Industrial Relations Commission since January of that year that the company was in serious financial strife, and we have plenty of evidence as to the problems with that company that it in fact stopped paying superannuation some 12 months before. So it was already on the public record that they were, well, acting illegally in relation to their workers but also that they were in great financial difficulty. So the money that they received from SIP some months after that was well-known, so I think that there needs to be a rigorous assessment of companies within the government departments that determine assistance that actually looks at the financial state and requires companies to disclose the full financial picture of where they're at before that money is made available to them.

I would also suggest that having an approach to it that draws on industry knowledge beyond just what the company is saying is also essential. So from the union's point of view, we would be more than happy to provide any information we had that was of concern about a company's financial state and their capacity to actually meet their commitments, so I think it has to be rigorous from the departmental point of view but also has to draw on information that goes beyond the company itself.

DR ROBERTSON: The outworker issue, which is clearly a vexed one - and it's extremely difficult to really get your hands on the data on outworkers - it's very difficult to know who is behind it and that kind of thing. We know that those workers are not likely to get a job in a factory because the factories are all closing down. How do you think you could regulate outworkers when it's such a confused picture with lots of people in the intermediate stage? I mean, I would have loved to have asked Le who the person was who gave her the work but I feel that might be a bit embarrassing. I mean, just introducing regulations isn't enough, because then you might catch one or two people but you're not actually solving the problem.

MS O'NEIL: I think it's about what the regulations are, so a lot of the work that we have done, and done cooperatively with reputable companies and organisations in the industry, have been about making transparent what you accurately describe as something confusing. So it is complex, but part of what we have sought to do, both in terms of the Homeworkers Code of Practice and its various parts to it which has both a retailers' and a manufacturers' and hopefully very soon a sports and corporate wear part of it, it also is complemented by the award and now by legislation both in New South Wales and Victoria, and it's that package of approaches that actually go towards saying, "Because it is a contracting chain and because it is complex to be able to properly regulate and make sure that all points within that chain, people are treated fairly."

I have to say that many of the contractors and subcontractors complain to the union and say to us, "Well, that's right, it's a terrible thing that Le or another worker is not getting paid enough and we don't like doing that, but our problem is that we're being screwed by the retailers and they're not giving us enough money to make the product and therefore pass on the living wage to the workers." So we think that the key to regulation is having requirements that each step of the chain are transparent and able to be judged on the basis of whether ultimately the work at the end of the day is being done by someone that is paid minimum Australian wages and conditions. That is not so hard to do as long as you expose and have, I suppose, a cascading range of responsibilities in the regulations that you set.

Where it falls apart is if you only have those responsibilities go one step. If you actually have cascading responsibilities that go from the retailer through the manufacturer and the contracting chain to the worker, then you're able to do it. It's not impossible to do. It just requires the responsibilities to lie at each level, which is why we had a concern with the suggestion that a voluntary code is the way to do that because we've always - and what you will see happening in New South Wales and now in Victoria is you see the voluntary code sitting within industrial legislation that recognises some basic things. One of the basic things it recognises is that Le and any workers like her are workers, and so it's a fundamental issue about acknowledging their status as employees and then saying, "Well, what flows from that in terms of responsibility?" If you only have the code of practice, then it does assist but it sits in a vacuum, and those companies that sign on are still at a great competitive disadvantage to those companies that don't sign on and that are managing to remove or avoid responsibilities. So for the advantage of the reputable firms and the companies that want to do the right thing, there needs to be regulation that sits alongside it.

DR ROBERTSON: Yes. That gives faith to regulation. I'm anti-regulation, you see.

MS O'NEIL: Yes.

DR ROBERTSON: I don't think they work very well and I think somebody like Le, it's in her interests not to complain, right? I mean, I'm not talking about social justice. I agree that she shouldn't get $5 an hour, but that's all she can get at the moment and in that case, she is not going to complain and we're not going to get the regulations working, because they're just sitting on a piece of paper somewhere in Parliament House.

MS O'NEIL: Well, a regulation is only useful if it's enforced.

DR ROBERTSON: Yes, but it's very difficult to enforce if one half of the contract isn't going to tell you.

MS O'NEIL: Well, our experience in talking to a lot of our outworkers, which we do every day, is that their fear about exposing their situation is about fear of losing work and losing their orders, and so if it was the case that those people that were providing the work to them had an obligation in relation to providing work at a level that could pay the legal minimum, then that few wouldn't be there, because they would be acting illegally in removing the work.

DR ROBERTSON: Well, I don't think you and I are going to agree on this, and we've actually got somebody else who is due on. Is there anything else you'd like to say, just to wrap up?

MS O'NEIL: No. Thank you very much.

DR ROBERTSON: All right. Well, thank you all for coming and it was interesting to hear your stories. Thank you.

DR ROBERTSON: Let's get back into session. We now have Mr Ian Fayman from the Australian Dyeing Co, but you introduce yourself as well, just in case that wasn't picked up on the mike, and you know the procedures because you've been sitting here. Thank you.

MR FAYMAN: Good afternoon. My name is Ian Fayman. I'm co-managing director of Australian Dyeing Co. I thank you for the opportunity of hearing my public submission. I've written a few times to the commission over the past. A bit of background on Australian Dyeing Co: we're a commission dye house since 1958, family owned, second generation. We did set up a joint venture in Sri Lanka in 1990 and then exited it four years later. We had two mills, one at Clifton Hill, which still exists today, and we had one at Seymour. We closed the Seymour - we purchased it in 1979 and we closed it in 1999. We had industrial disputation on the Clifton Hill site in 1997. It cost us substantial funds; it lasted 67 days.

Over the 90s, we developed up to approximately 20 per cent of our turnover on exports in niche circulative fabrics. We branded these. We had Smart Cotton and we had Smart Wool and we had Smart Yarns and we had some success at Marks and Spencer and we had some success at Japan, and through the contact my partner had in Sri Lanka, we were able to enjoy some of this growth in our business. But from 380 people running two mills in the early 90s, to today having one mill and only 89 people, we simply have had to reduce our exports. As of today, being a commission dye house, we might dye for downstream exporters but we ourselves no longer export because the lack of domestic volume that allows us to have a margin to chase the export business has diminished. So we've got a marginal domestic business, not able to sustain exports. So from our own point of view, we need a domestic business to sustain any export growth, and obviously from the critical mass, it's - I think Rigby recently finished the report on the circular knit business that for critical mass of approximately 400 tonne is what's required to have what we call a meaningful and sustainable industry.

I started my submission with a couple of motherhood statements, which I won't bother going over; you have them. One of the terms of reference that you have is what's a viable industry, what's the definition of "viable". For me, the TCF industry must be profitable and strong. You can't have a cottage industry and be viable, and the worry is that that's where the industry is heading. There needs to be a critical mass domestically to ensure that you can have some innovation. You can't just have innovation and marketing and design without having a textile industry. I mean, Italy is a prime example of that.

I saw the commission looking at what's called an adjustment program. The tariffs are going to be reduced. There are going to be social consequences that Michele made very clear just before me, and the government is trying to fund the adjustment. I think earlier on, you made the example of some other industries, the small guys who might start up, who want to enjoy some SIP money. I don't see that as adjustment assistance. I see that it's the existing that needs adjustment for what has occurred. I'm pretty strong and passionate on the basis of: the restructure must come first.

I think, Philip, you asked a question about money going to other companies that's further increasing the areas of overcapacity. I believe that the industry must restructure first, and yes, with great regret, you're going to have to pick some winners, and I don't care if you're in textiles or leather or clothing or footwear, you're going to have to do that because then it allows you, in my opinion - or the government, both state and federal - to target the areas that need the labour adjustment which Michele highlighted, and I think you'll be able to target that a lot better. If you don't target it, it will be all over the place. It will be haphazard and it won't have an effective outcome. I think some examples from the forestry industry and the dairy industry are examples of that.

So in my opinion, I felt the rationalisation, restructures, mergers, acquisitions and, yes, departures and funding departures, must come first. Rigby says it has occurred. I argue that in some industries, specifically mine, it actually hasn't occurred. You've got companies that have gone into administration, that have come out of that administration and still existed. So you really haven't had a substantial restructure, certainly in Victoria. I think rationalisation restructure will occur, and it will occur over the next 10 to 15 years, as it has since 1987, but I think - I read a quote from Macfarlane that he wants new ideas and the industry is looking not at having a holding pattern, like you can just continue this SIP money and the same thing will occur. There will be a bit of restructure, there will be a bit of rationalisation, but what's going to pop out at 2015 or 2013 - is the industry going to be viable? I think you've got an opportunity to do it sooner rather than later. I don't think the market forces will get it right. It certainly will be restructured but it won't necessarily get it right and it will take too long.

I think the restructure - there's some opportunities under type 4 and type 5 grants, because I think restructure, both second-hand equipment - for both metropolitan and regional businesses - I don't think there should be restructure of businesses within a business. I think you need the two businesses to then merge and rationalise, and then the employees that will suffer need some sort of assistance. So you go in before the bad news, you retrain and you do all those things that Michele explained. Once the rationalisation restructure has occurred and there are improved economies and the businesses are strong, then those companies will have an opportunity to put training in place, have links with the institutes, the training institutes, have export growth. Obviously later on in my paper I said there needs to be some money for market development, market access, because there are some difficulties. Even when we struggled in trying to get into Sri Lanka and we tried to get into Marks and Spencer, there were difficulties in general terms, not just price, in entering those markets.

I think we've got to be careful with some of the funding. I think some of the funding that the government has given - I use the forum, I use the Rigby report - I think they can be a little bit more careful in the way they choose giving out the funding. I've made a comment with regard to SIP that obviously there have been some errors, some anomalies. I think, Philip, you highlighted some money has been given where there are overcapacities, and Rigby highlighted that, and I just think, all because you've bought a piece of equipment, it shouldn't mean automatically that you get the funding.

I've made the comment that I feel that if a company goes into administration, and there have been examples of that in our particular sector, that the funding from SIP should stop. The whole theory of SIP is not just reward for what you've invested but the theory is that you're going to be there in 2005 and 2010, 2015. If, for whatever reason, creditors or the banks or yourselves have decided that it won't, then I think they shouldn't just be there waiting for their SIP payment. I think that's just ludicrous. I don't think, if the government has decided to put money on the table as an assistance adjustment program by 2015 or 2013 - and I'd argue the same as the others, that it should be the full 10 years - that if it hasn't been spent, it just goes back into general revenue. I think if they're going to budget a certain amount and they think it will be spent by that period of time, if it's not, then I actually don't think it should go back into general revenue. It's there, it's budgeted for, it's accepted that it should be there to support the adjustment. If not, all the adjustment is complete by 2015 or there's an extra couple of hundred million left, then I think it should go to 2016, 2017, 2018, to continue helping the adjustment, but I think there should be a review process.

I think the review needs to be done in approximately 2008 and 2009, and again, mostly probably 2013, 2015. Yes, we want certainty. We know the tariffs are being reduced at a particular rate. I am one who believes that if it's not made here, the tariff should be zero. That's my own feeling on that, and I don't think that the tariff rate that we're looking at between 2005 and 2010, in my specific industry, is a protection any longer. I think the exchange rate has shown that.

The most important thing is if the government - and I'm told the time line is approximately the end of this year - decides to make some sort of change, I don't think it should be post-2005. I think if a change is going to be made and is recommended, it should be done immediately, so people again have the benefit of certainty. They know there's an ongoing stream of investment. From our point of view, we've invested substantially this year in certain sort of efficiencies. It's not an expansion of our capacity; it is an improved efficiency. I don't think there's anything more that I wish to say. I think I've explained most of that, and I'm happy to deflect any questions.

DR ROBERTSON: Okay. Thanks very much for that. Why do you think that an extra two years added to SIP is a good idea? If you're looking at the downswing in the tariff, it's not even - its bumps, but if you look at it like that, by reducing the assistance as the tariff reduces, you're continuing to provide effectively for the firms that stay in the industry and there will be fewer of them after 2010 and I would suggest that's a reason to reduce the value so that otherwise you're giving them twice as much, if you look at it as being halving. Don't you think it would be a better idea to have a staggered kind of SIP alongside the tariff reductions?

MR FAYMAN: From my point of view, I've said that I wanted the restructure first. So to answer your question, I've only got to base it on my theory that yes, there should be less companies around in 2010 across the whole sector but they should be strong and viable. I believe that the money that's set aside - and that includes from 2010 to 2015, the full 10 years - I really believe the companies that will be here, that will require retooling, that will require efficiency, that funding is required for that full length of period. It is hard to predict what's post-2015. Are we going to attract new students to the industry? Is it strong? Is there a career path? Is there job security?

I just think that we need to get the strong companies with some exports, with some domestic business, make sure that that exists, but I really believe that there will be some form. Going back a few years when I started in the business there was a depreciation allowance where you could invest money and get 40 per cent as a tax write-off up-front. I think there will be some form of assistance - I'm not saying adjustment assistance - but some form of assistance post-2015 for those companies that are in existence. I hope that there aren't any more companies dropping off post-2010; I hope it's done in the next three or four years. But those that survive and want to retool and want to have the latest and want to innovate and want to enjoy export market access will enjoy some of the government funds, but at some point in an adjustment to the tariff reduction, that stops.

So, yes, there comes a point in time that the SIP stops, but it is my belief, whether it's me or someone else, whoever is here in TCFL will need some sort of government assistance, and I'm only talking where I am at 2003 because what I didn't highlight - and I remember the question you asked John - there are huge problems in the finance industry in insurance. You talked about raising funds, I'm talking about a simple thing like insurance. I'm not talking about car insurance, I'm not talking about public liability insurance, I'm just talking about business interruption insurance when you take mortgages and the banks are insisting that the insurance - those insurances have gone up in excess of 50 per cent.

DR ROBERTSON: That is a general problem, of course.

MR FAYMAN: John only highlighted the raising of funds for the $120 million worth of investment. I'm suggesting if the companies are bigger, they have an easier negotiation; no certainty of raising funds because they have an asset backing, they have a cash flow basis and hopefully they have a profit. But I don't think 2013 needs to be your cut-off date. I really feel that the industry needs as long as possible to adjust to the reduction intake.

DR ROBERTSON: But it can't be indefinite.

MR FAYMAN: No, I'm saying 2015. I'm agreeing with you, David. I'm agreeing it's got to be a definite time. All I'm highlighting here is that in buying a brand new piece of capital equipment in textiles, it is a huge cost and in the past, the government have done some depreciation allowance and done some other ways of assisting the funding.

DR ROBERTSON: I would argue that should cease because TCF is getting a generation to adjust - that other sectors had to do in 10 years, less than 10 years - to the 5 per cent tariff rate and I think there's a danger that we just keep on saying textile, clothing and footwear is different, and I'm not sure it is.

MR FAYMAN: But the depreciation allowance was not just textile related, it was across the board. I am not saying there is a dedicated fund for TCF post-2015, no.

DR ROBERTSON: Okay, sorry. That's the way I heard you.

MR FAYMAN: Sorry, I apologise, no.

DR ROBERTSON: Philip.

MR WEICKHARDT: Ian, listening to your story and reading your submissions I'm minded to say maybe the government should stop giving money to this sector altogether because you've suggested that a hell of a lot of it has been a complete waste of time. You've suggested the money spent on the TCF forum, on Rigby reports, was a complete waste of time. You've said that a lot of the money has gone to companies that have become insolvent and a lot of money has created additional capacity, that this wasn't needed. I guess the question is, who is going to provide this infinite wisdom of where to give the money and pick the winners in your scheme of things, because it seems that wise men in the past have, despite best intentions, failed.

If you look at the industry programs over 25 years in this industry, they've been there for about 25 years, they've changed regularly, presumably because people have been dissatisfied that the last program didn't work and "here's a new one that will work better". A number of people have said to this inquiry that SIP is working pretty well, but you've suggested you're pretty dissatisfied with the way it's working at the moment and indeed suggesting if there were any changes, you want them implemented immediately. I'm left feeling pretty unconvinced that from where you come from, there's much confidence that SIP or any successor of SIP is going to be very useful.

MR FAYMAN: I don't know whether you're trying to entice me to an argument, but I clearly said SIP must continue. It has been effective and has had very good results. The funding for forum didn't come out of SIP.

MR WEICKHARDT: It came out of the government.

MR FAYMAN: It came out of the government. I just think there needs to be an effective change. You've had SIP for exactly three years, to get the capital return - by the time you make the decision you want to invest, you've done the innovation, you've done your market research into a particular product or a particular process, you've compared - in our particular example we've done a chemical dispenser, which one to buy, which one delivers the efficiency - before you make the decision, right, and we've been talking about this for - do we go down this road, do we go down this road - it took us about 18 months.

The benefits or SIP are only just coming back in now. I think SIP has been fantastic and there have been some good examples of SIP. I just think there's been some wasted money. How many audits do we need for an industry? Your document - you've done extremely well, you've summarised the position extremely well. I just think there's been some wasted money and I give the examples of the forum which is a fantastic talkfest and I think it's been ineffective. That is from my own opinion. But speaking to others in the industry, the SIP funding has been effective. All I've given you is a few examples in my particular sector where people did go into administration and Bradmill is a prime example, and I can give you some others, that did get money post-administration. I say that's wrong. If they got it beforehand, so be it. They've made the investment, the commitment is there, I've got no problem with that. But for whatever reason, they went into administration and then they hang around for SIP money.

In one particular example we wanted to buy the particular mill but we couldn't because there was an argument that, "You can't do it now, we've got to wait for the SIP money." This is ludicrous.

MR WEICKHARDT: What are the specific changes you're recommending to SIP?

MR FAYMAN: If you're going to change SIP, do it immediately.

MR WEICKHARDT: How are you suggesting those changes?

MR FAYMAN: Type 4s and 5s should include metropolitan restructure, not just regional restructure. I think, David, the TFI discussion that you had, you added a comment that not necessarily bigger is beautiful - I'm not sure which one of you. But the industry needs to get a bit bigger and stronger. It can't be a cottage industry and I'm worried that the SIP being put out - and I think examples were given today that if you meet your 200,000 threshold over five years - and that shouldn't be too difficult - you get the funding. What we've got to be careful about is not just giving it to anyone who comes along and puts the money out. I understand the AIG have got some members and there are some clothing industry members that are saying, "We think we should have our hand up too." The question is, "Will it deliver a sustainable investment? Will it deliver an export outcome? Will it deliver whatever the strategic benefit will be?"

But for me, I think metropolitan restructure between two companies, not necessarily inside - if I need to restructure my business, which I have done over the last 20 years, I don't want government funding for that. I think that's wrong. But if I've got another mill that I think we can merge or that this other mill - I don't want to merge, but it's just destroying a marketplace, it's just in survival mode until it falls over, then someone needs to pick whether I exit or it exits. I did say there are some difficulties in picking winners and I don't care if you're in the clothing industry - there might be arguments for the carpet boys. You said there were a couple of small ones nibbling at the knees and one company has got 40 per cent - maybe there's an argument there should only be one carpet manufacturer. I don't know. I don't know the carpet industry.

DR ROBERTSON: But you would leave that to market, wouldn't you?

MR FAYMAN: Yes.

DR ROBERTSON: I think that's the key to the whole thing, that picking winners is dangerous ground and I don't think government officials are very good at it.

MR FAYMAN: Yes, I accept that. But, David, if I choose to merge with another mill in my particular industry - and there is some second-hand equipment in that - then I think the industry needs to restructure first and then I need to make the decision - I, being a TCF company need to make the decision - of which new capital equipment I require to become internationally competitive, export growth, what have you. But we need the domestic business first and we need some assistance for that, because if I want to buy that business today, the banker is finding difficulty in funding that.

DR ROBERTSON: Yes, okay,. Philip?

MR WEICKHARDT: I think I'm done.

DR ROBERTSON: You're done?

MR WEICKHARDT: Yes.

DR ROBERTSON: Do you have anything you want to add, Ian?

MR FAYMAN: No.

DR ROBERTSON: Thank you very much for coming along and giving us that burst. I think you got through as much in your 25 minutes as some people did in an hour and a half. Thank you very much.

MR FAYMAN: I was pretty specific. I'm a pretty small player, but it's pretty simple from where I stand.

DR ROBERTSON: Yes. We will close the session now. We are re-meeting at 1.30 when I understand the TV camera is going to be in place. They're not going to film anything while anybody is speaking, not even me. We will re-meet at 1.30.

(Luncheon adjournment)

DR ROBERTSON: Brian, would you like to introduce yourself, and if you're going to speak - sorry, I've forgotten your Christian name.

MR RONCHI: Alan Ronchi.

DR ROBERTSON: Alan, yes, do so as well so we can identify you on the tapes.

MR RUSH: Can I introduce ourselves? I'm Brian Rush, managing director, of Australian Defence Apparel and one of the four equity partners. With me is Alan Ronchi who is our chief financial officer. Thank you for the opportunity to be here. We're here as a regional manufacturer. We employ 300 people. Just on 200 are at our manufacturing facility in Bendigo. The remainder are at Coburg where all our product development, warehousing and administration and sales are done.

We have no quarrel with option 4. We accept the 17 and a half legislated for; 10 per cent at 1/1/2010, and 5 per cent, 2015. However, we would suggest that before we get to 5 per cent, there ought to be a "lift the lid and have a look". Now, at your report to us, I think it was the TFIA, you suggested that fairness is not an issue. I quarrel with you on that because that's a judgment, and fairness is an issue. So I believe and we believe that you ought to recommend that there ought to be a "lift the lid and have a look" at around about 2010.

On the question of direct assistance, I know in aggregate terms you cast doubts on the success of the existing program and I'm not here to argue that, but I am here to say to you that over the two years of the strategic investment program, our business has grown in revenues by 62 per cent and our employment growth has been 57 per cent. Now, clearly that would not have happened unless we had had access to the strategic investment program. What that program has allowed us to do is to fast-track product development for export which we wouldn't have been able to do as a private company with limited access to finance. We believe that the industry assistance program is essential for developing our knowledge base to allow us to apply ourselves to high knowledge, high added-value products, which I believe is the way forward for the industry. Therefore we would submit that 1.4 over 10 years in terms of funding, while accepting a lower tariff, is a fair trade-off.

It gives us a 10-year view and a 10-year plan to undertake research and development for new products that the payback is often a long period of time, and that's one of the criticisms I have of the existing program; that your R and D payback may take two or three years before it really cuts in, especially in the area that we're involved in of ballistic protection. So we would argue very strongly for the 10-year program. We believe that the eligibility for entrants should be maintained at 200,000 for each of the five years. The reason for that, we believe that 200,000 is not an insurmountable amount, and really, a lot of businesses just in the sewing industry, in machine replacement, would get close to that over five years.

We believe that there ought to be a specific grant within the strategic investment program or the ongoing assistance program for SMEs who are constrained by the present program for eligibility, and that should be a straight-out grant and a lump of money set aside. I've said 10 per cent but that's to be defined, where SMEs can make application for grants and those grants be handled administratively and chosen in a different manner to SIP. I think we have got to recognise that small emerging businesses are part of the future and that some facility for them to participate in grants ought to be made available.

We believe that type 3 grants should be linked to type 2 but the type 3 should be uncapped; that the value added ought to be uncapped as long as you remain within the 5 per cent total of your gross sales. Added value is a real measurement of growth and we should have an unfettered ability to apply added value as long as we remain within the 5 per cent total of gross sales. We believe the type 2 grant should continue to be subjectively approved by AusIndustry and no change to the present approach. Definitions are constricting and definitions always leave heartaches. A subjective determination of innovation and product and process improvement I think sits neatly.

I think payments should be paid quarterly. An annual audit could still be required, and then if there's an overpayment, to come out of the following year, or AusIndustry could selectively audit at their discretion. I started by saying I don't believe that market access is not a real issue. It is a real issue and our company has been faced with enormous difficulties in getting a tender accepted for American Defence. America have what they call a Berriman amendment which precludes the purchase of defence clothing from foreign sources. That caused us enormous expense because you've got to have lobbyists and visitations and talks, and that was a real difficulty for us to get over. We did get over it but at some cost.

Just on market access, I see that the American government has put a quota embargo on Vietnam. Interestingly enough, Vietnam's exports to America were 50 million in 01; in 02, 952 million. In 03 there's expected to be a rise - this is the American year of 03 - to 2.4 billion; and the American government satisfying the textilers in the south have put a quota restriction of 1.7 billion on Vietnamese exports. We face going into Vietnam, a 60 per cent duty on our product - a 60 per cent duty on our product - so to hear discussions on fairness, I believe that to be very unfair and not a level playing ground. The reality of the world we live in is that we face enormous competition. Here's a factory in China which is not exporting to Australia.

MR WEICKHARDT: Brian, you might have to repeat this because they won't get this on transcript if you move away from the mike.

MR RUSH: I'll give you the book in a minute. Here's a factory that I visited in China with DuPont. It's a factory that employs 10,300 sewers. It's a factory that has 202 lines, and interestingly those 202 lines are constructed in a manner of Just in Time, so the average number of workers in a line of 202 are maybe round about 30. They have all the capacities of Just in Time. They have all the capacities of skills that we have and if you look through this book, they produce 2.25 million pieces a year just outside Shanghai. They have in the plant the latest Gerber equipment. Their factory is one that I am envious of in terms of cleanliness. Their factory is one that I am envious of in terms of the quality of their plant and equipment and that's what we're competing with at 50 cents an hour when our all-up labour rate in Bendigo is $28 an hour with the add-ons.

Okay, so that's the world we live in, but fairness and a level playing ground has got to be considered and it's very easy to dismiss market access by saying, "Well, we're not going to listen to the argument of fairness." I think you're obliged to listen to an argument of fairness. I'll leave you this book. You might be interested to have a look at it.

The other problem that we face as an industry is a union that is preoccupied with redundancy and that is a real difficulty that the industry has. We're confronted with a union that embarks upon industrial relationships purely based on what they can get; no attempt to work with firms to improve productivity, but produce a wish list that's usually headed by redundancy. I've got to say they are preoccupied with closure and that's a real problem that the industry faces domestically. That's all I want to say. Thank you.

DR ROBERTSON: Thank you, Brian. I keep being hit by this fairness argument and how we have to look offshore and make comparison. The real problem is we can't do anything about that, we've got to live with it, whereas we can do something about our domestic policies. Governments, particularly one the size of Australia, is not going to get China to change its behaviour, or Vietnam. So what we have to do is to work within the constraints that already exist. That's where fairness becomes a difficult thing. Fairness is in the eye of the beholder, I think. Now, you're not going to suggest that we should hit imports from China with a tariff of - what would it be - 560 per cent?

MR RUSH: No, but I'm going to ask you that as we move down this track of tariff reduction, that some cognisance is made of the rate in which our trading partners respond to the APEC objectives.

DR ROBERTSON: Sure.

MR RUSH: Because they're not. They're not.

DR ROBERTSON: I mean, I assume the government is doing what it can on that front, as you probably know.

MR RUSH: Well, they've got to do a lot because that's a real issue.

DR ROBERTSON: Yes, but we're not a big player.

MR RUSH: We mightn't be a big player but we've been asked to be trailblazers.

DR ROBERTSON: I'm not sure that APEC is that important in it actually. You see, the TCF industry is the one outstanding example of an Australian industry that has still got high tariffs, and that's the issue that we're really asked to address.

MR RUSH: I accept that, but you also put a plea in that the nation will be built on firms that have well-paid employees and contribute to the national wellbeing.

DR ROBERTSON: Absolutely.

MR RUSH: Good objective, but it takes time to get there.

DR ROBERTSON: Yes, and we are getting there, I think.

MR RUSH: So it's a question of when you flick the switch.

DR ROBERTSON: I think it goes a little more gently than that. It's not just like that. Anyway, Brian, we'll talk about it at some other time.

MR RUSH: Thank you.

DR ROBERTSON: Philip, did you want to - - -

MR WEICKHARDT: Yes. Brian, I'm a little confused about your comments about type 3 grants and the linkage to type 1 and 2.

MR RUSH: Well, the added value.

MR WEICKHARDT: Your original submission back in March, as I read it now, says, "Type 3 grants should not be tied to the quantum of type 1 and 2."

MR RUSH: Yes, we've changed our view.

MR WEICKHARDT: I see. You've changed your view?

MR RUSH: Yes.

MR WEICKHARDT: Okay. So you now think they should be tied to?

MR RUSH: They should be tied but uncapped.

MR WEICKHARDT: Uncapped, yes, until you get to 5 per cent of sales.

MR RUSH: For domestic manufacture.

MR WEICKHARDT: Okay. You, in the original submission, looked for a grant payable on type 1 to lift to 30 per cent of capital.

MR RUSH: Yes, we would still hang on to that.

MR WEICKHARDT: If that meant that overall SIP claims had to be modulated because eligibility went up, why does that leave you any better off, so to speak?

MR RUSH: Well, if it were modulated, no, but I don't think they would necessarily be modulated.

MR WEICKHARDT: So, what, your prediction is from where you stand that you think SIP will be underspent, do you?

MR RUSH: I do.

MR WEICKHARDT: Why do you think that is?

MR RUSH: I think there's evidence to suggest that it's short now. Just on capital expenditure, there's one point; I believe that capital expenditure should be widened - and it's not in our submission - to cover brand equity as capital investment.

MR WEICKHARDT: Yes.

MR RONCHI: The other factor that does come into account is that the companies need to fund in the initial point in time. The money is then returned or reimbursed or via a grant after the expenditure has been made and it's also some six months after the event the expenditure has been incurred and been outlaid.

MR WEICKHARDT: Yes.

MR RONCHI: The grant may be $100,000 but we've got to keep in mind that 30,000 of that is just on loan because it has to go back as far as - in terms of taxes. So the initiative at the start is to encourage the firms to be able to do the expenditure. Now, if they don't have the funds, they don't have the cash up-front, they cannot commence their activities; therefore as far as that, it gets delayed. If firms, as in this textile industry, are diminishing as far as profitability is concerned, funds will be becoming harder to come by, so it makes it more difficult for them to expend on more capital and more research and development.

DR ROBERTSON: How would that fit in with the proposal you've got for quarterly payments? That would ease that, would it?

MR RONCHI: That would help, yes, it would certainly help.

MR RUSH: You see, we made a submission to the TCF Technology Fund which was 10 million, I think, and wiped out at the budget before the last. Why? One of the disadvantages of SIP is if we have a specific project that we want to include, for instance, the CSIRO and the University of Wollongong which was the case in the original submission, to fund that is difficult out of SIP and that's why quarterly payments would assist.

MR WEICKHARDT: Is difficult in what sense, Brian?

MR RUSH: Well, you've got accounts to meet and you've got to wait over 12 months for cash.

MR WEICKHARDT: Okay. It qualifies under SIP?

MR RUSH: That's right. It qualifies under SIP but practically, under SIP, it's difficult.

MR WEICKHARDT: Yes.

DR ROBERTSON: Is it difficult to get bank credit?

MR RUSH: Textilers are not the flavour of the month with banks.

DR ROBERTSON: No, I know. That's why I'm asking the question.

MR RUSH: Fortunately we have very sympathetic bankers and we're not heavily leveraged. We end every six months with no hard-core borrowings from the bank which is a nice way to be but a prudent way to be having regard to banks' attitudes towards the textile industry. We spend a lot of time trying to demonstrate that we're not typical, but that's hard.

DR ROBERTSON: We had heard that when we were on the road, that the banks - well, the banks only ever want to lend to winners.

MR RUSH: Yes.

MR WEICKHARDT: In type 2 grants you made a comment they should continue to be subjectively approved by AusIndustry. I suspect AusIndustry would say they don't subjectively approve them now, there are some sort of tough criteria that they follow, but you have argued for no change to the present approach. Is that accurate?

MR RUSH: That's correct, yes.

MR WEICKHARDT: A lot of people, particularly from the clothing side, have argued that the definition of innovation is unnecessarily restrictive.

MR RUSH: It doesn't suit the fashion people.

MR WEICKHARDT: Right. But you don't have a problem with - - -

MR RUSH: But then, you know, putting a polka dot from the right sleeve to the left sleeve isn't innovation.

MR WEICKHARDT: So you would like it kept as it is?

MR RUSH: Yes.

MR WEICKHARDT: Can I just test with you why is it so; you're concerned that if it is enlarged, then the dash for cash will mean that your claims are modulated?

MR RUSH: Selfishly, we'll get less.

MR WEICKHARDT: Okay.

DR ROBERTSON: This is much on the same subject: when you suggested there should be separate funds for SME, you were thinking outside SIP?

MR RUSH: It could be within the SIP but an amount of money locked away specifically for SMEs, so that - you know, just strike a figure. Businesses doing less than 4 million, 5 million, could apply for grants to assist them in the development of their business.

MR WEICHKHARDT: What sort of criteria would apply with those grants?

MR RUSH: I think it would be best-dressed, and I haven't got the detail, but I think some understanding of emerging SMEs should be built into the scheme.

MR WEICHKHARDT: So it would be a sort of subjective - - -

MR RUSH: Yes, on application and audited and - but very, very slick in terms of constraints about application, you know, not high conforming costs. So if it was 700 million for five years, maybe 70 to 100 million is put away for SMEs.

DR ROBERTSON: That's going to be another picking winners exercise, probably.

MR RUSH: Well, the definition of the terms of the application would need some discussion and I haven't got that in my head at the moment.

DR ROBERTSON: No, of course not. It's just I don't like bureaucrats picking winners, that's all.

MR RUSH: Well, no-one does.

MR WEICKHARDT: Brian, your original submission made a comment about all qualified R and D personnel are expensive and saying the current per annum salary costs of X should be raised to Y.

MR RUSH: Yes, it should too.

MR WEICKHARDT: Is there some limit under SIP of how much you can - - -

MR RUSH: Yes, there is, isn't there?

MR RONCHI: 120,000 total cost, on-cost.

MR WEICKHARDT: You can't claim for anything more than that per person?

MR RONCHI: Per person, yes.

MR WEICKHARDT: I see.

MR RUSH: And that's a constriction, I might say - I mean, we've got a box of brains that costs us more than that.

MR WEICKHARDT: Do you know why that was put in place? Was that some sort of anti-rorting - - -

MR RUSH: I don't, and equally, I don't understand why the added value was capped at 5 per cent. I've asked, but no-one can tell me. I understand the 5 per cent of total gross sales sits nearly with WTO requirement, but 5 per cent on added value, I can't find out where that number came from. Why cap it, as long as you're within the 5 per cent of your total sales?

MR WEICKHARDT: I go from that - you've capped out on that several times.

MR RONCHI: Getting close to capping. Well, we will this year.

MR WEICKHARDT: Right.

DR ROBERTSON: Brian, you're in a regional location - - -

MR RUSH: That's right.

DR ROBERTSON: - - - and we hear a lot about how the regions will be disadvantaged by any changes that might be made and indeed changes that have already been made on TCF assistance and tariffs. Do you find there are advantages in being in Bendigo?

MR RUSH: No, there are disadvantages.

DR ROBERTSON: There are disadvantages?

MR RUSH: There's the tyranny of distance; there's the cost of transport up and back; there is a shortage of skilled labour. There's no great incentives to manufacture in the bush today, not like the halcyon days.

DR ROBERTSON: What's changed?

MR RUSH: Well, you used to get tremendous incentives to manufacture regionally.

DR ROBERTSON: You mean the form of subsidy?

MR RUSH: Yes - don't exist today.

DR ROBERTSON: Do you find that compared with some of your colleagues in the city, the labour force is more stable?

MR RUSH: Yes and no. I don't think it's essentially that much more stable; I think probably a modicum of stability, but not dramatically so.

DR ROBERTSON: But there is a skill shortage?

MR RUSH: There's a skill shortage.

DR ROBERTSON: Is there a training scheme around?

MR RUSH: We've introduced ourselves as a training house so that we access the funds, and we have received support from the Victorian government for training. Our form of manufacture is not just repetitive sewing, as you've seen, so therefore we've got a particular training requirement and we've chosen to do it internally. But finding people isn't easy. A lot of girls would rather work in a call centre than work in a factory.

DR ROBERTSON: What is the unemployment like in Bendigo?

MR RUSH: It's not that high. It's not that high today. I think it's a point or two above the - I've got to say that the Bendigo council have done a good job in attracting call centres and other opportunities to the area, because there has been a big downfall in textiles in Bendigo with Rocklea and Stafford Ellinson recently.

DR ROBERTSON: Did you pick up any of their workers?

MR RUSH: Yes, we did.

DR ROBERTSON: You did?

MR RUSH: Yes, we did.

DR ROBERTSON: Because you had a big growth; what was it, 57 per cent?

MR RUSH: Yes, and that caused us a fair amount of stress in inducting people and maintaining our productivity. We try to run our business 100 per cent productivity, allowing for 4 per cent absenteeism and 2 per cent downtime. That's what we demand from our workforce. I wish the unions would work collaboratively with us to achieve that, but they don't.

DR ROBERTSON: I don't imagine they're very interested in you, because you're employing and growing, from what you said earlier.

MR RUSH: Sadly, as I repeat myself, they're not interested in anything else but closure, with some justification, yes.

DR ROBERTSON: That's why I said they're not interested in you, because you're not planning to close. Philip?

MR WEICKHARDT: You've made a couple of comments about changes to SIP, which I think, fairly unashamedly, this would be good for your organisation.

MR RUSH: Very.

MR WEICKHARDT: Other people have made comments to this inquiry that they believe some of the SIP money is being wasted or misappropriated, spent in the wrong way, gone to companies that have gone belly-up or gone to companies that really have just added to excess capacity and haven't helped the industry competitiveness overall. Do you have any sense, from your own experience with SIP, as to whether or not it is encouraging the right sort of behaviour that's making the industry more competitive, or do you think there are any perverse outcomes of SIP whereby it's effectively not buying the sort of change or improved competitiveness that one would want?

MR RUSH: I believe the way of the future is to develop the knowledge base of your business with new products, and therefore a scheme that encourages product development and innovation is the way. Capital is not so critical for the clothing industry because we're not high capital spenders, and that's why I'd like to see something on brand equity to go into capital as well, because if you're trying to grow an export business, developing a sensitivity to your brand internationally is an expensive process. But on capital, clothing businesses are not high capital spenders, as you know, and therefore if you believe the way forward is in innovation and product development, developing new products and services, well, nothing is more critical, because commodity sewing is doomed. The quicker some over-production disappears from the industry, the better.

MR WEICKHARDT: Wouldn't your proposal to increase the weighting of 30 per cent claim on capital actually encourage more and more capital to be spent, whether or not it's the right thing to do in a particular industry?

MR RUSH: Well, it may, but very few people want to invest in capital expenditure that's not to the benefit of the business.

MR WEICKHARDT: Okay.

DR ROBERTSON: Can we explore this issue of innovation, and, I mean, it's a very difficult concept.

MR RUSH: I'll give you a good example, if you want an example.

DR ROBERTSON: Sure.

MR RUSH: We three years ago started making ballistic armour, and part of ballistic armour is the insertion of a ceramic plate which builds up the integrity of the vest to defeat higher-velocity bullets. We were purchasing the ceramic plate from the UK and from Canada, and had looked at South Africa and Israel. Collaboratively with a ceramic producer in Sydney, we have been able to develop a silicon carbide ceramic tile that is world breaking in terms of its weight, and weight is the battle in this article. Its price, benchmarked, is very competitive with internationally produced ceramic plate. We're just delivering now a $2 million tender to the Indonesian Defence Force for some 10,000 of these plates.

Now, three or four years ago, we weren't in that business, and it has been our capacity to spend money on innovatively providing a solution to back this plate to reach the weight objectives that we had that has allowed us to get into this business. It's been import replacement (1) but it's also been an enormous export growth. We've shipped 1.7 million this year to the Royal Thai Army, the same sort of plate, and we are actively promoting it in China at the moment, and through Singapore Technologies in Singapore, we have trials with the Singapore Defence. That is directly proportional to what SIP has allowed us to do. It has allowed us to spend time and money in developing a unique product. We have patented the process. It's the same product that we have submitted to US Defence, and we're very hopeful in the next couple of weeks we will hear some good news.

DR ROBERTSON: I think that's a fairly clear innovation, but there are some people that talk about innovation as being, for example, brand names, in the clothing industry in particular, which seems to me to be not necessarily an innovation; or changing a design fashion, maybe - is that an innovation? It's very difficult to define these things. I think your case is absolutely clear, right, that that is an innovation. But there are lots of other people who I think want to draw on this in the process of simply establishing a little emblem on the pocket or something.

MR RUSH: Well, then someone has got the loneliness of determining what is innovation and what is continuing what you ought to be doing anyway. I don't have a view on that.

DR ROBERTSON: I think, Brian, that's fine. Thank you very much for your very concise and precise replies. Thank you. We'll take a break for a short while.

DR ROBERTSON: All right, Andrew, we had better announce - - -

MR EDGAR: Andrew Edgar, managing director Yakka Pty Ltd.

MR BERGIN: John Bergin, associate director operations, Yakka Pty Ltd.

MR EDGAR: Thank you. Yakka has provided a submission to the hearing which was sent to you, I think, only yesterday but presumably it will find its way to you if it's not there already, so I certainly won't read it. But I do just want to highlight a few things on the way through. I should also say that John's responsibility within the Yakka organisation relate to the domestic manufacturing as well as international sourcing. So John has a very good feel as to what is happening in the wider world, so I thought it was useful to involve him in today's inquiry.

As you well know, Yakka is a wholly Australian-owned company. We now regard ourselves as a much more globally oriented company than we would have a few years ago when we were predominantly Australian manufacturing based. But when we refer to the Yakka group, we are referring to a group of companies wholly owned by a company called Yakka (Aust) Pty Ltd and collectively the group of companies in Australia has a turnover in excess of $A270 million just to give you an order of magnitude.

The principal manufacturer in the Yakka group is Yakka Pty Ltd and we today still have factories in Brunswick, Wodonga and Dinmore and the other companies in the group, Neat N' Trim Uniforms Pty Ltd, have a brand new facility out at Keysborough in suburban Melbourne and that has quite a significant manufacturing involvement with about 110 people. Dowd Corporation has no manufacturing within its business. Can't Tear 'Em Pty Ltd has manufacturing in Victoria and also in Queensland, and Icon Clothing is a fashion or a jean business which also has no in-house manufacture. But to give you an idea, the total employment of the group is of the order of 1400 people, and of that 1400, about 450 are directly involved in manufacturing in Australia, and that's something that I've sort of included in the written word.

When we say that we are a global sourcing company, we are really purchasing not only raw materials but finished garments from a number of countries, and our international sourcing has grown very significantly in the last three years, to a point where today we are sourcing product from China, from Fiji, from Indonesia, as well as our domestic Australian manufacturing. We are also possibly the largest single customer of Bruck Textiles, for instance, in Wangaratta. So there is a very significant relationship between our company and that company, particularly as it relates to cotton drill product.

One point that we would like to emphasise is the Yakka brand and the ongoing support and investment that the company has in Yakka and Hard Yakka brand names, and I'd say the cumulative investment in those two assets has been such that it has been one of the really key reasons why we have been able to withstand really a very significant increase in import competition, because in this day and age, it is not very difficult to go out and source a container-load of cotton drill industrial overalls that look remarkably similar to the product that we are selling. But really the difference at the consumer level relates very much to the distribution channels and also the brand equity, the quality and so forth that goes with the product.

As far as our position is concerned relating to this particular inquiry, I think it's important to state up-front that we are not here protecting the future of the Yakka business. We are here discussing the Yakka businesses' future involvement in manufacturing in Australia. We would approach the future with really a high degree of confidence as far as the Yakka industrial wear and corporate business is concerned, but it really boils down to where are we going to source that product from. Certainly we are investing significantly in terms of the resources that we're putting behind the infrastructure associated with servicing those two markets. But very broadly, we describe our business as clothing and footwear for work, and that might be corporate work or industrial work.

As far as our formal requests are concerned, Yakka is really supporting the position as espoused by the TFIA, and the very critical part of that is really the continuation of the 17.5 per cent tariff level from 2005 to 2010, and then further adjustment, you know, depending upon what is happening in the wider world. But we do believe it extremely important that we approach another significant period of certainty in terms of the 10-year program, and I'd say that the future planning of our business has benefited greatly from at least knowing the parameters that have applied for the year 2000 to 2005. I think the company has taken action very early in that period to reshape itself, to prepare for the longer term, and we certainly see a need for that type of company operation to continue if we are going to survive beyond that 10-year horizon.

As far as the commission's position paper, we've made some comments about the obvious need to balance tariff reform with direct budgetary assistance, and again, I won't repeat most of that comment, which we covered in the industry case this morning. The only thing I would say is that the speed of change can be dictated very much by the steps which are built into any reform program, and the shorter that period of reform, the more drastic the type of response that a company like ours would have to make. That's not sort of being said as a threat; it's really the reality of trying to work through a balanced program, as opposed to a program where there is a lot more pressure imposed on the company.

Again, in managing that process of change, I would say that the Yakka business obviously has had to face some very hard decisions - we've closed factories in Wangaratta, we've closed factories in Shepparton - but in all cases have met 100 per cent of the entitlement requirements which are built into the various EBAs, whether we liked them or not, and we have done it at a time when the company is trading profitably. So we have not done it with the threat of closing the doors or administrators or whatever, and I think that that is very important, for companies to be able to undertake that change when they can afford to fund it. I mean, debating duty levels, I think, whether it's a 10 per cent end point in 2015 or 5 per cent or what have you, I think what we are seeking is certainty and I think that that end point in this process should emerge, even though there may be a further inquiry in 2008. I don't think the inquiry in 2008 can have a very broad reference in revisiting a lot of the things that we're going through now.

Just to give you an idea of the balance of our business, when we went through the last inquiry, I think in 1997, the executive chairman of Yakka, John Laidlaw, who we look clearly in the eyes of and he is the owner of the business, stated quite clearly that he felt that our business would change from 70 per cent local production, a 70:30, with 30 being the imports, to a 30 per cent local, 70 per cent imports within about a five-year time frame. Now, today I'd say we are passing through the fifty-fifty type phasing and it's not necessarily a happy message to have out there, but it's one that we've been able to manage reasonably effectively, just to give the commission an idea of where we are today.

So really that next point is simply that we'd take a reasonable and structured approach to rationalisation and in all likelihood, the Yakka Pty Ltd business - I'm not including the Neat n' Trim/Dowd business - will move to a single factory operation during this period. Now, I'm not again saying that that's going to happen in two or three or four years. I think it's just something that we regard as being inevitable in this process of rationalisation, and the facility that we end up retaining will certainly be a multiskilled, flexible facility that's capable of harnessing whatever technology is around to make it as efficient as possible. It will never match import prices, but it will deliver the service requirements and flexibility that we need to be able to provide our customers with the sort of support that we promise them.

In terms of the mix of employment, we've already mentioned today the females, migrants, non-English-speaking and regional impacts, and also that relationship with major local raw material suppliers I think is very important. If Yakka takes decisions today, they've got to be looked at in the context of its supply chain.

In terms of quantifying the effect of ongoing change, I've simply nominated a figure of approximately 250 people as being a number which would be associated with a tariff run-down from 17 and a half per cent to, let's say, 10 per cent, and the timing of that is not entirely clear. But there is no doubt at the end of the day, there is a direct relationship between the level of tariff and also employment levels. So in terms of the budgetary assistance of the existing SIP arrangements, we are continuing to press for a 10-year horizon rather than an eight-year horizon, and certainly we would support funding equivalent to the current rate.

We do agree that the government/commission is sort of forced to review the effectiveness of the current SIP program, and like many other companies, we would certainly say that we believe as a clothing manufacturer, we have found it difficult to access what one might regard as the fair share of the pull and the fair share measured by the various caps associated with our turnover and general size in the industry. We have taken advantage of it over the last two years. We have implemented new cutting equipment at our Broadmeadows facility, and that has made a significant contribution. We are in the process of reconfiguring some of the activities of our subsidiary companies, namely the corporate apparel ones, Dowd and Neat n' Trim, and I believe that support for internal rationalisation of business activity is a very legitimate thing to be able to build into any revised SIP program. At the moment, there is provision for really a city to regional rationalisation, but in a group such as the Yakka group, where there are a number of different businesses that have been acquired over a number of years, there is great opportunity to achieve real improvements in efficiency through internal rationalisation, and I think that that is very important.

We would certainly support what was said by the previous company, ADA, regarding brand profile, and our investment in the Yakka brand involves several million dollars per annum, and we would see that as being a very important instrument in terms of underpinning the future profitability of our activities. There is an area of sort of support for overall business activity, and this becomes very difficult to delineate between that which is associated with domestic manufacturing and that which is associated, say, with imports, but at the end of the day, if we don't continue to address our whole-of-business information systems, all the supply chain issues, the warehousing, distribution, communication with customers, e-business solutions et cetera, we're not running a state-of-the-art business, and I believe at the end of the day that, yes, domestic manufacturing forms a very important part of that and the way that we link it into any change we make, but as a manager of the business, we are addressing the health of the whole business, and I think we've got to be able to adequately present that to the government.

A lot of what we do in this sort of industry and corporate clothing area, it's directed at supplying customers with total apparel solutions, and what those total apparel solutions involve is complete wardrobes of product, and some of that will be made in a Yakka factory, some of it will be made by another Australian factory, some of it will be imported, and it might be footwear, it might be caps, it might be scarves, as well as shirts, trousers, dresses, whatever. So we are dealing with a very diverse range of product, and it's coming from a very diverse range of suppliers.

The innovation aspects of the existing scheme, I think yes, they're difficult for a clothing company, but at the same time, innovation/R and D in the industrial workwear environment is starting to become a real opportunity for us to change dramatically the future of our business, and you've only got to see what the SES people wear, the ambulance people wear, the firefighters and so forth, to realise that these products are becoming seriously more sophisticated than they were. That is an area that I would be confident that the Yakka group business will certainly be taking greater advantage of, but I think in terms of innovation as it relates to process improvement, a more liberal approach has got to be taken.

We're at the moment corresponding with the department about this very thing: innovation as it relates to process improvement. It becomes quite difficult to really answer the engineering-type questions in the way that they're asked. I think the best solution I can see is to say, "Come and have a look at what we've done and compare it to what was there before," and blind Freddy can see that we are going to be a much more efficient, sustainable business than we were in the past. The question of developing new markets, I think that's got to be in some way related to R and D expenditure and I think it can be eligible if it is related back. But I know there are other parts of government funding that may be directed at that, particularly where they are export markets.

Just some other issues that I believe are well worth mentioning: one is the current debate that's going on relating to LDCs. We would formally express concern at the prospect of countries like Bangladesh having to meet a 50 per cent area content rule where half of that area content could come from another LDC or developed country, including China. So it is another little back door that - you know, it's not a problem today but it could quickly become a problem tomorrow, and we would draw attention to that. The other concern/opportunity is the degree with which the Australian government appears to be embracing negotiations on bilateral arrangements, whether it's with Singapore, Thailand, USA, and I'm told that there are many other sort of developing Asian countries who are trying to negotiate similar arrangements. Unfortunately, clothing, TCF products, are one of the earliest products that tend to emerge from those countries, and also I would say that industrial workwear, part of our core business, is again one of the earlier type of products that people may start to sew together.

So I think just to summarise very broadly, Yakka has a commitment to continue manufacturing in Australia, but it will adjust that commitment according to what the rules of the game are. We are not pessimistic about the future of the company, but what we need is a planning environment where there is predictability on some of these factors, and I believe that tariff is one of the things that people quickly point at - certainly your customers point at it the day it changes - and I don't know that on 1 January 2005 we'll have many people approaching us to say, "Well, where's our share of the 25 per cent going down to 17 and a half?" et cetera.

So I think if we end our prepared little submission there; it's all been said in words to you, but we're certainly happy to respond to any questions and indeed there may be some information which would assist the commission which we're very happy to provide in terms of, say, competitiveness, our costs compared with some of the import costs. As a confidential submission, we're very happy to give you access to that information. My friend on my right has done that many, many times, that comparison.

DR ROBERTSON: We won't put the squeeze on you right away.

MR EDGAR: He can talk in general terms though to that.

DR ROBERTSON: Thank you for that. That was comprehensive and cleared up a lot of points that we had in mind, I'm sure. 10 years - well, no, 13 years to 2005, going down to 5 per cent sounds quite a long period to us and I wonder why we want to keep it up a bit higher until - - -

MR EDGAR: What we're really supporting is what the industry is now saying, 17 and a half per cent, 14 per cent, 10 per cent. Why do we go for 10 per cent, not 5 per cent? Because it's higher than 5 per cent.

DR ROBERTSON: Funny, I thought you might say that.

MR EDGAR: Look, the margin of difference between the two numbers starts to become fairly small and I think the other thing we've got to say is that we have not determined the government policy to say, "Well, it's go down, down, down." We've got to keep operating in this environment and I think the most important thing to me would be to have two five-year periods, and if it's 14, if it's 15 or whatever, we'll work within it, but what we don't want is we don't want a tariff which reduces annually for the next five years or 10 years. I think that would make life very difficult for us.

DR ROBERTSON: The two-step seems to us to be more helpful than going 1 per cent at a time, so to speak. Philip?

MR WEICKHARDT: A few questions, if I may. One is you said that at the time of the last inquiry or the time that the government had released their policy, you had a sort of a notion that your manufacture versus import split would go 70:30 to 30:70 and you're now sort of en route that way. Have your crystal balls or your owner made a forecast if the Productivity Commission's position paper was adopted by the government what that ratio would end up being?

MR EDGAR: My best assessment of that is that the local production would reduce by probably another, say, 10 per cent.

MR WEICKHARDT: So you would go to 20:80 - - -

MR EDGAR: So sort of 20:80 - it's a guesstimate, but that's where, really, the further reduction by 250 people has come from broadly.

MR WEICKHARDT: You made the point I think in your original submission that you're already probably making yourself, to a degree, less competitive than you could be by sourcing some of your product from Australia, you could buy more cheaply, but when you look at the total sort of, I guess, overall service component package and responsiveness and things of that sort, it makes sense to still source some of the product in Australia. Presumably there is, almost regardless of what protection regime you're going to be in in the future, some component where local responsiveness does still mean that some component manufactured makes sense, or do you envisage that with new IT systems and things like that that you could effectively operate seamlessly and import these products on a JIT basis from China overnight?

MR EDGAR: The technologists would tell you you could. I think the reality is that we see a definite attraction of retaining a flexible, quick response unit of reasonable size in Australia. It's got to be a reasonable size to exist and that is to meet the really industrial workwear and the corporate apparel demands, but - - -

MR BURGIN: That's sometimes specified by our customer. In some of our largest tenders we go for, they do specify that they want Made in Australia garments.

MR WEICKHARDT: And if that disappeared?

MR BURGIN: They would have a - some of them are government institutions et cetera et cetera - - -

MR EDGAR: The Defence Force - - -

MR BURGIN: They would have a major problem.

MR WEICKHARDT: But if that - - -

MR BURGIN: If their mindset changed.

MR WEICKHARDT: - - - requirement changed, would that change your attitude?

MR EDGAR: No, it wouldn't. Look, it is something that I guess, as a business, we have chosen to tolerate a reasonable disparity between our local costs and the import alternative. If a new owner of the business arrived here tomorrow and looked you in the eye and said, "How can you put another $4 million on the bottom line?" or said to you, "I know how to put another $4 million" - or whatever the number is - "on the bottom line, simply shut your factories, pay the redundancy and go offshore," that would be one solution, but then we'd have to turn round and say, "Well, we're going to increase the inventory by 50 per cent," we're going to have to go to these key accounts that John mentioned and say, "Well, I'm sorry, it's not made in Australia any more, it's got to be made in Indonesia," and then that customer will turn around and say, "Well, I want an X per cent cheaper product."

Also there is the whole brand equity thing about Australia and the Yakka brand and everything and we've got to manage that transition very carefully. We're not trying to pretend that everything branded Yakka is made in Australia, but there is no doubt that there is a heritage there and a very significant residual value, that we've got to manage the change.

MR WEICKHARDT: Just another theme I was interested in exploring; you've had some experience in closing regional centres. We were talking to the union this morning and I think you were here, about the sort of programs that have worked and some that haven't worked in terms of helping displaced workers. Have you got any comment to make from your own experience of how displaced workers can best be assisted and the experience of your workers in terms of their ability to find new employment?

MR EDGAR: I might ask John if he'd comment on that. I mean, the closure of Shepparton, which regrettably you did, which is only really six months ago - - -

MR BURGIN: The two that we've undertaken in the last five years, Wangaratta, we'd have to say that the track record on the number of people who actually got re-employed in the region post the closure was particularly good. We don't have accurate numbers but in terms of canvassing those people six to nine months after they left our operation, I'd suggest that 60 to 70 per cent of them had been re-employed in some capacity in the area within, I'd say, 12 months after their closure. Now, that's a unique situation because there was Country Spinners and there was Bruck et cetera, but some of them got employment there, some got employment elsewhere in the particular region.

MR EDGAR: And some retired, thinking "whoopee".

MR BURGIN: And some retired, and that was an older workforce at Wangaratta, so some of them went back to the land, so to speak, and fitted the profile of most of them, what they were doing, reasonably well. The situation with Shepparton is slightly different; it was a younger population. We closed it in February; our intent is that we said after six months of the closure we were going to run a survey and contact all the people who left Shepparton to touch base and find out where they were at and what they were doing. I'd have to say off the top that because it was a young population, that most of them did get some form of casual labour in the cannery, SPC, Ardmona et cetera. Whether it was long term or not remains to be seen. There were a significant number at Shepparton who decided to go back and do re-education, do some training, so as much as the general population I'd have to say were aggrieved at the closure of Shepparton, I'd have to say there were a lot of them who thought it was a very positive thing and sort of then changed tack in terms of what their career was and took on different avenues. I have no argument that there were some hardship cases, we're not denying that, right, but I'd have to say on the whole that most of them - on the feedback we got from some of the people, a lot of them were re-employed, as I said, in totally different jobs, because in the Shepparton region, we were the only clothing manufacturer.

I'd have to say the point on Shepparton is that - and I don't whether it was touched on this morning - one of the reasons we closed Shepparton was that we had a major problem with the labour force up there. It was a much younger, transient situation. We had a high degree of people who took avail of sick leave. In the 12 months before we closed the plant, we lost approximately 850 sick days, out of a population of 70 people, and that was after we'd had four, five mass meetings with staff to try to implore them to come to work, a la what the point that Brian was making half an hour ago about ADA. We could see what was going to occur. Now, you extrapolate that out when you have that many man-days out of your business and you look at the number of units that you actually lose in terms of your efficiency and multiply that out by what your selling price is and it becomes a serious amount of money. I'd have to say that population of people who exploited that situation were the ones who thought, "Great, I get my redundancy," and moved on into a different situation.

MR EDGAR: One thing, we would be happy to try and undertake that survey between now and early July and if we can get some sensible feedback on those people, we could feed it into you, because it is a real example, because I know the union will make a point that X per cent of a higher percentage are unemployable, so to speak, in a region like that.

MR BURGIN: Well, they've said that this morning, the 30 per cent.

MR EDGAR: But I'd say our experience at Wangaratta would be the reverse and I would suggest that our experience in Shepparton won't be as positive as what happened at Wangaratta, but it certainly won't be as bad as what the stated numbers were this morning.

MR WEICKHARDT: Did you put in place any particular program to try and help employees, you know, any - - -

MR EDGAR: Yes, we contacted other local businesses and made - I think all employees got a day off a week - in order words, I think we gave them twice as much notice as is required, we gave them eight weeks' notice, they got a day off every week to job search. The CES people worked with our personnel people to help them with resumes and job applications and so forth.

MR BURGIN: A lot of them were given priority at the cannery. We don't think there are any other programs that were formally introduced.

DR ROBERTSON: I mean, that almost fits in with that Life After Bradmill exercise in some ways.

MR EDGAR: Yes, that's right. I mean, it's all about time and if you are prepared to give them the eight weeks' notice and in return for that get reasonable productivity levels, which we did get, to their credit, I think it all worked pretty well. It's not a nice situation but it's the reality of running part of this business.

MR BURGIN: The other point I just want to make, just the unique thing about the workwear market is that for 40 or 50 years it's been dominated by two major players in Australia and I guess what we're seeing occurring now in the marketplace is the entry of other people into the market, which are putting on - the two major well-known brands in the market - pressures on them that weren't there five to 10 years ago. I'm talking about King Gee. If you go back 10 years and you look at the sheer number of people that we - we and King Gee - were employing in this country in terms of direct manufacturing and if you've seen the reduction over time, that's become evident now because of the entry of these other fully imported labels that have come into the marketplace. Traditionally, the price benching in the marketplace was between Yakka and King Gee, right. It's no longer between Yakka and King Gee. Our customers are telling us it's from these other people who are importing into this country and that is adding another additional competitive pressure to our business that wasn't there - it was there but not as great as what it is now in terms of the five to 10 years ago, and that is now a major, major issue that we have to confront and deal with in terms of our dealings with our customers and it's a concern.

DR ROBERTSON: I had once thought, when you were referring to the Australian response to the European "everything but arms" exercise at Bangladesh and allowing in, in preference, a zero tariff for imports from Bangladesh and a whole bunch of smaller countries that aren't going to be much of a problem, I mean, that is a political response, in my opinion, to the anti-globalisation movement and the pro-development movement, but nobody seemed to raise the objection at the time. Am I right? Did you think of it afterwards or - - -

MR EDGAR: Well, it's only just happened.

DR ROBERTSON: Yes, I know July is when it comes in, but it came in at the end of last year and - - -

MR EDGAR: That's right, and it's not only "only just happened", there's been great uncertainty about the rules that would be associated with it. John, you were actively trying to find out - - -

MR BURGIN: Yes, it's difficult to find - - -

MR EDGAR: - - - the detail and it's only really in the last two weeks that we've started to get some clarity on what are going to be the rules of origin. Maybe that's because we weren't asking the right people, but these type of decisions get made for quite different reasons and that's why the free trade negotiations are also things that can bring undone beautifully manicured plans for the future that say, "This is how everything is going to work." All of a sudden you'll turn around and say Thailand - the free trade agreement with a country like that - poses a significant threat to the Australian garment industry. It may be quite good for the textile people or some other part of the TCF, but certainly the clothing industry has got to be very alert to those sort of negotiations.

MR BURGIN: And the concern is that those two major - we're talking about Bangladesh and Cambodia, they already have established garment manufacturing plants. It's not as if they're starting from scratch. They are, in terms of supplying the world market, Europe and America, already major suppliers to those markets, so they have the expertise and they have the factories, in terms of able to make garments. If you rewind the tape and go back 10 or 15 years ago, you're talking about another Vietnam, in terms of - - -

DR ROBERTSON: What the potential is.

MR BURGIN: The potential, right, and in the not-too-distant history, the decision Clinton took just before he left office in terms of what he did in Africa, the swarm of people who have now gone to Africa to make garments for the Americans, right, be it only for the next three or four years, because of the duty-free status, all those derelict factories that sat there idle for 10 or 15 years, people have walked in and dusted them off, employed the people and are now becoming a major importer into the United States. Now, that's a fact. That's what's occurred. I'm not suggesting the same thing will happen with these LDCs, but it is the threat that they will - you know, they're already established, they're not like what happened in Africa, they're up and running, and it's an issue.

DR ROBERTSON: It's a dimension of that problem that doesn't get discussed because everybody thinks, "Well, developing countries, we need to help them one way or another; this is a good way of doing it. They can produce low-quality T-shirts," or whatever, but nobody knew the rules of origin, not at the time, and this is a big issue. I think, in a way, it's TFIA's job - - -

MR BURGIN: No, I agree.

DR ROBERTSON: - - - or whatever to make people aware of this conflict that arises. The other thing that interests me is how are you affected by the exchange rate which protected you for three years and now it's doing the opposite?

MR EDGAR: Significantly, but it's not on the agenda today. No, it is a major problem in the change to our business, because the relationship of the Australian dollar to the US dollar is the significant one, even though dollars Australian to euro hasn't sort of moved as dramatically. But things like the international cotton price, all the finished garments that we're importing from China or Indonesia, the business is done in dollars US, so it has changed significantly the relationship that we now have with that sort of import pricing. But you've got to assume it's volatile. What we're talking about here is something outside of that.

MR BURGIN: You've got to factor in your thinking - I mean, just because we're sitting here today and it's got a spike of 64 cents that's occurred in the last three months, our thinking is that, yes - whether that continues in that trend, who knows? Our thinking is based on something different, and your benchmarking and the case you're formulating in terms of what you may do, we're working on something dramatically lower than what the 64 cents is in terms of what our decision-making is because who knows what the future holds. If we were having this Productivity Commission hearing four months ago, it wasn't going to be an issue. In four months' time it may be back to 55 cents, 58 cents. Who knows what may occur?

DR ROBERTSON: It would have been an issue four months ago because it would have been protecting you from the changes that are taking place.

MR EDGAR: Look, it is a significant factor, but I mean, we've really got to say that is the wild card in the pack and we've got to run our businesses accordingly.

MR WEICKHARDT: Can I turn back to SIP. You made some suggestions about the way SIP might be changed. I think you've talked about assistance for export market development, brand support, widening the definition for innovation, may process innovation and also rationalisation support, in doing that, is it your assumption that if the quantum that was paid out in total was available to be paid out in total was not changed, that those changes might lead to modulation occurring, or do you believe that if SIP is left unchanged, with its current rules, that it will be, if you like, underclaimed significantly?

MR EDGAR: We haven't really made the recommendations with regard to the absolute sum of money. I suppose we've made the recommendations on behalf of the Yakka group of companies to say these are things that would make a SIP-like scheme more accessible to our company and I'm quite prepared to stand up and be counted about what benefits would be delivered as a consequence of being able to participate in the scheme to a greater degree. I don't think we see the need to make those changes to have the amount of money being spent. I think what we're trying to say is that the pool available should be approximately the current level, but in order for us to participate in that more actively, we would need to see some changes.

MR WEICKHARDT: But do you think that will diminish the amount of money available to others or - - -

MR EDGAR: It may do, and personally I have no particular objection to the government, some faceless person, being prepared to accept proposals from companies that are more soundly based than others and I don't necessarily think that that narrows the field too dramatically. But yes, you've got to be financially stable, yes, you've got to have a clear business plan as to where you're going for three, four, five years, but very importantly there have got to be some benchmarks of performance in that where you become accountable for what's happened and your progress can be monitored and I think that that's not unreasonable. I don't think the industry is sitting here saying, "Look, we expect a handout just for being here."

MR WEICKHARDT: In terms of the changes, obviously, export market development and brand support and rationalisation support, do you have a specific sort of concept of how that might be woven into the SIP program?

MR EDGAR: Not at this particular stage, but I think there's only one, I suppose - well, there are two parts of the Yakka group business where this could be applicable and one is in the sophisticated workwear market and the other is in the more fashion-oriented Icon Clothing business which has an export orientation and we would really need to give that some further thought; very happy to make some supplementary comments on that to you.

DR ROBERTSON: One of the problems in looking at SIP and the limited two-year experience we've had with it is deciding whether in fact it has encouraged new investment or simply helped fund something that would have taken place anyway. I suppose I'm asking you to go back to your morning hat on this, not so much Yakka, although that would be helpful.

MR EDGAR: Yes, I'll do that.

DR ROBERTSON: Do you think that that's the case, that there has been an augmentation of investment or do you think it's just simply funded it?

MR EDGAR: No, I think under type 1 there have been significant claims and obviously reports can be prepared to say, "Well, that's what's been claimed there." We've seen in our business that that type 1 avenue has been the principal avenue where we've been able to take advantage of the scheme. When it comes to the R and D side of the equation, there are certainly companies who have taken significant advantage of that and benefited - we heard earlier today ADA being one of them - and from what they say publicly, they've done some very impressive things, but I do believe that it is one of the things that the TFIA has got to address as part of this 100-company survey which has been completed but not yet analysed and presented. I would hope from that that we start getting some. We've seen in our business that that type 1 avenue has been the principal avenue where we've been able to take advantage of the scheme.

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DR ROBERTSON: That would be very useful for us.

MR EDGAR: Yes,, I will certainly be pushing for that.

MR WEICKHARDT: You refer in your submission, Andrew, to the sort of knock-on consequences and supply chain issues of some of your suppliers who are perhaps getting close to the waterline and if you phase down activities, then they will in turn be affected and may be tipped over. I mean, if that did occur and say there was nobody making textiles that were a requirement for your products in Australia, would that change the ratio of what you made in Australia verses offshore or would you simply import the textiles rather than source them locally?

MR EDGAR: No, I believe we would simply import the textiles, but the reason for mentioning it is that we do value the supply chain relationships that are there at the moment. There's huge advantages. You know, John has truckloads of fabric coming in the door virtually every day and we are able to manage the inventory level of that side of the business really very efficiently, and when you're talking about high-volume industrial workwear, you're talking about millions of metres of fabric, and there's a lot of dollars associated with that. So these are all things we've got to factor in but I think it is very important for people to understand that if our company makes decisions in isolation of its suppliers, the effects can be very dramatic and just as we want to have some certainty about our future, I think it only fair that we discuss that certainty in conjunction with the supply chain.

DR ROBERTSON: Most of the material for your corporate wear, the non-work wear, comes from offshore?

MR EDGAR: Predominantly.

DR ROBERTSON: Yes.

MR EDGAR: Some - no, well, polyviscose and so forth is significantly local.

MR BURGIN: It would be 60 or 70 imported and it would be 30 or 40 per cent from local resources.

DR ROBERTSON: So it's about the same as the jeans stuff?

MR EDGAR: No.

DR ROBERTSON: No?

MR EDGAR: The jeans would be predominantly imported.

MR BURGIN: Correct.

MR EDGAR: You're talking really mainly PV-type fabric, the polyviscose fabrics would be still sourced locally.

MR BURGIN: Correct.

MR EDGAR: Yes. So polyviscose and cotton drill would be the two high-volume products that we're sourcing locally. If you were talking top of the body fabrics for blouses or whatever, predominantly imported.

DR ROBERTSON: Okay. Do you have anything else, Philip?

MR WEICKHARDT: Just a final question about this issue of regions. You've talked about the fact that one day in the future - unspecified when - you would probably envisage a sizeable single manufacturing operation. Based on what you know today, would that in all probability be in a region or would it be in one of the capital cities?

MR EDGAR: Well, without wanting to scare the people who work in our Brunswick factory to death, it would be more likely to be based in the regional factory.

MR WEICKHARDT: Now, presumably that's because you see the disadvantages, which people have articulated here, being offset by other advantages?

MR EDGAR: Well, John made comment on that. You know, our experience at Wodonga is - - -

MR BURGIN: It's a very stable workforce, they're highly skilled, and - look, don't get me wrong, the brunt of it would be comparing it to Brunswick, they're highly skilled as well, but I guess I think it's attractive because we can attract more people to work there up in Wodonga and - - -

MR EDGAR: Physically it's a bigger - - -

MR BURGIN: Yes, and physically - it was a plant that used to make 10 to 15 thousand pairs of jeans in a week, out of there, right, in its heyday. So, no, we're sort of attracted to that idea of retaining that regional sort of base and I think it would be good.

DR ROBERTSON: I think you said this morning Wodonga is a bit different from some of the other - - -

MR EDGAR: Well, it's a large city, Albury-Wodonga, and it's on the main north-south trucking route and physically we have got quite a large facility there and it can be expanded very easily.

DR ROBERTSON: Yes, and it's also got some high-tech industries that aren't unrelated in that region.

MR EDGAR: Correct, that's right.

DR ROBERTSON: Okay, yes.

MR EDGAR: All right. Thank you very much indeed.

DR ROBERTSON: Thank you very much.

DR ROBERTSON: Now, would you introduce yourselves so that the tape is decipherable ultimately, please.

MR SZAKIEL: Okay. We're making a presentation on behalf of the Carpet Institute of Australia and the three individuals making that representation are myself, Charles Szakiel, as president of the Carpet Institute but I also have the function of the managing director of Tascot, the manufacturer of woven carpet in Tasmania. To my right - and somebody who has two priors at this forum, I believe - - -

MR GARRETT: And promise to remain silent.

MR SZAKIEL: A serial performer.

MR GARRETT: John Garrett from Godfrey Hirst and also vice-president of the Carpet Institute.

MR FIRTH: Alan Firth, executive director of the Carpet Institute.

DR ROBERTSON: Over to you.

MR SZAKIEL: Thank you. Firstly, thank you very much for the opportunity to make this representation to the Productivity Commission directly on the issues that are relevant to the Australian carpet industry, and I guess the Carpet Institute of Australia - perhaps we should make it clear that the Carpet Institute of Australia represents about 95 per cent of all carpet produced in Australia. It has membership that spreads the entire value chain from raw material processing through to manufacturing through to distribution, and the total turnover at the manufacturing level is about $750 million and that equates to about 1.4, 1.5 billion at retail level.

The institute has already submitted a written presentation to the commission and we trust that the commissioners have had a chance to review it, and therefore rather talk to that submission in entirety, we'd perhaps like to focus on the main issues that we made in that presentation, comment on those issues briefly and then perhaps discuss in greater detail with the commissioners those areas where you may require some further clarification. In our presentation there were four main areas that we've raised which we'd like to address today, and summarising those to begin with, firstly, what could the carpet industry deliver with the appropriate policy environments into the future? The issue of tariffs, what are the appropriate tariff levels? We would also like to address market access issues, and then finish up, I guess, with the appropriate level and nature of ongoing industry development programs beyond 2005.

So the first item, what can the carpet industry deliver with appropriate policies?

I should point out that the points that I raise, the industry has already demonstrated its ability to deliver some of these benefits on the basis of the certainty of the previous government inquiry that we were faced with, and we believe that if the policies are reasonable, rational, we can continue to deliver those into the future. What they are, in order to sustain our future, the carpet industry must and will continue to develop new and expand existing export markets. We've demonstrated growth in exports and we believe that we are capable of doing that under appropriate policy guidelines. We will adopt the latest technologies to ensure continuing productivity and efficiency improvements; again, something that has already started, and will and must continue.

We will continue to implement the world's best practice in manufacturing operations to reduce overall cost structures, and ensure a highly efficient, highly productive operating environment. We will also pursue full integration into global supply chains, ensuring both efficient sourcing of materials and effective penetration of new markets. We will continue the development and maintenance of a highly skilled and capable workforce, and we will retain a continued focus on the latest and most effective research and development to foster new product design, process improvements, environmental management and other such leading-edge activities.

The issue of tariffs: there are two sectors to this that we would like to address, and firstly in a general sense, the carpet industry's position is quite clear. We, I guess, along with a lot of other sections of the industry, are seeking a pause in carpet tariffs at 10 per cent until the year 2010. We are also seeking that no further reductions in tariffs occur beyond 2010 until we have demonstrable reciprocation in tariff reform from our major trading partners. We do not believe that we should lead with our chin. We have evidence of our major trading partners who have much, much higher tariff levels than the Australian carpet industry, and in order to pursue our expert expansion, we need to address that issue and we believe that a review is relevant before an automatic reduction may occur in 2010.

On a more specific issue - and I know it has been touched on before - we believe that it's not a major plank of our representation but we believe it's worth consideration: that the carpet tariff currently has an anomaly inasmuch as it is related to intermediate textile products and not finished textile products. We're not seeking an increase of the carpet tariff to those finished textile products but rather are suggesting that it's appropriate that a pause on any further carpet tariff reduction is applied. Until other finished textile products come down to the level of carpet tariffs, then we're quite happy to move forward alongside. It's worthwhile noting that carpet tariffs in most countries around the world are the same as the tariffs for home furnishing products and where there is a case where they are lower than other finished textiles - Canada, European Union - it's only by a very, very small margin and not to the extent of the difference that's applied in Australia.

The next point, which is market access, the commission suggested in its position paper that trade liberalisation by other countries is not necessarily relevant to Australia's action on tariffs. The carpet industry do not agree with that. We do not believe that that fact is true because, as Australia's market opens, an import share escalates, it's vital that Australian manufacturers grow their exports commensurately in order to maintain volume throughput. If, however, Australian manufacturers' access to other countries is hindered, we will lose our critical mass and relative competitiveness as our local market share erodes. At the moment our target markets, especially in Asia, have much higher trade barriers than the Australian carpet industry has.

Looking to the future on industry development programs, the carpet industry is firmly of the view that industry development programs should be implemented for a further 10 years at current annual levels. We note and agree with the commission position that it is best to err on the side of caution when making changes. Industry development programs are needed in the 2005 to 2015 environment to help firm this position for the future and any further tariff cuts after 2010 will undoubtedly place significant import pressure on our domestic market, and the consequent market disruption will mean further restructuring in our industry. The magnitude of that adjustment task ahead should not be underestimated. It is imperative therefore that adequate funds are allocated to cover both adjustment assistance and industry development programs.

In terms of the three options for industry development that the commission put forward, the carpet industry favours the continuation of the strategic investment type assistance. It is well known and understood and offers the smoothest transition in moving forward. However, we would also recommend a number of modifications to the scheme would be warranted. Firstly, the type 4/5 arrangements we believe should be modified to ensure that they produce a real incentive for further industry rationalisation. We don't believe they should extend to provide exit funding but believe they should include restructuring, not just within two separate industry entities but also within individual corporate entities, and we also believe that this type 4/5 arrangement with changes should apply to both regional and metropolitan areas.

We would propose strongly that the type 1 funding should be increased to 30 per cent of eligible expenditure. This will help to ensure that the latest technology is adopted throughout the industry, even though the required payback on previous investments may not necessarily have been reached. We also propose that the value-added cap for type 3 funding should be increased to 10 per cent to better reflect the nature of the more capital-intensive sectors in the industry. Indeed the carpet industry is one of those capital-intensive sectors. We also believe that under the SIP program we should include the eligibility for offshore demand-driven activities, such as warehousing and distribution of Australian TCF exports.

That summarises the thrust of the industry position. As I mentioned, there is more detail in the written submission, however we'd be very happy to elaborate more fully on any issues of interest to the commission and therefore be also pleased to respond to any questions you may have. So thank you for the opportunity.

DR ROBERTSON: Does anybody else want to speak?

MR GARRETT: I was just going to say that although I undertook not to speak, there was just one issue that was raised with an earlier submission with respect to the 30 per cent cap ex, and I think you made the point that does this therefore lead to modulation?

MR WEICKHARDT: I asked the question.

MR GARRETT: Yes, I think you did, yes, and looking at this, really it's still limited to the 5 per cent sales cap anyway. So it's just a reorientation, I suppose, of the priorities that you would put on capital expenditure.

MR WEICKHARDT: Because there's not enough dosh to go around for everyone to get 5 per cent of sales.

MR GARRETT: That is correct.

MR WEICKHARDT: So - - -

MR GARRETT: Well, that assumes that everyone participates across the industry.

DR ROBERTSON: Any other - - -

MR GARRETT: No.

DR ROBERTSON: Are you right? Okay, after you.

MR WEICKHARDT: Okay. Just in terms of the sort of market access issue, if the world were a completely level playing field for the sort of products that are made in Australia currently or could be made in Australia where you think you've got some natural advantages, where are the logical markets that you would be looking at and how would you rank them? I mean, if you had to say number 1, 2, 3, 4, 5, where would they be?

MR SZAKIEL: That will probably vary from manufacturer to manufacturer and indeed whether they're a single Australian entity or whether they are already part of a global operation.

MR WEICKHARDT: Well, think about it as Australia Inc, the industry itself.

MR SZAKIEL: I think the logical place is South-East Asia. It's nearest to our shores but there are already several manufacturers who are exporting to Europe and the USA. So it's not limited to South-East Asia but I think most people probably wet their feet in the South-East Asian market and then expand further out.

MR GARRETT: I think, Charles, if I can just add to that. There are two clearly different industries within the carpet industry. One is the woven industry, which obviously Charles as manager of Tascot represents, and the other is tufted. The tufted is a much bigger part of the industry. About 95 per cent of the total industry is represented by tufted. We would probably not necessarily agree that the major market opportunity for us is in the South-East Asian basin. That is very important to us but it does tend to be limited to hospitality-type projects and it does tend to be limited or has a major focus around wool and it tends to be in three, four, five and six-star hotels, whereas I think the broader opportunity for the tufted part of the industry is clearly into Europe, the UK and also into the United States. As I mentioned in my previous discussion, it's a very small part of the overall market but it is quite substantial and that gets us into differentiated product, into the higher end of the residential market. So there are two distinct areas, I suppose.

MR WEICKHARDT: And in Europe, the US and the UK, to what degree are tariff barriers or non-tariff barriers a real issue today?

MR GARRETT: Well, I think that obviously in terms of the US and these other two areas, the tyranny of distance is a key issue for us and we've got to get a very large heavy product over there. We've got to get it into a warehousing facility. We've got to distribute it. We've got all of those sorts of issues. As I mentioned before, I believe that we do have a competitive advantage within the Australian manufacturing area which we can take advantage of, which is the production of wool product, and I suppose one of the key issues there is that the higher end of the residential market, the differentiated higher end of the residential market, tends to be small but tends to be widespread. So therefore that adds to that particular problem.

MR WEICKHARDT: Okay. But apart from those sort of disadvantages of anyone exporting from Australia, tariff and non-tariff barriers aren't big issues in Europe, the US and the UK?

MR GARRETT: Well, in the US you've got a tariff which is roughly commensurate with the tariff that we have at the moment. I expressed before the concern that I had with the negotiations around free trade which would preclude us unless we manufactured the yarn here to take opportunities with them, that concessional rate - - -

MR WEICKHARDT: Which you mostly do.

MR GARRETT: Yes, and in terms of Europe, which is running currently at about 12 per cent, so it's roughly again within the parameters. But those markets are dominated in the synthetic area. So therefore we have those complications that I mentioned before.

MR WEICKHARDT: And in South-East Asia you mentioned some of the issues of perhaps the informal or less formal methods that people have of getting market access, but if you were playing according to the rules, to what degree as an exporter from Australia are we relatively disadvantaged to anyone else, as in obviously you've got a sort of internal patch, but is there any disadvantage Australia has relative to an exporter from the US, Europe or UK?

MR GARRETT: No, but that's not where the competition comes from. The competition comes from Asia because we're talking here about wool products and as I said, in the United States there is very little wool product which is delivered.

MR WEICKHARDT: Yes, but five and six-star hotels, does the competition really come from inside Asia?

MR SZAKIEL: Absolutely. In fact I have information hot off the press, having just come back from China. I've served the 14-day quarantine period, I realise. But the reality is, we had a situation where we were successful because of our design expertise - because I mean, in our particular field it's not just supplying, it's differentiation; there's no question. There are heavy tariff barriers into China, but in spite of those, we were able to get stage 1 of a two-stage hotel because the Chinese were not capable of doing it. However, come stage 2 they said, "Sorry, we're not buying your carpet and paying the duty. Our local mills, of which there are several, will simply replicate what you have done in stage 1."

So it really is very, very difficult and of course whilst there is no doubt we would not produce that product at the same price as the Chinese, the reality is that it would lower the differential and it's conceivable we could have got the whole lot in the first place.

MR GARRETT: And there's no opportunity of safeguarding that.

MR SZAKIEL: Absolutely. So it is an issue and of course the hospitality sector, particularly in China I guess, with the Olympics coming up where you're looking at about another 400 hotels being built prior to the Olympics, it's quite a sizeable market and very attractive to go to, and that applies to other parts of South-East Asia as well.

DR ROBERTSON: But that's an intellectual property argument really, isn't it?

MR SZAKIEL: Well, it's both. It's both because the intellectual property argument arises because they simply replicate what we have done in the first place and therefore plagiarised our intellectual property. But the reality is that the hesitation of the consumer, of the hotel owner, to acquire the entire hotel, the component of carpet from ourselves was exacerbated by the fact that we had this massive tariff barrier. If that tariff barrier did not exist or was commensurate with ours, the argument lessens. I'm not saying that it totally disappears but it lessens quite dramatically. This is why we - I guess you can have philosophical arguments about this ad nauseam but we believe that having some sort of reciprocity in approach does have some merit in terms of our ability to access export markets and therefore offset competition that we get from imports from those countries into our market.

DR ROBERTSON: I'll let Philip ask the next question.

MR WEICKHARDT: All right. Well, let me go back to the argument of why carpet is classified where it is and whether or not there should be any change to it. Just let's take for granted that anyone will try and mount any argument they can to get more tariff and so I accept that component of the argument. But to the extent that the carpet industry has done a lot of the stuff that you've talked about, it has become clearly more internationally competitive. It has done a lot of this rationalisation. I think your major competitor was in the tufted area owned by a leading US company who I think brought to there a lot of their practices. Why is it that the carpet industry needs any special consideration? There would appear from the outside to be evidence that it's doing okay and will probably continue to do okay.

MR GARRETT: What will happen is that as the tariff rate reduces, the opportunity for import penetration becomes greater.

MR WEICKHARDT: Unless the industry becomes more competitive as a result of that pressure.

MR GARRETT: I think that that's part of the answer. But certainly we are already looking - even though you're quite right: there have been a lot of adjustments that have taken place, a lot of rationalisation. We have invested very heavily in plant and equipment. But if you look at the input penetration, it has doubled in the last 10 years, albeit from a low base. I mentioned to you before that we've got that sort of trigger tariff modelling that was done, which seemed to demonstrate that at around that 65 US cents tariff rate and the tariff at about - exchange rate rather, tariff at about 10 per cent.

That therefore creates the incentive for people to put an infrastructure in for importation, and all of that, as we see the path forward, it will mean that there will be a greater level of import penetration and the problem that we have is the market is very small. There are not that many players compared with where it was 10 years ago, so we have seen some major rationalisation. But the players in the marketplace need a very substantial portion of the Australian market to give any sort of scale and give themselves the opportunity of using that as a platform for exports.

MR WEICKHARDT: I understand that. But it would appear that there's the opportunity for more rationalisation. I think you've suggested that more rationalisation will probably be a good thing.

MR GARRETT: Yes.

MR WEICKHARDT: And with that further rationalisation it would seem, given some of the comments you've already made about the fact, that it's pretty tough exporting carpets. You experience that when you export. I'm sure there are people on the US who say, "Goddamn, it's a long way away and it's fragmented. You know how far it is from Perth to Sydney and goodness gracious me, it's a small market."

MR GARRETT: Can you spread that rumour?

MR WEICKHARDT: Well, the major US guy I guess you could say came to Australia and gave up and went away.

MR GARRETT: That was for different reasons.

MR WEICKHARDT: For whatever reason, it would seem that the carpet industry, if you had to sort of make some sort of estimate of capacity to continue to improve, compete, looks in reasonably good shape. I mean, certainly in terms of some of the other parts of the CCF industry, if I had to guess, I'd say it's in a more robust condition than many other parts.

MR GARRETT: We would like to think that we've come part-way down that journey of internationalising our businesses. I mean, I think I said to you the last time that originally we used the import credit scheme as the original platform to create opportunities in the export market and then we moved from there into the SIP program and our major focus was about internationalising the business, creating a competitive base. But there are a lot of things that still need to happen. I mentioned to you the fact that our company and others within the industry have in fact vertically integrated so they have effectively added value along the supply chain. All of those things have happened but there's a lot of other things that we need to do to become truly competitive or internationally competitive, and that's perhaps the adjustment process that still has to take place.

MR WEICKHARDT: I think government's attitude, at least conveyed by the terms of reference, is that's an end point they're looking for and so provided the process doesn't sort of kill the animal in the process, the faster it happens, the better.

MR GARRETT: We're not arguing that there should not be an end point. We're not arguing that at some point industries and the carpet industry must stand on its own two feet. We're totally comfortable with that. We've just got to make sure that we complete that journey.

DR ROBERTSON: Charles, can I come back to your carpet in Peking or wherever it was?

MR SZAKIEL: Peking.

DR ROBERTSON: Have you seen this carpet or have they just said, "You're not going to get the order"?

MR SZAKIEL: They just said we're not going to get the order.

DR ROBERTSON: So you don't actually know whether it's going to be the same quality as yours or not?

MR SZAKIEL: Well, the indication to us is that it is. It will be an exact replication of what we produced. Now, obviously we can't guarantee that. We assume that that will be the case. The Chinese certainly are quite capable of manufacturing it because they have - and again let's look at the whole issue of the textile industry and I guess we get into broad philosophical arguments here, but the Chinese manufacturing industry, particularly in our sector, the woven industry which is very specialised but also at the very high value end, there are now probably about six manufacturers, all who have - not all, but to a greater or lesser extent certainly the two major ones - very sophisticated equipment, a lot of it which has been subsidised.

There is government involvement directly and indirectly with these manufacturers. A lot of the capital investment is subsidised by the government under various techniques. So they are very, very capable of producing the sort of products that we have. Now, the reality is though that we still pride ourselves that we have evolved into a sophisticated design. We try to differentiate ourselves by having something different that pure machinery can't replicate. So the Chinese approach though is, "Well, fine. We don't have to because we'll just copy what you're doing," and it makes it very, very difficult, particularly as we're saying, "Okay, let's make it easier for those people to access our market." But there's no reciprocity and therefore we can't replace whatever we may lose here by having a commensurate access to the other market and it makes life very difficult.

DR ROBERTSON: I'm not suggesting life is easy.

MR SZAKIEL: Well, it isn't now.

DR ROBERTSON: But I think the difference, you see, is that China isn't the market economy, because if you took the case that you've just given us, then you would say that in fact they I think undercut you by a small margin but that in fact people in China would still be paying a very high price because the tariff would raise the domestic price. That doesn't happen in a state-run economy because they can set a price wherever they like.

MR SZAKIEL: Correct.

DR ROBERTSON: So it's really a difference of regime that makes this a problem with China and with some of the other Asian countries which don't have a lot of direction. So it's more about political differences than economic differences, I think.

MR SZAKIEL: Well, it may be political differences but my argument would be that - and I'm obviously looking at it from a vested interest point of view but from an industry vested interest point of view - I feel that it's inequitable. We are where we are at the moment but I'm not sure what we achieve by giving way and making it easier for these people who already have a manipulated economy, and therefore the access to that market is very, very difficult to us. What are we achieving by making it that much easier for them to participate in our marketplace?

DR ROBERTSON: We make it cheaper for our consumers.

MR GARRETT: Well, that's an assumption. That depends on what happens at retail level as well, not just at the manufacturing level.

DR ROBERTSON: Well, yes. I mean, you can't cover all the angles. But that's basically the difference, that if we lower tariffs on carpets, one would expect that the carpet price would come down, doesn't matter what proportion, we're not talking about the exact number, and that therefore the consumer would benefit. But I'm not in any way trying to undermine your argument. It's very unfortunate that that should happen but you can't deal with it in a state-run economy and unfortunately everybody has decided they're acceptable, hence there's a WTO.

MR GARRETT: Could I just take the issue with respect to the price of carpet being decreased. We can demonstrate to you that the price of carpet has reduced dramatically.

DR ROBERTSON: It has.

MR GARRETT: It has reduced dramatically over the last - what is it, 10 years, 15 years, whatever it may be, and that's driven because of the competitive nature of the domestic industry. So I know that in theory what you're saying is correct but I don't think that necessarily follows.

DR ROBERTSON: I think part of the reason the competition has increased in the carpet industry is because there's a threat that the tariff is going to come down and they've had to get more efficient. You've told us that story already, John.

MR GARRETT: Yes. What I did say is that we had been dragged kicking and screaming towards the export market because we recognise that we need to be able to replace capacity in this industry with import penetration, so you're right.

DR ROBERTSON: I'm not going to argue with that; it's all good.

MR GARRETT: Okay, good.

MR WEICKHARDT: I totally understand where you're coming from in terms of what appears to be inequitable. But at the end of the day if you were sent as a trade negotiator to China to say, "I'll tell you what, I've got a great deal. You lower your tariff on carpets and we will, here in Australia," if you had that as your only negotiating tool, I think you might fail. In fact, in the modelling that was done of the impact on other countries if Australia lowered their tariffs altogether, I think the impact was lost in machine noise and these are computers that will sort of measure to sort of 8 or 9 or something decimal places. So other countries are not going to drop their tariffs simply because we say, "We will lower ours if you lower yours."

MR GARRETT: We agree.

MR WEICKHARDT: So there has to be some other motivation for us deciding what we do and that has got to be what's good for Australia, and that was a point that we were trying to make in the position paper: the issue of fairness is understood by at least some of us. But, you know, what's fair for the Australian consumer? What's fair for the Australian population is another issue too.

MR GARRETT: I suppose that what tends to happen in business and commercial life - I mean, we're constantly faced with these issues and you may very well be right in theory. But the reality is that when you get into the marketplace and have to do the things that we have to do, the sorts of barriers that we come up with to expand our export program - and you've rightly identified the fact that we have done a number of those things. We have tried to internationalise our business. Our company, which is the major exporter in the industry, has gone out and it has put a clear objective in place to move to 15 per cent of our productive capacity and then potentially over the next five years hopefully to 25 per cent of that.

So we've done all - well, I won't say we've done all of those things but we've moved in that direction. But we are faced every day - as Charles has just made comment on - with the commercial issue of problems in accessing export markets.

DR ROBERTSON: We appreciate it is a problem. It's also a problem to solve.

MR GARRETT: it is.

DR ROBERTSON: I mean, I keep on wanting to say what sort of tariff lowering are we talking about? Is this going to be bilateral? Is it going to be multilateral? You know, are we going to say to Thailand, "You drop your tariff and we'll drop our tariff and we'll both be happy"? We can't do that because we're in the WTO and you can't have discriminatory tariffs unless it's within a free trade area. So it's a very difficult issue to do anything with. The only way you can resolve it is to go to the WTO in the Doha round and try and get the tariff knocked down. Well, we know jolly well that most of the countries you're talking about are not going to be full participants in the Doha round.

MR GARRETT: That's so.

DR ROBERTSON: So you're not going to do it there either. That's why I keep saying that what other countries do - of course it affects us but we can't do anything about it. So we have to work within the framework that we have and that's really the only point I'm trying to make.

MR GARRETT: You're aware though that we have a major market access study which has now been completed through the forum?

DR ROBERTSON: Yes.

MR GARRETT: And that will be made available to the commission over the next week or so.

DR ROBERTSON: Yes, sure, thank you. Now, I was going to change the subject a little bit here and if I can find the question. You were suggesting that types 4 and 5 under SIP should somehow be - I suppose the word to use is "liberalised", in the sense that it should apply in cities as well as into the regions. Wouldn't that just sort of then be added on to type 1?

MR SZAKIEL: Sorry, type 1?

DR ROBERTSON: Yes, in the sense that if you don't have 4 and 5 which were directed mainly at the regions, in other words special problems of second-hand equipment and possible unemployment created, if you say that that also applies in the city, mightn't you just do away with 4 and 5 and you've then got 1, 2 and 3?

MR SZAKIEL: Just another form of capital expenditure?

DR ROBERTSON: Yes.

MR SZAKIEL: I understand. Again I'll handball to John here because in that particular regard, it's not an issue that we specifically have a concern with, but some of our larger manufacturers have expressed that point of view and John is perhaps in a better position to answer that.

MR GARRETT: You asked that very question of me last time and I did say that we did see perhaps the opportunity of broadening that rationalisation. The current provision, as you know, only applies to the regional side of things. The question is, should it discriminate against others wishing to make that rationalisation? My comment is that it probably could be broadened. I think that it would have to be very strategic because it could be subject to rorting and I'm not quite sure exactly what particular process that we'd put in place to ensure that we would avoid that. But there needs to be clearly strategic intent and perhaps it could be done on some sort of a by-application basis. But again I'm not quite sure what that criteria would be. But it does seem that as our industry moves forward, we've already seen significant rationalisation. We would see that there will be a further need for further rationalisation over the next few years.

DR ROBERTSON: I can see, from what Charles just said, where this idea originates; at least, I think I can. I mean, one of the reasons for the interest - if you ask me, anyway - is it simplifies SIP, if you've only got 1, 2, 3 rather than 1, 2, 3, 4, 5, and the money that's not been spent under 4 and 5 anyway in the last two and a half years. So it may be something that we can use in that sense.

MR WEICKHARDT: Albeit if John's point is that you're going to have to make a modification of type 4 and 5 to avoid rorting, subject to some sort of special application and judgment, it would mean a type 1 claim would have a sort of subset inside it.

MR GARRETT: It is an issue that we're wrestling with through the TFIA as well, and perhaps we could take that question on notice and give some thought to it and come back to you.

MR WEICKHARDT: Okay. Yes, sure.

DR ROBERTSON: I'm not going to go back to the carpet tariff anomaly.

MR GARRETT: Well, we have an expert here on this, by the way.

DR ROBERTSON: I think that has been very helpful to us in highlighting some of the places where we disagree, perhaps. I don't know if any of you want to add anything to what we've said? Alan?

MR FIRTH: Just on the carpet anomaly, just to explain our thinking here, we have a graduated tariff. The highest tariff is for apparel and certain interior textiles. The next level is for intermediate product fabric and then raw materials, and carpet is - - -

MR WEICKHARDT: The next level down below that is not just for raw materials.

MR FIRTH: Okay.

MR WEICKHARDT: As I say, sleeping bags, shoes, tea towels aren't raw materials.

MR FIRTH: Yes. We don't have a strong interest in any of those products.

MR WEICKHARDT: No, but just be careful; the argument about what's intermediate and what goes to the final customer seems to be a bit wobbly.

MR FIRTH: Well, I'll just persist and see how we end up. Looking at this, we - I mean, the industry view is that carpet is a finished product. It's an elaborately transformed high quality product, and basically sort of the industry said, "Well, is it really an intermediate product or is it a finished product?" Just our logic suggests it's a finished product, and certainly they believe it's as much a finished product as bed linen or towels. So we looked at what happens overseas. We did a little bit of research late last year and that really didn't surprise us. It basically showed that carpet essentially received the same tariff treatment as domestic or interior textiles, and I think we looked at that stage at a half a dozen countries, and where there was a different rate, where carpet had a lower tariff, the gap was much smaller than the gap in Australia, the 25 to 15. So I guess we've been mulling it over and we've been putting it to people in government circles. We'll put it on the table today. It's not an argument that we'll die in the ditch over, it's just an issue that our view is that it is an anomaly that deserves an answer.

We saw the forum report only today, the market access report. One of the tables there basically is an analysis of 30 countries. With those 30 countries, a great majority of those countries give the same tariff treatment to carpet as they do interior textiles, finished products. Those which don't have the same treatment, the gap is very small. So to us, that report just reinforces in our mind until we're told what's the policy basis or the administrative basis for the different treatment, we deal with it as an anomaly requiring an explanation. So if in fact that position holds, we're saying, "Well, okay. Perhaps carpet should receive the same tariff treatment as interior textiles." We believe it's interior textiles. We're not arguing to go up to the higher rate, but if other rates are coming down, then we will wait until those rates reach the carpet rate and go down together. So that is the argument. We put it on the table for your consideration.

DR ROBERTSON: Okay. Thanks very much.

MR FIRTH: Thank you.

DR ROBERTSON: All right. If you wouldn't mind introducing yourselves so that we can pick up who you are on the tapes.

MR PAYTON: Thank you. My name is Denis Payton, I'm the CEO of the Furnishing Industry Association of Australia, and I am accompanied by Mr Garth Kester, who is managing director of a company called Statstrend.

DR ROBERTSON: Fire away.

MR PAYTON: Okay. Look, thank you once again for the opportunity here to address the hearing. We, the FIAA, submitted a document to the commission called The Furniture Taxes Situation Analysis. It's not my intention today to go through, dot point by dot point, all of that submission, but what I'd like to do is actually just make some comments about the report, and I will read this, just to keep very much on track and spare your time too. We felt it important to clarify our position to ensure there is no misunderstanding arising from the two brief references to our submission in the Review of Assistance position paper and that these references are not taken out of context. The references in pages 71 and 72 of the paper refer to redress of the effects of the furniture tax - ie TCF tariffs - on the furnishing industry. Taken out of context, our use of the phrase "redress of the tax" could be construed as a statement by the FIAA to the effect that we seek removal or reduction of TCF tariffs.

We wish to emphatically emphasise that the FIAA has no wish to become involved in debate regarding assistance arrangements or tariff levels provided to TCF industries or any other sectors. We do, however, wish to restate our position that the special tariff regime that supports the TCF industry was poorly designed when it was initiated, in that it fails to recognise the negative impact these arrangements have on manufacturing inputs in related sectors such as the furnishings industry. According to our estimates, TCF tariffs are conservatively negatively affecting the furnishing industry at a level of around $22 million per annum in direct government revenue in the difference between the general tariff rate and the TCF tariffs. To this should be added a further $18 million a year in embedded duty, being the effect above the global market level at which local products may compete as a direct consequence.

It is estimated that the combined effect of the tax of around 40 million per annum is about 5 per cent of total raw material inputs on furniture and furnishings using textiles in manufacturing. An additional cost of this magnitude reduces profit margins to points that are already being squeezed to marginal levels by the market penetration of low-priced imported products. This is causing a particularly serious effect on the viability of the upholstered furniture sector, in which textiles are a major manufacturing input. It is an anomaly that the 15 per cent tariff on textiles used in the manufacture of furniture, compared with the general tariff rate of

5 per cent on complete imported furniture, is handing imports an unfair advantage and is creating hardship on Australian manufacturers.

In stating that the furniture tax requires to be redressed, the FIAA wishes to make it clear that this does not refer to reduction or removal of TCF tariffs, but the consequences of TCF tariffs should be recognised and at least partially offset through government compensation in the form of assistance in the implementation of a coordinated industry strategic plan, encompassing a number of identified programs that would enable the furnishing industry to grow and become world competitive. The FIAA seeks the opportunity to present these plans to government with the recognition that the implications of the furniture tax alone warrants this consideration. The FIAA hopes these comments clarify any possible misinterpretation of the Furnishing Industry's submission in relation to this matter. Thank you.

MR WEICKHARDT: Can I just clarify, therefore - I mean, that's probably clear, but if the tariffs on textiles disappeared altogether, you would be equally happy? I know that you're not pushing for that, but at least the logic of what you suggested is you're currently paying a penalty. If the penalty disappeared, either because you were compensated for the penalty or because the tariff on textiles disappeared, my logic suggests you would be ambivalent to that.

MR PAYTON: I think we would probably agree with - we would be ambivalent.

MR WEICKHARDT: Thank you. The other thing, could I just clarify, is I got lost in your arithmetic about the fact that the impact of these tariffs add 22 million in terms of cost, but I don't know where this further 18 million in embedded duty comes about and why you add the two together.

MR KESTER: Sure. Well, that was a calculation based on the effect of additional costs on locally manufactured textiles, which would not be there were it not for the 15 per cent tariff rate in the first place.

DR ROBERTSON: But isn't that where the 22 million comes from?

MR KESTER: No, the 22 million is a direct consequence of the 15 per cent tariff rate. In other words, that's a direct government revenue.

MR WEICKHARDT: So are these on imports or on locally manufactured product?

MR KESTER: The 22 is on imports and the embedded is the effective penalty on locally manufactured products.

MR WEICKHARDT: I see, okay. Thank you. That's helpful.

DR ROBERTSON: What's the value of output of your members, let's say the Australian Furnishing Industry?

MR KESTER: The total - - -

DR ROBERTSON: The value of the output. Any idea? I'm just thinking of comparing these imposts with - - -

MR KESTER: For the industry as a whole?

DR ROBERTSON: Yes.

MR KESTER: Well, at prices to end consumers - - -

MR WEICKHARDT: No, prices to your members. Wholesale prices, say.

MR PAYTON: I'm not clear on the - - -

MR WEICKHARDT: The sales of your members.

MR PAYTON: The sales of our members is around 7.7 billion.

MR WEICKHARDT: So you're got 7.7 billion and a $40 million impost.

MR PAYTON: Yes.

MR KESTER: However, I think it should be - I pointed out that the 40 million impost is not spread across the entire industry as such. Instead, it is very much concentrated on that sector of the industry that uses textiles and manufacturing.

DR ROBERTSON: Yes. You don't have that figure to hand? I mean, basically we're talking about things that use leather or textiles.

MR PAYTON: It's actually a statistic within the report.

DR ROBERTSON: It is, is it? Okay. Your report came in on 7 March; it was some time ago.

MR KESTER: I mean, as far as we can - just to clarify that point a little further - as far as we can estimate, approximately 23 per cent of the industry is affected in some way or other in regard to that percentage of the industry which incorporates textiles and manufacturing.

DR ROBERTSON: So you're getting round to about 2 per cent.

MR WEICKHARDT: It's .2 per cent.

DR ROBERTSON: .2.

MR WEICKHARDT: I think so. I'll do this sum later on. No, it is 2 per cent.

DR ROBERTSON: It's 2 per cent of that part of the value of the industry, yes. I finished at 1 over 50 anyway.

MR WEICKHARDT: Yes.

MR PAYTON: But it's a very significant impact on that sector within the industry.

DR ROBERTSON: Yes, sure. No, I'm not belittling it. I just wanted to get it into - - -

MR PAYTON: Very good.

DR ROBERTSON: When people start putting millions on the end, I get lost.

MR PAYTON: Yes, okay.

DR ROBERTSON: Okay. So it's about 2 per cent. Have you raised this with the government in any way?

MR PAYTON: It has been raised with government four years ago.

MR KESTER: Yes, four to five years ago.

MR PAYTON: With little or no response.

DR ROBERTSON: Right.

MR PAYTON: But encouragement to actually pursue.

DR ROBERTSON: Right.

MR WEICKHARDT: And the tariff affecting your members is typically

5 per cent?

MR KESTER: Yes, across the board, yes, 5 per cent.

DR ROBERTSON: Right. How did imports compare with local production, either in aggregate or in that sector that we're focusing on which is the one that's sensitive to TCF tariffs?

MR KESTER: Overall imports currently account for around 40 per cent of the residential furniture sector. It's difficult to quantify in terms of the commercial furniture sector but overall on residential furniture which accounts for about 55 per cent of the industry's total turnover, you're looking at 40 per cent - that market being taken by imports.

MR PAYTON: But specifically in the sector that's affected by this tariff, it is the statistic that we have got on the lounge manufacturer. It's the biggest growth area where imports are having an impact.

MR KESTER: Yes. You will have to interpret that for me.

MR PAYTON: Okay. What's actually happening is that the value of Australian lounge furniture production is declining steadily. It has dropped some 13 per cent in value in the last three years.

MR KESTER: These are significant numbers; from 460 million to around 400 million.

MR PAYTON: I think this should be taken in the context that the overall market itself has been growing at a very healthy rate in the last four or five years, at the rate of around 10 per cent so against that, we've got that specific sector in the industry declining at a rate of 13 per cent, and on the other hand, imports of upholstered furniture is growing at an extremely rapid rate. $53 million it was valued at in 93-94 to some $228 million at value for duty in 2001-2002. So one is clearly being offset by the other.

DR ROBERTSON: Yes. I guess we would expect there to have been high growth given a decade of rapid growth in the economy, plus a lot of building going on.

MR PAYTON: That's right.

MR WEICKHARDT: Apart from the issue of this furniture tax as you refer to it negatively impacting upon the competitiveness of your members, do your members have a view as to whether or not they have a desire to see a local TCF industry continue? Do they get any benefits or do they have any disadvantages from having a local industry? Is quality responsiveness, supply, anything else an issue for them?

MR PAYTON: The answer would be extremely positive in favour of local Australian TCF industry for all of the above reasons that you have just mentioned, yes. It's a significant thing for us.

DR ROBERTSON: But you would rather have it a lower price which is without tax.

MR PAYTON: Yes.

DR ROBERTSON: Or be compensated by it.

MR KESTER: Or be compensated, yes.

MR WEICKHARDT: Did you feel that our report had misinterpreted what you had sent or were you leant upon to make these clarifications?

MR PAYTON: No. We just felt that there needed clarification from that; that we weren't out there to argue either way for tariff reduction or tariff increase. We wanted to be heard to say that we are hurting because of what we consider to be an anomaly in the system and we want to actually put up a proactive position of how we can address that if it remains, and it's all built about improving productivity.

MR WEICKHARDT: To the extent that your members do import - and they clearly do import, probably by the numbers here, at least 50 per cent of their requirements for furnishings or leather - do they do that because the product that they're looking for simply isn't locally available or because the local industry isn't competitive in those areas?

MR PAYTON: A bit of both I think would be the answer there. The quality and the range is not available and supply issues are a continuous problem, local supply issues.

MR KESTER: The non-availability particularly refers to heavily-weighted textiles such as those that are used specifically in upholstered furniture. It couldn't be used for anything else.

MR WEICKHARDT: What about leather?

MR KESTER: We haven't factored the effect of leather in any of the equations in this submission. We're referring purely and solely to textiles.

MR WEICKHARDT: Okay.

DR ROBERTSON: So there's nothing on leather here at all?

MR KESTER: No.

DR ROBERTSON: That's interesting. Do you have any data on that?

MR KESTER: No, we don't.

DR ROBERTSON: You don't?

MR KESTER: No.

MR PAYTON: There's no punitive tariff on leather so - - -

DR ROBERTSON: No, there's not, but I was thinking rather more of the fact that there is a lot of leather in this country; that a lot of it seems to be exported at a very early stage of processing and I wondered how much of it was actually finding its way into the furniture industry by high levels of processing.

MR PAYTON: We just didn't address that side of it at all.

DR ROBERTSON: Didn't address that, okay. Look, that's fine. Unless you want to tell us anything else, that's a neat little point for us to make on the implicit tax effect of TCF. So we'll get rid of TCF tariffs immediately on that basis.

MR KESTER: Thank you.

DR ROBERTSON: All right, thank you. We're here again tomorrow starting at 9 o'clock and then we're in Geelong on Thursday and in Sydney next Thursday and Friday, all hearings. I declare the meeting closed and we'll reassemble tomorrow morning. Thank you.

AT 4.32 PM THE INQUIRY WAS ADJOURNED UNTIL
WEDNESDAY, 4 JUNE 2003

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