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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 WEDNESDAY, 4 JUNE 2003, AT 9.04 AM

Continued from 3/6/03

DR ROBERTSON: Normally I go into an elaborate introduction - but welcome to day two of the hearing. I won't go through the usual spiel because I think these two ladies have been here before. Basically we try and keep the whole thing informal. One of my comments is usually, "Any interruptions from the audience won't be recorded," but that's not likely to be a problem today. So of course you know that under the act you're expected to be truthful, not that that's likely to be a problem, and that about sums it up really. What we would like you to do is to perhaps give us a summary of your submissions and that provides us with your views in a nutshell, so to speak, so that we can take them into account and perhaps take up any points that we wish to with you or you can ask us questions of course at the same time.

MR WEICKHARDT: Please assume we have read them.

DR ROBERTSON: Yes. Please assume we have read them, and we have.

MR BUTERA: But we'll probably hear this in case you haven't.

DR ROBERTSON: No, they're all here.

MR WEICKHARDT: Don't repeat it word by word.

DR ROBERTSON: So I'll hand over to you. I would ask that when each of you speak so that you can be identified on the tape, you announce who you are and what your position is and so forth.

MR BUTERA: Thank you, David. My name is Mick Butera. I'm executive director of NIETL/North Link and we're representing the northern region of Melbourne; four councils in particular, each of whom have made individual submissions in support of ours and vice versa; the councils of Hume, Moreland, Whittlesea and Darebin. Supporting our presentation, Paul Smarrelli is the business excellence programs manager for our organisation and also the TradeStart Austrade adviser, Eddie Yiu from Norman Ritchie Fabrics; Michael Fisher from Genevieve Yarn Dyers and Phillip Butler from Textor.

We represent a region with approximately 800,000 people, 60,000 businesses, but more importantly, probably a region with employment of - well, it's now down to about under 10,000 TCF workers from 14,000. To place the thing in a context, if I could give you some information on our region, a prospectus on the northern region, plus some other documents as well.

DR ROBERTSON: Thank you.

MR BUTERA: Those documents give you an idea of the strength of the northern region, the industries that are important in that region, and its importance to

Australia. In terms of our submission, you have got it there in front of you. We've got a region that has been dramatically affected by TCF and the restructuring that has taken place in that region. We estimate employment has dropped from about 14,000 to about 9500 over the period 98 to 2001; a very dramatic drop, and that drop is highlighted even further within individual municipalities. So we have a region that is going to be affected across the board by whatever the Productivity Commission decides in its recommendations on TCF.

We have made a number of recommendations in our submission and we will be talking to those. Basically though we've called our submission The Pause that Refreshes. I mean, if we want to got the big picture we're saying, "Look, there has been a lot happening, there has been a lot of action, and I think we can demonstrate through some of the companies here today, and others, that a lot of TCF has reinvented itself, has increased its productivity; has got into niche markets; has really performed well." We're saying, "Let's have a pause. Let's not put at risk and at jeopardy those firms that are still in that process of rejuvenation. We have one company here, Textor, represented by Phillip Butler, who are an exemplar of a company that has been a high achiever, but it has come at a great cost. It has come at a great cost over that period.

They have lost, and I don't think I'm overstating the case, millions of dollars. So they're not in a position to have survived. In a sense they're not really affected any more by the tariff reductions. They have stared it in the face and come through the other end, but that's not the case across the board, and there are others that are in that situation who may not come out he other end given the important decisions that the Productivity Commission makes on the tariff. I'll pause there for the moment and throw over to Mr Paul Smarrelli who will make a few comments on some of the programs and some of the actions we have undertaken to help TCF firms come out the other end.

MR SMARRELLI: Thank you, Mick. Yes, Paul Smarrelli from NIETL/North Link. Over the past three years we've seen an increasing number of organisations that are participating in our programs such as Export Readiness and Business Excellence, looking at ways to improve their capabilities and become exporters at the same time as increasing their domestic market. We have worked with something like 104 companies over these programs in the last three years where it's funded by Commonwealth funding or Victorian government calling, say, 20 companies, but we have seen 48 to 50 want to join the program and have gone right through the program over a series of network meetings and industry visits, industry tours over nine months. So we're seeing a great incentive from organisations to lift their competitiveness through innovation and leadership programs.

The essence of the programs is to improve their capacity and their capabilities to be able to be competitive in such a case, but the thing that comes to mind though is that we need to be able to stop the decline and firms need some additional assistance through government funding to lift their game to allow them to look at new innovation, look at new processes and improvements; generate - right through the organisation, a capability that every employer in the organisation plays a big role. That really doesn't require a lot of money. It requires training and management skills need to be developed and through these government-funded programs we're very fortunate that we're being able to reach these organisations, and I see that there's a real increase in their enthusiasm to become world competitive and improve their domestic position as well.

So I would like to say that we would need to put more efforts and time, and we are talking to ministers like Ian McFarlane through and through AusIndustry et cetera to try to increase funding and subsidies or support in these areas, and also through the Victorian government, and the response has been very good so there is a strong need. We need to create innovation, new measures, new productivity levels. We're talking increments of 20 to 30, 40 per cent improvements. We're not targeting 2 and 3 per cent improvements because we realise that 2 or 3 per cent can be gobbled up by exchange rates or can be eliminated by threats and competition, but I think we need to target the 30 per cent improvements through leadership programs and through innovation programs and to drive productivity and process improvements, and I think that will then create a confidence level which will allow companies to realise that they have the opportunity for diversification and look at maybe the bigger market and the bigger picture.

So through the Austrade TradeStart program doubling the number of exporters which were an ally of Australia in the north, it has also taken 24 companies through that program in the last six months and we have an additional quota on 1 July of another 20 companies to take through, so exporting is becoming a very strong driver in the metropolitan north where we have quite a number of organisations beginning to realise that they have to look at the bigger markets to be sustainable and to have viable business in the domestic picture as well. So we would just like to see a lot more support to help management in these organisations to filter through, right through their organisation through leadership programs and some support. I think it will really stop the decline and it will drive businesses to reach possibly a higher peak performance in terms of operational costs and operational improvements.

MR BUTERA: I'll have some to more to say on that in my concluding recommendations but moving on to - - -

MR SMARRELLI: There are some of the programs of methodology and business excellence model together with the report on the Ready Set export that we ran the last couple of years. There's a report on the business excellence due to be released in two weeks' time which is the result of that program.

MR BUTERA: 50-plus companies went through that program in the last financial year including a number of TCF companies.

DR ROBERTSON: Can you give us any indication of what the effects have been?

MR SMARRELLI: Yes. Some organisations have improved their inventory reduction by some one and a half million dollars stock levels. Some are measuring now uptime of all their machinery and processes so that they're measuring every aspect of their operation in terms of productivity measures in uptime nad downtime. There has been enormous effort in the leadership area of improving the organisational structure and being accountable, and empowerment in the organisation, so the employee relationship in these companies has improved immensely but also KPI has been able to set a realistic business plan and that's that business model - is a series of templates that looks at business planning, monthly financial control, an overview of the business plan, and strategic plan and so the aim is to - - -

MR BUTERA: It has created close to 80 jobs over the last years, as well as - I don't think any firm has had any reduction in employment either.

MR SMARRELLI: No.

MR BUTERA: Which is just as important.

MR SMARRELLI: There has been a couple but the result has been - there has been a $14 million prediction in growth in sales with a 69 increase in employment, that's net, through the 54 companies that went through the program.

MR BUTERA: It's an attempt to sort of help move along the road to corporatising smaller firms that may not have otherwise had the facilities to bring in the consultants who can be expensive to help with that process. It's a bid to sort of formalise operations more and to bring the sort of corporate values that you need if you're going to have a base for growth.

DR ROBERTSON: Have there been any amalgamations?

MR SMARRELLI: No. There has been - - -

DR ROBERTSON: The companies have remained small?

MR SMARRELLI: Remained small, but looked at their performance and been able to measure their results and been able to plan better and to be able to structure their organisations in a more proactive and confident manner by accurate measures. The aim of the program is to be able to take real stock of your business as it is today and look at continuous improvement through a range of measures. Companies have started at the operations level. Some have started at marketing and others have started just setting a realistic business plan. 24 companies have decided to continue - we're going through a series of implementation and the meeting is on next Tuesday which is the second of the implementation series, where each of these companies will come in with a draft of their business plan for July 1 so that we can discuss the - and also set some very strong KPIs for the business ahead and that is a wide range of KPIs; from financial, non-financial control to marketing, to innovation, leadership programs, a range of aspects, but the idea is to really take stock of your business and then look at improvements and introduction of new measures.

DR ROBERTSON: When did this start?

MR SMARRELLI: July last year.

DR ROBERTSON: So it has only been going for a year?

MR SMARRELLI: It was a 14 series of two-hour meetings plus six industry tours. That's how it was funded and finished on 29 April.

MR WEICKHARDT: Sorry, how was this funded?

MR SMARRELLI: Through DIRS, Department of Industry and Regional Services - - -

MR BUTERA: Department of Transport and Regional Services through the local area consultative committee.

MR WEICKHARDT: Right. So how much money do they provide to you?

MR BUTERA: It's about $80,000.

MR SMARRELLI: And it's free to firms, of course, other than their time to come to the meetings.

MR WEICKHARDT: And it's tied to employment outcomes. You don't charge firms?

MR SMARRELLI: No. The export readiness program also ran for two years under a similar funding scheme through the NACC and that's the report of last year's program where it achieved enormous results which allowed organisations to strongly consider now being export capable and export ready.

MR WEICKHARDT: So do each of the regional sort of centres have similar types of programs? Do you collaborate at all in terms of development of these?

MR BUTERA: I'm not sure if you're aware of the situation with ACC; their consultative committees or not but there are 58 of those throughout Australia. They operate in different ways depending on their regional needs. Programs such as those are initiated at a regional level. We certainly make that information available and a number of other ACCs have expressed an interest in implementing those programs but the key to their success really lies in getting someone such as Paul who has got a long history in automotive and manufacturing and linking that experience with 30 or 34 firms to translate those experiences into action. Now, that's really the secret of it. It's not the throwing of the money at it.

MR SMARRELLI: The real benefits are the networking with these organisations because they talk to each other and they visit each other afterwards and it's a tremendous networking opportunity but the report and the model is made available Australia-wide, whoever wants it, because it is a government program, therefore it's available, and the final report of the business excellence program will be - it's being printed now, just finished off, or will be released in two weeks' time, but we do encourage through the Commonwealth government that the programs such as this should be run at various regions around Australia to generate an excellence culture and an improvement culture in the workplace.

DR ROBERTSON: I'm sorry to interrupt you. It's through your program.

MR BUTERA: I will come back in on our recommendations and what we want to see happen, but before I do that, I would like to move to Michael Fisher from Genevieve. Michael is going to present some aspects of the cost structures facing TCF firms and the micro-economics of his particular firm and TCF.

MR FISHER: Yes. Michael Fisher, Genevieve Yarn Dyers in Thomastown. We have about 24 employees so we are a small family company. The way we see it is that tariffs really won't affect yarn dyeing because it's our customers who it affects, so we have got to be competitive to help them and support them. So we're here really to support up the level. So to be competitive and to help these companies we need to look at the lower level things like, for instance, some of the things I want to touch on are really based - some may be local government, some may be federal government, but they could help the industry to be more competitive, and if we're more competitive we can survive longer.

For instance, WorkCover. One of our biggest expenses in textiles is WorkCover. Now, we understand that textiles is very high labour, very intensive, and there are a lot of back injuries and other injuries so we can expect a high level of WorkCover costs, but what the government doesn't differentiate is between the white collar side of the company and the shop floor side. So for instance our companies pays, say, 8 and a half per cent WorkCover but, for instance, myself and my partner are probably the highest paid in the company, we own the business, and we pay WorkCover. So 8 per cent of our wages is a lot more than 8 per cent of the shop floor. So what we're saying is why can't we separate - look at WorkCover and say, "Right, if there are five admin staff who are low risk on WorkCover, and that's 35 per cent of your employment bill, they're 3 per cent but the shop floor where there is a high risk, yes, these are 8 or 9 per cent." It brings our cost down. It makes sense.

Electricity: the way that electrics worked in the northern region is that it's done on peaks. So, for instance, when we start up on a Monday morning, we turn our machines on. Anyone who knows electrical knows that as soon as you turn it on, it has a peak and then it comes back down and it's standard. We've got to stagger our productivity. We've got to stagger our start-up over two hours. So we lose production for two hours because we get charged on our peaks for the next 12 months. So if we hit up here, we're then charged on that level, whereas if the Electricity Board came back and said, "Right, now, we know you're going to have peaks and start-up but we'll charge you at this level," we'd save 20 per cent on energy. We're paying for energy that we're not using. Again, it seems a bit silly.

Dye stuffs and chemicals: again, we talk about innovation and moving forward. A lot of the dye stuff companies are now coming to see me and there's now probably more dye stuff suppliers than the hand dying or fabric dying - fabric dye houses out there. But it's all the same old stuff. It is the same dyes used now cheaper from a different source overseas. There's no new products coming in and a lot of the dye stuff companies have a problem that, one, they're paying duty on products coming in that aren't manufactured, there's no dyes that's manufactured here, so why pay a duty on dye stuffs? It seems silly. And also new products, they've all got to go through NICNAS which then means that you've got to spend 75,000 or whatever it costs to get a product into this country, when all the work's been done in Europe or America where it's manufactured. Again, we're not seeing new products. We're just not seeing - we're actually going overseas, our company are going overseas in July to look for new products because no-one's bringing them here. So that's another added cost to us which really we shouldn't have.

From the perspective of yarn dying and knitting, there's no real ring-spinning mills left in Australia, yet again we pay duty on ring-spun yarns. It seems silly that we're paying duty on a yarn that is not manufactured here. There's open-end spinning here but the amount of ring-spinning since monopolies shut their Bendigo mill - I don't feel that we should be paying duty on ring-spun yarns.

DR ROBERTSON: What are these duties?

MR FISHER: It's 5 per cent.

DR ROBERTSON: It's 5 per cent?

MR FISHER: Yes. Again, I mean, if you're cutting 5 per cent of the tariffs, we'll get 5 per cent back.

DR ROBERTSON: No, no, that wasn't what I was after.

MR FISHER: And probably the last one which is probably a bit more high level is mergers. Within the metropolitan area there's no assistance to look at merging with another company. For instance, there's two large yarn-dye houses left - ourselves and Rocklea Spinning Mills. We're both doing probably 50 per cent of our capacity. So we're both struggling. If you put them two together you'd have a really fantastic business but there's no incentive and no channels to go through. So again to be more competitive et cetera et cetera, if there could be some assistance there. And the last one would be SIPS but I think there are guys that are going to bring up SIPS, so I'll leave that for the guys. Thanks.

MR BUTERA: Before I go into the final summary - - -

DR ROBERTSON: Yes, I'd just warn you that, you know, we're getting short of time. We've got another 20 minutes roughly.

MR BUTERA: 20 minutes?

DR ROBERTSON: Yes.

MR BUTERA: That will be more than adequate time for us.

DR ROBERTSON: Okay.

MR BUTERA: More than adequate. Eddie Yiu is from Norman Ritchie Fabrics. He wishes to make some comments and address - I think he's already addressed you previously but I think he wants to also make some comments regarding the non-uniform effect of tariffs across TCF, that it's not as if it's a uniform action in which everybody's affected in the same way.

MR YIU: Yes, Eddie Yiu from Norman Ritchie Fabrics. I tried to concern myself previously in the hearing earlier on with the Wool Council, wool processing council. Once again I just want to point out that TCF industries are a very wide variety of companies and different sort of product that they make. We had to be fully aware that some companies may need tariff more, some companies need tariff assistance more. If we just look at generally, just look at the whole width, it doesn't fit all the companies. I believe that the company in the more upstream situation like Michael's, the companies, they don't need much of the assistance because they only live on the 5 per cent tariff protection and they are on servicing the downstream people. They are more capital incentive whereby that downstream one is more labour intensive.

So the thing is, I think in the apparel industry, firstly, on the downstream side, I think there had to be some sort of a tariff protections war; no point to give them tariff assistance to buy machines when the market is not viable, and we need a strong and healthy home market here before we can develop our export market. We had export ourselves for many years, for the last 13 years. We've been - lead the home market. This is the critical mass and if we lost the critical mass of the home market, there's no point to carry on here and myself become an importer, the easy way out - but we need to maintain employment here. So that's why we want to have a home market to stay it. So the main thing is, I wish the commission would understand the Pacific market need certain market. We really need the tariff to stay at current level. A further drop of the tariff will really upset the critical mass.

A lot of people - it is a crunch point. I know that the minister doesn't want the idea of tariff to stay and he say that if people are struggling now, they should go. But I think the people carry on since the last tariff freeze to now. They are still here. They will be here for a long time if you don't upset the critical mass. If you further drop the tariff then they have second thought. They may be still viable but they may move more and more offshore to the stage that there's no sustainable industry here left in the apparel downstream market, and whereby they were outfitting the upstream as well, including us and Michael's companies. Even his company, our company, doesn't need the strong tariff protection, but our market, end market require it. So there's the viability of a certain product and market. It's very important for us and we just can't say, "Well, we accept the government decision and let the tariff go," and the whole industry will collapse probably.

Another point I want to make is, I know there are a lot of big companies, especially the big capitalised, sort of big set-up company here, they want to push for a trade-off for extension of SIP against - for the tariff reductions, and I think that the commission should be very careful because you're picking the winner. I mean, you support all the people that have the most political muscle. They want to have the money from the government to help them to do this and that, whereby you sacrifice the other people - they may have different agenda. They need some sort of a basic protection to keep the tariffs over there and if you just support those few people pushing for the SIP extensions, forget about the tariff, you may sacrifice maybe 50 per cent of your company or industry here, and end up you may have four or five people left. So that is the typical pick the winners policies which failed before and we don't want the industry to see another failure again.

So having to conclude, I think that we have to ask the question of whether the government want to retain a minimum sort of textile and footwear and clothing industry in Australia or to let the whole thing go, and if you want some sort of basic structure left here, I think you have to maintain the tariff level, at least for the apparel industries, at least for the downstream - like, the clothing and so on - in order to maintain the textile and the yarn industry here.

DR ROBERTSON: Okay. We'll let you finish because otherwise we might cut you off.

MR BUTERA: Before I go into the recommendations and what we want, Phillip Butler - I might be putting Phillip on the spot. Phillip has joined us in support and I don't know whether he has anything that he wants to add or not. He is appearing later this afternoon.

MR BUTLER: No, I can - if I can, yes. Phillip Butler, Textor. I'm here to support NIETL and the NORTH Link program. We've been a party of their assistance programs, they're export program particularly. The only point I'd like to make is that, yes, we have been through the process of change. We started a little earlier than most companies. We started our process back in 1998 forced on us by the parent company and it is a difficult and a timely program to go through. So I'm here just to say simply that I have great sympathy for the industry and for what they're doing. I think there is need for time to make the adjustment and to support the programs that, you know, these guys have put forward have been extremely useful. So very simple, but just a word of support.

DR ROBERTSON: All right, Phillip. Thank you.

MR BUTERA: Okay. On behalf of the northern region, especially the councils of Hume, Moreland, Whittlesea and Darebin where a lot of TCF is contained, I'd like to say that the TCF firms in that region are innovative, progressive, can develop and have developed niche markets with specialised products. We've got countless examples of them. Textor is here today, industrial and non-woven fabrics with specialised uses; HiMark Shoes; companies that produce shoes for armies, emergency services which have to have specialised properties; niche brands in socks, for instance, from other companies; specialised dying services; products that have got special thermal and heat-retention or cold abilities. So they've proved they can do it. They've done it at a great cost. I mean, our position is really we know what's legislated to happen. We're saying amend that legislation. Let's keep things as it is. I mean, why try and get ahead of ourselves? Why endanger firms that are going through the process that Textor has gone through? Why endanger their chances of survival? Not all of them will survive anyway, whether the tariffs stay the same or whether they're reduced but why jeopardise that? And I think the Victorian government has produced figures which they may have presented to you already.

DR ROBERTSON: No, they just - - -

MR BUTERA: I'd better not steal their thunder had - - -

DR ROBERTSON: No, they just keep talking about them. We're not allowed to see them.

MR BUTERA: God, we're in a privileged position. We've seen them.

MR WEICKHARDT: Well, we've seen the numbers.

DR ROBERTSON: We've seen the numbers. We don't know where they come from.

MR WEICKHARDT: They come out of a black box which nobody really wants to talk about.

MR BUTERA: Well, as I understand it, the numbers have actually been produced by the NIEIR who are a reasonably reputable research organisation, and I can only - - -

MR WEICKHARDT: It depends who you talk to.

DR ROBERTSON: I think this had better go off the record.

MR BUTERA: The figures that we've been presented with - and we've got no reason to doubt them - is that a move at this stage to the legislated position is going to yield debatable benefits. Certainly you can argue about the numbers but nobody has been able to prove or shown figures to me that indicate that a change will bring great advantages. If that's the case, I certainly would like to see that. What we're saying is that the area of support for TCF, especially SIPS - which you'll hear a lot about, if you haven't heard a lot about already - is an area that really demands some examination and inquiry because it's obvious that it doesn't appear to be meeting the needs of all the customers. I mean, I think you've heard a few comments and possibly complaints about SIPS. So we're saying that that should be examined closely. It should be examined (a) to see what sort of benefits smaller firms can get from it; streamline the ability to participate in it; Michael and others, Michael Fisher and others, have raised the question of the costs of participation to prepare documentation to participate - costs either in external costs of dollars to consultants or time for the firm.

We feel that Austrade deserves to provide TCF firms with some special attention. Some of the programs of Austrade are free, some of the programs of Austrade are not free, and those that are free, there's a limit to participation. Austrade is a remarkable resource that Australia has got with reach, incredible reach, into every country in the world. We can speak from experience through our TradeStart program, through our little office in Bundoora. We've got reach into all corners of the globe and people in all corners of the globe, and that information and benefits should be brought into the hands of TCF and other SMEs.

An area where remarkable knowledge and benefits reside is in the educational sector, the university sector. The federal government has recently released a paper to encourage universities to have increased interaction with industry and support for them because universities contain incredible knowledge, scientific and non-scientific. Latrobe University, for instance, has machinery that can provide analysis of materials for all their properties, whether the materials stick together when they shouldn't or whether they don't stick together when they should, and marketing knowledge as well. Now, the problem is, universities also have to turn a dollar like the rest of us, so they have to charge firms on a dollar-for-dollar basis for their services. We're suggesting that we've got some latent and dormant knowledge that could be brought out to TCFs, that universities would be delighted to work with TCF and other firms with but the issue of cost has to be addressed there. As I say, the federal government has released a policy in the last budget. They've established a council. I think they've given it an initial grant of $200,000 to establish its operations and strategic goals but essentially it's to see how universities can work closer with firms. We'd like to see some of that directed to TCFs.

Back on Austrade, the market intelligence that they provide, I think again some special attention for the TCF firms. The business excellence programs that Paul has provided you with, we're saying that some special attention to TCF in addition to the general manufacturing area is something that we would like to see. TCF links with fashion and there's nothing more exciting for young people than the fashion industry and there are exciting careers in TCF and other areas of manufacturing as those areas develop their niche products, and some attention needs to be devoted to increasing the understanding of what careers are available in manufacturing and TCF. We're conducting a professional development day for careers teachers next week sponsored by the Victorian government. We'll have about 35 careers teachers there, translated on 1000 students per school. That gives us reach to 35,000 students. We'll have leaders from industry talking about what's happening in manufacturing. We'll have careers, young achievers from manufacturing talking about their role in manufacture and how they got there. We'll have industry tours in the afternoon to show those careers teachers the possibilities. Again, getting knowledge out about what's available, getting more brain power. I think that's the best protection we can give TCF, getting more brain power there. We're simply saying, "Let's give them a chance to use that brain power properly with a pause in the tariffs."

I think that's probably it other than a final comment from me at least on the equity and social responsibility. I don't think anybody would argue that TCF industry, Australian manufacturing, and a good sector of our economy has been built on the backs of the post-war migration population. My parents were part of that. I'm of Italian descent. Whilst they didn't work in TCF, I know the industries they worked in. I know the TCF industries that they did work in. I'm sure the stats have been trotted out to you about TCF workers who are displaced. 30 per cent get another job, 30 per cent never work again, 30 per cent do something in between. Now, the concluding remark is, I think we've got a responsibility to ensure that those people that are the result of the post-war migration energy that helped build Australia and TCF, that they're not just thrown out with the bath water simply because of our perceived needs to, sort of, reduce tariffs ahead of the rest of the world. So I thank you. That's my summation. I don't know where you want to take it from there or whether my colleagues have other comments.

DR ROBERTSON: Do you want to make a quick comment? We've only got a few minutes.

MR WEICKHARDT: Well, yes, I'm afraid - unfortunately we don't have very much time for any dialogue. I suppose my quick comment would be just to respond to the last point. Those stats you quoted on of the 30, 30, 30 are stats that Sally Weller produced that relate to a period in 1991 and 1993. I think more recent evidence from the shutdowns of Bradmill, for example, show a much, much more optimistic scenario of how people can be redeployed given sensible programs, and I think it's important that organisations focus on that because the future of this industry will inevitably mean fewer jobs for a period of time. Those companies that become internationally competitive will shed people as a result in parts of this sector and growth of others won't probably make up that difference, and other companies won't make it. So there will need to be some help for people, as we've stressed in our report, to find new jobs and new careers, probably outside this industry, and I think for people to keep on quoting this "a third, a third, a third" statistic is unhelpful. It's a dated statistic and it doesn't show an understanding of the best practice that's been adopted in other areas.

DR ROBERTSON: I'd just say, you've said at the beginning that we're going to decide what happens to trade policy assistance - - -

MR BUTERA: We'll you'll be instrumental in deciding it.

DR ROBERTSON: We will put forward our recommendations. Governments for the last 30 years have been neglecting IAC, Industry Commission and Productivity Commission recommendations. So don't count on what we're saying is likely to be the outcome. I mean, the image I take away is - I mean, I could pick up a whole string of small points - but the image I take is that you obviously are working on transforming the industry. It's going to be costly in terms of society because clearly an efficient textile clothing or footwear industry is going to be less labour intensive than it has been in the past. I mean, that's just a fact of life. It will happen, as you said, whether they change the tariff or whether they don't, and the refreshing and optimistic point is that you're all making an effort to help that change and not trying to stop it. We are obviously looking at SIP again.

We've had a number of arguments made to us that I think are valid for us to reconsider and, well, you know what the ministers are saying about the tariff. It's not going to really matter what we say but the fact that you've got all these forces working and you're clearly mobilising a lot of money from both state and federal government in order to do that, that's all very positive. But I'm not going to suggest that you can be going to the future with a painless time because of the industry structure you have. All I can say is, good luck.

MR BUTERA: We'd just like some anaesthetics to help with the pain, Mr Commissioner.

DR ROBERTSON: Yes, well, we all have pain. Thanks very much.

MR BUTERA: Thank you.

DR ROBERTSON: Okay. If you could just announce yourself so that we can identify you on the tape. We have 45 minutes or so. So it's up to you how that's divided. You can do all the talking or you can engage us. It's up to you.

DR FLICKER: Thank you. My name is Yaron Flicker from Flicker's Australia. Firstly, I want to say thank you for having me here and for spending the time and attention in developing the draft position. Having read through, I won't say every word of it but certainly through most of it, there are some areas that I find that you've done a very good summary and conclusions in terms of the TCF industry, but in other areas I must express deep reservations with some ideological positions that are taken that demonstrate some rigidity and some, to be honest, hypocrisy and really the belittling and misrepresenting of some evidence or positions that don't go towards the case or the conclusions that you raise, and really quite a number of unsupported statements that really don't add any value and are more suitable to the ideology rather than the practice. I think I'll highlight some of these areas and certainly hope that you would address some of these areas.

I'm sure you've read - you've referred to one area of my submission and there are a couple of items that I do want to just highlight as I go through. I'm not the most organised in this area but I'll try to be as clear as I can. I do want to point out that this industry, the TCF industry worldwide is an attractive industry and if it wasn't an attractive industry the myriad of trade-distorting activities wouldn't occur. The fact that it occurs in every single country in the world clearly demonstrates that it is an attractive industry and is an industry that is supported in nearly every country in the world. Certainly any country that wants to grow and grow quickly, they all have TCF as part of their make-up. I might exclude perhaps the oil petroleum exporting countries, but other than that.

Really when we talk about international competitiveness we're really talking about competing with mainland China which is one country out of 200 and something plus countries in the world that has a large population and there's no doubt that they have a non-market economy, have a huge range of subsidy structures and they certainly do engage in predatory policies for reasons that are quite obvious. I'll just bring your attention to an article that was published out of the South China Morning Post. The headline says:

> Rebate aged 29 per cent surge in exports.

It starts off with:

> Mainland export surge 29 per cent last month helped by overseas demand and exporters' tax rebates.

And it goes on and on and on. We're not talking about world competitive, we're talking about competing with a large degree of export subsidies which are continuing. As you quite rightly point out, the cost structures in China in terms of labour are certainly more attractive than in India, Bangladesh, Pakistan and Vietnam, yet China seems to be able to dominate the export of TCF into Australia, and the reasons are quite clear. I mean, the Indian textile industry is certainly not backward, it certainly may not be as progressive as the Chinese but certainly not far behind.

Anecdotal discussions with textile machinery manufacturers demonstrate that Bangladesh is one of the fastest growing outside of China as sources for purchasing of textile machinery, and they're clearly looking at obviously the same market that China is, and of course may well have a preferential entry into Australia, not that that's necessarily a key target of them. I don't really know, but they certainly will become a force to be reckoned with and not just the small fish that the Prime Minister and the rest of the cabinet suggest. I think that's something that should be highlighted, that this concession given to those 53 countries is not just the minor concession, in fact it is quite a huge concession in terms of the net effective tariffs that will apply. I think that certainly will bring down the average tariff rates that are applied, well below the current rates that are there. I think that should be highlighted. That's certainly an argument to say, "Well, in that case we should really pause on the tariffs."

I guess some of the other areas I am pointing toward is I certainly agree that there should be a tariff pause and some contribution on imported goods to Australia to the Australian economy and likewise I believe there should be some positive assistances given to the TCF industries, but I believe they should be given because of good economic logic, not because of any necessarily emotive reasons. I don't really want to repeat what others have no doubt talked to you, about the social dislocation, that this will happen and the assistance that the positive assistance measures will have. I'll just leave that as unsaid. I'm sure they have said it and I can only concur that that will happen.

Similarly, I won't actually discuss, I don't think - unless I have a bit of time - a lot about the positive assistance measures. There are others that can actually do that a lot better than I can other than to say - and I do support a wide range - and I certainly may just add a couple of items to the list that the TFIA's submission has put through or will continue to put through. I also want to highlight that really a job is not equal to a job, yet a dollar is equal to a dollar, irrespective of where the dollar comes into the federal government. It looks the same, it behaves the same and it is spent in the same manner. Every source of income to the taxpayer to the government is a tax on a consumer; conversely it's a benefit received by the taxpayer. So I don't consider tariffs are a cost to the consumer and positive assistance - sorry, a cost to the consumer and tax is paid by Australians as revenue to the taxpayer. They are two of the same ilk and they both are taxes on the consumer and they both are revenues to the government. I think that artificial and arbitrary distinction is unhelpful and really unjust.

I have in my submission split up jobs into a number of areas into import sensitive and non-import sensitive and really the tariff reduction policy is really a job export policy. It is not a job-disappearing issue, such as a technological improvement, such as the automation of telephone exchanges, for example, was. It is simply those jobs will still exist, they will just not exist in Australia and all the first order and second order effects of those job activities will happen outside of Australia. I think that's a very clear point. It is not a disappearing job, it's an exporting of a job.

I've highlighted in my submission a number of other items - WorkCover - and as you know I've been a doctor for 20 years. WorkCover does certainly mask the hidden unemployed in all states of Australia. Also the percentage of Australians who are dependent, partly or primarily, on government transfers has been increasing steadily since I started working. Currently I last recall it was close enough to 40 per cent. When I started 20 years ago, the newspaper headline - 25 per cent of Australians were getting government transfers. I certainly think that is an area that should also be recognised and that we should be doing all we can to provide Australians of all levels - from the very capable to the less capable with an ability to find meaningful employment in Australia. As I said, there are others - talked about the social issues. I'll just mention that.

I'll come to some of the policy options a little bit later, but perhaps I'll just go through some of the areas in the report that I found disturbing. Part of the terms of reference, just to reiterate, talk about improving the overall performance of the Australian economy. I assume every policy that we do talk about most include the benefit of that, and it's asking for a number of policy options and I think we haven't actually - or the Productivity Commission hasn't actually examined all the policy options that are available to it, as I alluded to earlier, in that you take a $10 garment that comes from China. It contributes $2.50 to the Australian government in terms of taxes as its contribution for access into the marketplace. You take the same garment that would be in Australia or the equivalent $10 garment in Australia and it contributes over $44 into the taxpayer's pocket. Those figures actually come out of my own information from my own mill and even out of your report. I'll come to where you have alluded to that but haven't actually made that quite clear.

I'm just going through the overview at the moment. Again I repeat that the reduction in tariffs would reduce the protection to consumers. As I said, to me - I'll leave that. The current import penetration of garments in China does not require a reduction in tariffs for it to continue. It will continue for reasons due to rebates from mainland China and I personally don't think it needs any assistance from the Australian consumer to reduce the tariffs. The reduction in tariffs will clearly require - will not affect the government need for funding, and that funding can only come from one place - other Australian taxpayers. It's only an issue of differential taxation as we have across a number of sectors of the economy. We have differential taxation in the excise of petroleum, in stamp duty. We have differential taxation in terms of diesel fuel rebate and in my opinion the tariff TCF is just another example of differential taxation and it's only a matter of how the mix is made for revenue for the government.

I think a reduction in the TCF will certainly increase the structural current account deficit because the demand for clothing will continue to be there. Whether it's more or less or flat, it will continue, and it will certainly continue the effects that we will need to structurally increase the current account deficit and increase the risk of increased interest rates higher than they otherwise would be, and a lower exchange rate other than it would be. Of course, I personally believe that an increased current account deficit increases the risk of an economic meltdown. I know that may be contentious but a neutral current account is certainly less risky than a huge current account deficit that we're continuing to run and I think it would be irresponsible to promote policies that provide effectively no or little net benefit to the Australian economy. It will cause a structural increase in the risk of a worsening current account. I certainly would appreciate your comments in addressing those issues of why we take the risk of that for really effectively no net benefit.

You've commented that export growth is still encouraged. I think the figures show that export growth is fact and probably trending downwards and we know the reasons for that: the lack of the import credit scheme which I would have believed would have been really actually ideal down the policy targets that you're aiming to do. I appreciate the comments about WTO Red or WTO Yellow. I personally don't agree that a bilateral agreement has any of those issues and I don't stand out to be an expert in that area. I certainly think that some more positive comments from the Productivity Commission on the benefits that it had to the Australian consumer and also the effect of causing net lower effective tariffs certainly should be highlighted in your submission rather than just a passing comment, because in fact it is effectively causing a lower net effective tariff rate. Why that's not said quite openly, I just don't understand.

I'd like to make some comments that you've written on the overseas assemblies provisions, perhaps make a comment a little bit later. But in principle I think it's an area that should be strongly promoted; after all it is not competing with the local manufacturers - and you've said that yourself. On the previous page you talk about competing with China. I just think that is contradictory and you contradicted yourselves because it suited the argument on both pages. The bottom line is it competes with the goods manufactured in low cost countries and it should be promoted as it does bring a lower cost of goods to the Australian consumer at a benefit that it has got Australian content, and I think to make that program more attractive by removing all duties and taxes on the export of those goods to be sold elsewhere should be a policy that should be strongly promoted. In fact, it meets with a lower tariff wall. I don't believe we should have higher tariffs on goods that are processed in Australia necessarily than we should have for finished goods that are coming in ready for sale from overseas. I just think that's unfair and unreasonable.

I do note that we talk about in your overview, the cost of tariffs is $1 billion and a reduction of that by a third or 25 per cent is $750 million is a saving of tax to the consumer of 250 million. But all the economic modelling show that to happen so that area is clearly lost in the increased taxes and charges and other expenses in the economy. You've noted yourself that the costs of adjustments are not fully accounted for by the model which therefore really shows that that furphy of a quarter of a billion dollars of tariff reduction as a cost to the consumer isn't there because the consumer will pay for that in some other format. He just doesn't pay for it necessarily in his 75 cents a week in clothing but he'll certainly pay for it in other rises in taxes and charges. As a loss of government revenue in one area is a cost to the taxpayer which must be paid by other Australian taxpayers.

I also note some of the comments made about regional Victoria and what you've said. I bring attention to a newspaper article dated 26 April 2003 from the Melbourne Age. It shows between 1990 and 2003 there has been nearly 19,000 loss of net full-time rural Victorian jobs. People will lose their jobs in rural Victoria, will stay unemployed. It may not be the same people but somebody else will be unemployed. Now, I don't hold this figure to be just due to TCF but that certainly would be contributory and certainly would not assist in terms of our objectives of having a prosperous metropolitan and rural Australia. I think that certainly should be taken into strong account and all assistance should be provided for, rather than destroying rural Victoria and perhaps less so other states.

I refer also to positive assistance, not just because we're asking for special treatment but because it makes economic sense. As I alluded to earlier, it makes no economic sense to tax Chinese-made goods at 25 per cent or 17 and a half per cent and to tax Australian-made goods at 40 per cent. I mean, that's just crazy. When they talk about taxes they include all taxes in terms of all sorts of revenue, whether it's stamp duty, whether it's income tax or whether it's pay as you go or pay as you earn tax - all sorts of taxes. At the end of the day it's a dollar that the consumer must pay for on the goods that he buys and that figure is at least 40 per cent for Australian-made goods.

You have made some comments about downstream industries and furniture manufacturing in terms of textile imports. I guess I'm really concentrating on clothing imports because they are final-end products, they're not intermediary products. With intermediary products one could certainly argue there is economic activity involved in them but the textile imports are certainly decreasing, whereas the clothing imports are growing quickly and those are final products which have little economic activity other than go straight from warehouse to shelf to domestic home. That really has very little economic activity to commend it, whereas at least textiles and yarns certainly do have some economic activity. Of course you do get some first and second-order effects in that area.

The TCF area, as I said - page 12 of the overview - it really talks about - the TCF sector does provide benefits to the other part of the economy. It is a labour-intensive area and therefore a high proportion of its turnover does go into government revenue which would otherwise have to be paid elsewhere. Comments about basing assistance policy on the subjective notions of fairness would not be sensible or appropriate. Well, I don't agree with that. I think fairness is certainly significant and important. I don't suggest that the opposite of what you're suggesting by unfairness is a satisfactory policy option. I certainly expect assistance policy fairness, I believe in equity, I also believe in good economic sense, and the good economic sense is that reducing the costs on the domestic producer has all the positive effects that one would expect from a listing of costs. I think I've got that in my submission on page 3 in terms of the model of what does happen, the benefit multiplied by reducing costs on domestic producers.

I think the Australian government should really act in what's in Australians' best interest and fairness and equity are certainly some of it. I also note that you indicate that there is very little allocated efficiency from the reduction of tariffs. Again, you fail to say why continue down this avenue or why it's a recommended situation if it really does have little efficiency gain and as I highlighted previously, the costs and risks of a structural increased current account deficit has just been - unless I've missed it - totally ignored.

You have also alluded to other areas that management would be better attuned to spend time to look at all the normal activities of management such as reducing costs, improving efficiency, developing new products and processes. Well, I would say that the change in the tariff would not make no difference to that; that's normal good business practice. It goes on any way and there is the greater import penetration of imported goods. I'd say that reducing the tariffs would only accelerate the difficulties without any benefit and I just think that's a glib and really condescending remark to make to people running textile businesses and I'm really personally quite hurt and quite disappointed and I really find that unsatisfactory to suggest that we need tariff reduction to do such activities or that would assist it when that really is the norm. I also note your comments about payroll tax but really the quote that:

> The deficiency of replacement revenue-raising instruments and the consequences of reducing government expenditure would be an important consideration in assessing the community-wide outcome.

I don't believe you should shy away from talking about costs on the domestic industry. We're talking about a positive assistance measure and a positive assistance measure that will be directed in addition to reducing the additional costs paid by the Australian consumer due to the fact that TCF is taxed higher on domestic production than it is on imports is certainly one area and payroll tax, amongst other areas, certainly should be on the table for discussion. The fact that it occurs across the economy and is widespread has no relevance in my opinion when we're talking about a program to put a positive assistance measure in; that is a positive assistance measure or I'd call it a negative taxation measure and I think that certainly should be highlighted and I think you should not shy away from exploring that option.

In fact, that brings me to the policy option that should be explored. The policy option of reducing the taxation and microeconomic costs on domestic Australian producers has not been explored and the terms of reference clearly ask for policy options. I appreciate that's not an attractive or popular newspaper option but I still think that it should be explored, investigated, costed and compared to the current policy options of tariff reduction and positive assistance. I suggest that that should be done rather than have an ideological point of view that doesn't event consider that.

MR WEICKHARDT: Sorry, Yaron, can you just explain what you mean by that. Are you saying a policy option of reducing all taxes?

DR FLICKER: I'm saying the positive assistance measures that would rebate the taxes paid. For example, if you're reducing the taxes on an imported product, likewise we should have the same policy option to reduce the taxes on the cost of a domestic product which may mean, for example, that if a firm - let's, for argument's sake, talk about a vertical firm such as DPK, it's calculated that 40 per cent of their total sales revenue becomes taxes whether it's stamp duty, payroll tax, council rates, group tax, all the rest. A positive assistance would be, "Well, if you're going to reduce the cost of government revenue for imports, the alternative is we could reduce it in parallel or in sync for domestics," and so those costs would rebated for example or some proportion of those costs would be rebated which would end up with cheaper clothing to the Australian consumer as an equally valid policy option to reducing tariffs to get cheaper clothing to the Australian consumer and that's an area that just haven't been looked at and I don't think that's satisfactory.

MR WEICKHARDT: In your mind would this rebate apply to every manufacturer of every product in Australia or just the TCF industry?

DR FLICKER: I'm only talking about the TCF because we're talking about the TCF policy at the moment, the review and how one couches that. But I think it should be explored and should be commented on because the reduction of government revenue on imported goods is an ideological position, but to ignore the cost of the contribution of domestic production to the government for government revenue I think is just inappropriate and unfair and I don't think in terms of reviewing a cost benefit it may be politically impossible to achieve, but I think it's certainly intellectually and ideologically sound to actually explore it and demonstrate the benefits or lack of benefits.

I don't think putting a head in the sand and saying that this is not a policy option is a satisfactory way of doing it. It doesn't give a true picture of what the real options are and I think what has been asked in terms of reference to discuss the options, not really just to repeat the answers that is wanted to hear, which is tariff reduction and I think that's a big hole in this report. I appreciate it won't endear you to dry economists at the Financial Review, but I certainly believe it will certainly let you look at the document and believe that you've, you know, certainly intellectually and both morally explored all the options that are possible for the benefit of the Australian consumer and taxpayer, who is the same person and I'd urge you to do that. I refer you to page 18 of your own draft paper where it really highlights what I've said:

> With labour costs accounting for 40 per cent of textile production costs and 60 per cent of clothing production costs, that equates to roughly about 40 per cent of the cost of clothing goes in government revenues -

and those are the figures that you've put down, they're not that I've put down and I think you should really highlight that the government is getting an enormous revenue from TCF industries which will get a double-whammy when tariffs are reduced and also domestic manufacturing is also subsequently reduced.

MR WEICKHARDT: Can you just take me through that calculation?

DR FLICKER: Well, if 40 per cent of textile production cost is due to labour, even on group tax figures alone you're talking about 10 or 15 per cent of the sales figure of - in fact, in my mill it's over 15 per cent - of income of sales goes to the government and I'm excluding GST actually, because that comes back on the other side. It's the non-GST, it's - in terms of group tax, insurance, stamp duties, the local council rates - and I haven't even included a third of all revenue that goes to City West Water going into state government coffers as well. So I mean that's over 15 per cent in my producing textiles and if you look at - in clothing when the figure is even higher in terms of labour you'll find those figures are increased even higher, so you're looking at 20 to 25 per cent, at least, if not 30 per cent of all costs end up in government revenue. If you put the two together you're looking at somewhere in the vicinity of 40 per cent of - and of course it depends on the type of government and the cost of, you know, a woollen is different to a cotton garment, for example, at an average figure of 40 per cent of the total sales of TCF would end up in government revenue and that's far in excess of the tariff that currently exists and of the proposed reductions to existing - I really think that should be further explored as you've already started to there but didn't extrapolate that and I'd urge you to do so.

You've also mentioned off-shore arrangements such as Mexico and the Caribbean and USA and Eastern Europe and the European Union and Fiji's - and the Australian bilateral previous arrangement - I shouldn't say Fiji, but Spartaca - and Fiji's bilateral arrangement with Australia. Certainly Australia being a minnow in the TCF industry in the world, less than 1 per cent, certainly when we cough and sneeze and splutter, to be honest, non-one actually listens and I think that a bilateral arrangement with Fiji in terms of an enhanced ICS - whilst scaring a few people in the island paradise of Canberra, certainly doesn't have any effect to our standing anywhere else in the world. Really, people will do to Australia what they want to do, whether it's the European Union and America, irrespective of what policies we take.

You've also highlighted costs associated with the failure to pursue micro-economic and taxation reform. I would again just urge you to continue in that model that I previously suggested. We've talked about areas of critical mass and of course when that disappears well then there's an implosion and I think it's been highlighted by other submissions and I just want to bring your attention to that, that it is a real issue. Dumping, of course, we have no real anti-dumping in Australia, in fact, we are a source of dumping and I must get an email at least every other day offering to dump goods into Australia.

Micro-economic reform, I've already mentioned and I'd urge you to address that in this submission. I take exception to the comments that you've made on page 52, such as, "Regional dependence has reduced substantially." I'd say that the fact that that's not true, as part of the Age article that I've highlighted.

DR ROBERTSON: If you're going to make statements like that you should at least have some evidence to support it.

DR FLICKER: I do. I've brought in the article in The Age and I don't have - - -

DR ROBERTSON: Come on.

DR FLICKER: Well, I haven't investigated - I've got a business to run, I don't go and look at the statistics, but you haven't provided the evidence that regional dependency has reduced substantially.

DR ROBERTSON: I think you'll find there's plenty of evidence around in that report on that very subject. I mean, if you go around selecting from newspapers and making this some kind of official statement that rejects all the fundamentals of economics, right. I mean, frankly, you seem to have missed the point. We have a very limited terms of reference, right, we have to look at TCF. We can't talk about the current account deficit and the taxation policy of Australia. That's not even one textbook; that's umpteen textbooks.

DR FLICKER: Well, that's not - the terms of reference says "to the benefit of the Australian consumer", that's part of the terms of reference and you choose not to address that and that is an issue that will show the benefit to the Australian consumer and you choose not to discuss that.

DR ROBERTSON: Look, a lot of what you've said, frankly, is absolute gibberish, because if you want a lesson on fundamental economics I'm happy to give you one, but the sort of arguments you're using are just off the top of your head, right. Now, what do you do? You have an opportunity to do many things and you choose to do one thing, right, each of us does, we do what we're best at and we buy everything else. Comparative advantage. That's the first principle when you're looking at international trade. International trade is the same as each of us behaves in our everyday life.

DR FLICKER: Well, it is except in areas where there is trade distorting activities which changes the comparative advantage and this has got huge trade distortions around the world in TCF, therefore, the comparative advantage argument doesn't hold the same amount of water - - -

DR ROBERTSON: Yes, it does.

DR FLICKER: - - - as it would in areas without trade distorting activities, it doesn't.

DR ROBERTSON: It does.

DR FLICKER: Well, we'll agree to differ.

DR ROBERTSON: We can't change other people's policies; all we can do is change our own.

DR FLICKER: That's all I'm asking us to do, is to change our policy. I'm not asking you to change other country's policies.

DR ROBERTSON: You're putting it in terms of the current account deficit and no allowance for capital flows. I mean, you have to realise that some of us have spent a lot of time studying and working in economics.

DR FLICKER: I understand that and a lot of us - - -

DR ROBERTSON: You obviously think what we're saying is nonsense.

DR FLICKER: Well, I think that you have a point of view that is biased and it is not even-handed and there are a number of economists that have alternative views to the views that you're putting through. It's not a monolithic view that is being put through and what I'm suggesting is not off the planet, it is certainly - - -

DR ROBERTSON: I think it's totally off the plant.

DR FLICKER: I don't think so.

DR ROBERTSON: Anyway, finish what you've got to say.

DR FLICKER: Well, I repeat also the $250 million cost to consumer but it doesn't show that as a benefit by that tariff reduction in terms of the modelling that is being produced and to me that's - I don't know, that money has either disappeared into thin air or it doesn't really exist as a cost because by removing it, it doesn't have a benefit. So I'd certainly like your explanation on how a removing of a cost without benefit at the other end is considered a cost. I'm certainly willing to hear about it. That's a question. You make a comment that it is a $250 million reduction in terms of cost to the consumer, but the end model doesn't show that that actually is a $250 million benefit to the consumer and I don't understand how you can make such a statement. I'd ask you to explain that to me, please.

DR ROBERTSON: All right. If you've got a current level of imports there's roughly a billion dollars is taken as import duty, right - - -

DR FLICKER: Yes, I accept that.

DR ROBERTSON: Okay. If you reduce tariffs then that's going to decline, isn't it?

DR FLICKER: Certainly.

DR ROBERTSON: Because the per unit charge is going to be lower.

DR FLICKER: Certainly.

DR ROBERTSON: And that will then be in the pockets of the consumer.

DR FLICKER: Which will then be taken out of their pockets in other government taxes; other government taxes.

DR ROBERTSON: But we aren't changing - we haven't changed anything else yet.

DR FLICKER: But the model shows that you don't get a $250 million benefit out of it.

DR ROBERTSON: You're jumping from a statement about revenue and the effect on the consumer to a macro-economic model, right, but the macro-economic model follows all that through.

DR FLICKER: Well then it's not a real - it's not a $250 million difference, because the money - - -

DR ROBERTSON: The initial duty is.

DR FLICKER: The initial is, but not the end result. The end result is that that money gets taken up by the government in other formats, or else it would show a net benefit.

DR ROBERTSON: It needn't be taken up by the government in other directions - - -

DR FLICKER: But that's what the model shows.

DR ROBERTSON: - - - only if they're going to keep exactly the same budget.

DR FLICKER: Well - - -

DR ROBERTSON: The assumptions behind those models have to be looked at very carefully.

DR FLICKER: Sure. But all of the models show that and the government's expenditure needs are irrelevant in relation to where its sources of revenue comes from. It's got expenditure needs irrespective of the sources of its revenue and that's just ridiculous to say, with respect, it's going to expenditure in areas of need irrespective of where that dollar comes from. Whether it comes from the tax on a hairdresser or tax on a garment, it's irrelevant. It's absolutely irrelevant.

DR ROBERTSON: But it's not irrelevant and - - -

DR FLICKER: Of course it is.

DR ROBERTSON: If you double the price for a haircut, people have fewer haircuts. So it's very important to the hairdresser.

DR FLICKER: But that's got nothing to do with the sources of government expenditure.

DR ROBERTSON: Yes, but the government can raise the money in all kinds of ways.

DR FLICKER: I'm suggesting it continues to do so in raising it in tariffs, and that's what I'm suggesting, for good economic reasons, because the reduction doesn't actually have much of a benefit at the end of the result.

MR WEICKHARDT: Okay. But can I just say, without wishing to prolong this particular debate, I think the comment that we've made that there is a cost to the consumer of the tariff in buying clothing is absolutely undeniable. There is cost to the consumer. The fact that you then sort of go to the end point of an economic model and say, you know, sort of that doesn't appear in terms of some other quotient is comparing apples with oranges. I mean, these are two entirely different factors. The cost to the consumer of buying an item of clothing or apparel is inflated by the tariff.

DR FLICKER: I don't disagree with that, but I also - - -

MR WEICKHARDT: Okay, that's the only point we made in the report.

DR FLICKER: Well, the point I'm taking, the other end point, is the benefit to the consumer in his net benefit in total is negligible, and that's what I'm saying. He may be able to buy a cheaper T-shirt, but he might have to pay a more expensive haircut, for argument's sake. So why do that, why recommend that?

MR WEICKHARDT: We didn't assert anything about that. We simply raised in the report a truthful remark that the tariff inflates the cost of clothing.

DR FLICKER: All right. Well, I think the other part is you should also extend that what the natural corollary is, is that some other cost will have to rise in the economy to compensate for the loss of revenue and I think - - -

MR WEICKHARDT: I think you'll find that's in the report too.

DR FLICKER: It is, because you show - the model shows that there's effectively no - or negligible net benefit, as you've commented yourself. So therefore the cost - the government must raise the revenue by taxing something else.

DR ROBERTSON: But there's a complete redistribution of income as a result of that. I mean, some people benefit, some people may not benefit.

DR FLICKER: I agree with your 100 per cent, there is a redistribution, but if the net benefit of marginal or negligible why go ahead and do it.

DR ROBERTSON: Because maybe you want to do something for people who buy cheap imported clothing.

DR FLICKER: I appreciate that's your point of view - - -

DR ROBERTSON: That's not my point of view, that is a possibility, one option.

DR FLICKER: It is a possibility, but what I'm suggesting is we can organise cheaper clothing for the consumer by other methods than necessarily tariff reduction and that hasn't been addressed.

DR ROBERTSON: But we aren't asked to investigate that. We're not - - -

DR FLICKER: Well, I think you are. In the terms of reference it says, "All policy options," but we'll go round in circles.

MR WEICKHARDT: I have listened to your point, we'll note it down and we'll take it into consideration.

DR FLICKER: I appreciate that. There are other areas - I really don't agree that whatever decision we make in terms of tariffs has really any impact on what overseas parties do, which you've alluded to a number of times in the document. I really think each of the countries will act from their own self-interest as we would expect our government to act, both on equity and self-interest and I really think - - -

MR WEICKHARDT: I don't think difference of view.

DR FLICKER: No, I don't think so, but I don't really think that we should be concerned that other countries will act in a retaliatory manner if we don't reduce our tariffs. I think that's really all I'll say on that one. I also don't agree necessarily, in fact I don't agree that the community as a whole will benefit from such tariff reductions. If that's the case the model would clearly show that there would be a benefit and it doesn't and I don't really follow that you could actually say that based on the model or the group of models that have been taken with a number of assumptions. It will cause a redistribution of income, but I don't necessarily agree that the community as a whole will necessarily benefit from the reduction of what I'd consider a marginal rate of tariffs in view of the cost of the taxation on domestic production is far in excess of the imports. Again, I'd reiterate that I think that in terms of reduced cost of clothing an enhanced EOAP and a reintroduction of an ICS program would achieve that aim, causing all the benefits to, certainly textile producers and I suspect wouldn't affect the clothing manufacturers as much because it's replacing fully-imported end products and I certainly would urge you to - and that would also reduce the average net tariffs of clothing in Australia if that's what the aim is and I would urge you to really push that as an enhanced - and I'm certain the

TFIA will certainly do that as an enhanced program.

MR WEICKHARDT: So are you suggesting a reintroduction of the ICS - - -

DR FLICKER: Well, I certainly would like it. I personally don't believe it's got WTO have read - as I say, I'm not an expert on it. I certainly believe it would be beneficial to the TCF industries of both Australia and Fiji, as well as the social effects, it could have beneficial social effects it would have in Fiji. I also don't believe that it would cause World War III in terms of trade with any other country in the world. That's just a personal opinion; I've got no evidence to prove one way or the other.

MR WEICKHARDT: Did you follow the Howe Leather case?

DR FLICKER: I followed the Howe Leather case, but that was a different case. That was a leather that ended up in the United States, into cars in the United States. I'm talking about clothing made in Fiji that comes back to the Australian mainland and I think it's quite different.

MR WEICKHARDT: All right, I hear your view. I think you've said you don't think you're an expert in the area, we'll have to rely on experts in the area.

DR FLICKER: But I don't think the Howe Leather case is a fair example, because they weren't worried about what happens in Australia, they were worried about what happened in the United States, via Mexico. And I just go back to my initial submission and just refer back to the part (c) and I just would urge you to look at that and again examine that as a particular policy option.

MR WEICKHARDT: That was part (c).

DR FLICKER: And the "everybody wins" scenario.

MR WEICKHARDT: That was your appendix (c).

DR FLICKER: Appendix (c), yes, but in conclusion I would really just, again, urge you to examine other policy options than what you've currently chosen to do. It may be controversial, but it certainly would be innovative and certainly legitimate.

DR ROBERTSON: All right, thank you, I think the time is up.

DR FLICKER: Thank you.

DR ROBERTSON: Basically we try and keep these hearings pretty informal, and have exchanges of views as necessary. What we'd like is if perhaps you two summarise your two submissions, give us your view on what we've written in the position paper, to begin with, and then we'll take it from there.

MR ALESSI: Well, first of all - - -

DR ROBERTSON: Sorry, one thing. Would you announce who you are, not because we don't know, but for the tape, when they identify the speaker for translation purposes.

MR ALESSI: Okay. Councillor Sam Alessi, City of Whittlesea. I'd just like to acknowledge the attendance here today of Councillor Victor Grech, and Mr David Sutton from Bilby Shoes, and our economic development director John Francis. Thank you for giving us the opportunity to appear today. The City of Whittlesea is a significant metropolitan municipality on the fringe of Melbourne's north, approximately 500 square kilometres in area. The current population of the municipality is 120,000, and is expected to increase by around 110,000 in the next 15 years, making it one of the fastest-growing municipalities in Victoria. We're part of the five growth areas.

The City of Whittlesea is extremely concerned that any further reduction in tariffs post-2005 will significantly reduce the number of employment opportunities for existing residents and the vast numbers of new residents estimated to be moving into the city in the next 10-20 years. The TCF and L contributes significantly to the local economy within the City of Whittlesea. TCF and L businesses are a key component of Whittlesea's manufacturing base, employing almost 1200 local residents, and 10,000 people regionally. TCF and L industry contribution to the gross regional product of the local economy is 8.8 per cent, one of the highest contributions in the state. It is estimated that over 3900 people living in the City of Whittlesea and upwards of 5515 working in the City of Whittlesea have jobs that are dependent on the TCF and L industry.

In the past seven years, the sector has been under immense pressure from the threat of cheaper imported goods, cheaper offshore labour costs and the change in technology. Since 1998, over 300 jobs in the City of Whittlesea and almost 4500 jobs in Melbourne's north have been lost from the TCF and L sector. It is forecast that 28 per cent of TCF and L workers working within the City of Whittlesea alone will be lost between 2001 and 2020 if the commission's preferred option of tariff reduction/removal is adopted by the federal government later this year. This is according to the National Institute for Economic and Industry Research Forecasts. The economic impact of these job losses means that approximately $10 million in lost wage injection may not be available in the local or regional community.

I'll just go through and give a brief demographic profile of our municipality. Within a region perspective, the City of Whittlesea is impacted significantly by the change of employment in the TCF and L sector. The current unemployment rates of the City of Whittlesea is 7.4 per cent. This is much higher than the north-eastern region rate of 6.25 per cent and the national rate of 6.6 per cent. The City of Whittlesea also has a higher proportion of persons aged 15 years and over who left school at year 9 or year 8 and below, than the Melbourne Statistical District or Victoria. It also has a lower proportion of persons who stayed at school until year 12 or equivalent, 33.6 per cent, compared with Melbourne, 43 per cent, and Victoria, 38.9 per cent.

In the TCF and L industry, the proportion of workers from non-English speaking backgrounds is 41 per cent, compared to 23 per cent for all manufacturing and 14 per cent for all industry sectors. Since many of the TCF workers who come from non-English speaking backgrounds are women and on average have low skills and qualification levels, it is very difficult for these people to find permanent employment or to be retrained sufficiently to work at a similar level in another industry sector, and I can go back to my own personal experience when my father worked in the TCF industry in the 60s and 70s, and as a migrant he was the first one always laid off and he just had to wait until the job came up again. He couldn't get another job anywhere else. So I can speak from personal experience there as far as migrants are concerned.

In fact, Weber and Weller in their recent study into employment effects of tariff reductions in the TCF and L sector - it was found that over 30 per cent of retrenched TCF and L workers never work again, with another 30 per cent only finding lesser employment, part-time jobs et cetera, and of course the rest have been able to be retrained or finding full-time jobs elsewhere. Considering the City of Whittlesea's current high unemployment rate of 7.4 per cent and the high proportion of non-skilled and semi-skilled residents, further reductions in employment opportunities in this sector will provide significant hardship to a number of our residents. It will also place further pressure on the already stretched social securities system.

As the municipality is to grow in population by approximately 110,000 new residents in the next 15 years, it is imperative that the employment opportunities be increased to meet local needs. We at the City of Whittlesea have a housing employment mix that we'd like to keep. We've set ourselves a target that we would like to provide one new job for every new house that's built as a growth municipality, because we like people to be able to work in the area where they live. It saves in transport issues, et cetera, or going into the inner city. We have been able to meet that target but if we were to lose jobs because of the tariff cuts, it just cuts into that target that we've set that we're currently meeting. In a meeting recently coordinated by the City of Whittlesea, local businesses, industry bodies and members of parliament all voiced their strong view that the Productivity Commission's report fails to properly account for these types of social and community effects of reducing or removing tariff protection.

What I'd like to do now, I'd like to move on to Mr David Sutton, who is the owner of Bilby Shoes, one of our local manufacturers, and David will talk about the tariff perspective as in relation to his local business, his own business, about the demise of the footwear manufacturing sector in recent years, some of the social issues and look towards the future of the industry. So I move on to David Sutton.

MR SUTTON: Thank you, Sam. My name is David Sutton. I'm the owner of Bilby Shoes. The first question I'd like to ask you guys, do you know how a shoe is made? Have you ever seen a shoe made? You have? Terrific. Otherwise I was going to invite you around after to have a look, so we know what we're talking about. Our company was established in 1993 - just a quick history. We were an outdoor resource centre. Our job was to handle the overload that other companies had. We originally would go and collect the components from people, machine them together. Then we did value adding. We bought an 18-tonne clicking press, started cutting out those components as well as machining them together. Then we bought a robot. We were probably the first and only ones to buy a robot in the outdoor resource sector, again offering more to our customers if we could. We then bought making equipment - again, value adding.

At the end of it, we were actually producing about 200 pair a day fully made shoes, ready, bar-coded and labelled to go to Myers on behalf of Koala Shoes. We also produced about 7800 pair of uppers per week. At that time, we were one of the biggest outdoor resource centres in Australia. We, from a standing start - my wife worked probably about 10 hours a week when we first started - within a four-year period, we employed almost 50 people, turning out, as I said, almost 8000 pair of uppers in a week. That's a pretty good run. Within four years, we were up to that.

About 65-70 per cent of our business was based on one customer, which is always a bit dangerous. That was Koala Shoes. In 1997, the director of that company called me and said, "Come in, Dave. I want to make you a coffee." I said, "Yeah, sure." He bought me a coffee and he said, "That's the last coffee you'll get out of me. We're closing up shop. We're selling." I said, "Great." He gave me 21 days' notice. I had a fairly substantial factory plant employment and most of it was underpinned by his business. I lost him and probably it was going to happen about a month or two after that we were going to lose our next biggest contract, which was Clarks Children's. We were manufacturing uppers for them. It was a short-term proposition; we were told that right from the beginning. We were helping them during their transition between their South Australian base to moving offshore to Fiji.

So that was all winding up and there were companies going left, right and centre. We were talking just before about buying equipment, go round to auctions - I was going to an auction every other month, another company going underneath, you know. It was a great time to be in a position to purchase but, yeah - I look at the situation of jobs when I left school. I marry up to Sam's figures very well. I left school at age 15, had form 4 or year 10. On leaving, I had the opportunity of three different jobs to take. One of them was a three-year apprenticeship at Julius Marlow. Now, at that time, Julius Marlow were handing out 20 apprenticeships every year, without fail, and some years more. That's a three-year guaranteed contract of work. You were being taught a trade and it was a very vibrant business back in the late 70s, when I started. My father did a bit of checking around on the company and said, "Look, you know, great past, great future. They're exporting to Saudi Arabia. Great industry. Hop into it."

My wife is another one that married up with his statistics very well. My wife came out from Greece when she was a young girl, got off the boat, literally found accommodation and a job within four days; could hardly speak English at all, and lied about her age to get a job, but she asked for a job and they said, "Sure, start tomorrow." It was like that. At Koala Shoes where she worked, I was the manager at one stage of the machine room. We had permanent ads running in the Herald Sun for young people to start and learn. It was just - work was there to be had. I used to go round every afternoon at 2 o'clock and try and get 20-40 women to work back until 7 or 8 o'clock every night. We used to Fridays try and get together a crew of 50 or 60 for Saturday morning's production. Our sole manufacturing plant used to work seven days a week, 24 hours a day. At one stage we even had a night shift running in the machine room.

Employment was just everywhere, you know? I mean, Koala must have paid for so many educations and so many houses in that area. There were about 400-odd people working there. The company manufactured 8000 pair a day during winter and 12 and a half thousand pair a day during the summer season. It was just like, you know, Koala could do no wrong. It was just incredible. But in 97, after everyone started folding, I thought, "Well, here's an opportunity," and I'm never to miss an opportunity. We grabbed it and we started our own brand. Now, when we started our own brand, we did a lot of research, found out what the other prices were of our competitors. When we started, we were 4 per cent lower in our wholesale cost to our competitors. 4 per cent. It's important to remember that and I'll come back to that later, but 4 per cent was the difference between us and any of the brand names that we were competing against.

Now, our biggest concern is my supply chain. I don't worry me - Bilby Shoes is looking the best it's ever looked. We're looking strong, we're looking stable, but my supply chain scares me. We had an incident a couple of years ago where the company that made our soles - rang them up to order some more soles and they said, "Sorry, Dave. We're closed." Another company had bought up the remaining equipment, so then I went over to that company and said, "Look, I need soles." He said, "Yes, not a problem." I said, "Great, and you'll meet Reg's price?" He said, "No, it will be 20 per cent more." 20 per cent more, I thought, "No, not on your nelly."

So we went and bought our own injection moulding plant - again, value adding, reducing our dramas with supply chain and trying to shore up our business, give us more work rather than giving it to someone else, and we've been constantly adding to that. In that vein, we've been adding lots of things to what we do in niche markets. For example, you may have seen in The Sun on Monday, a little girl at our place. That's a product that we've developed for sufferers of epidermolysis bullosa. It's a skin disorder and just something rubbing, a bit of friction like a collar of a T-shirt, blister, sores, possibly ulcer and then a skin graft. This particular little girl is three and she has had four skin grafts already. She has never had a shoe before - has no toenails. We make a shoe with a solid toe cap inside. It's well padded. It's something we've developed off our own bat. We have about 12 clients now that rely upon us for that. That's a niche market.

Another niche market - that shoe weighs about 30 per cent of what your average shoe weighs. This particular one has been made for a lady that had a stroke and she has lost a lot of muscle strength in her legs. We also make shoes very similar like this for diabetes sufferers and other sorts of diseases. We've sort of also built into it shoes like this. A lot of children that have AFOs, ankle and foot orthosis - it's a plastic splint, if you will. They come out of hospital virtually from the Royal Children's. They have an operation, put into a plaster cast. Plaster cast is removed, they're then put into a plastic splint to hold the foot wherever it may need - whether it was for mainly tendon realignments, sometimes bone. They can't flex their foot. The splint comes right forward to the metatarsal, which is the ball of your foot. So we developed that product. They can slip straight into that product.

Recently, we developed this. This is small. This is not big enough for Ian Thorpe. This is a size 15. We'll be going up to a size 18, okay? Again, niche market. All right. This is only a prototype. It's a bit rough, so it's not really for display, but this is another niche market that we're going to try and hop into to try and cover ourselves. There was a gentleman doing it. He has just pulled the pin. Why? Too many problems getting raw materials. He has chucked the towel in. Now, to me, that's a wuss. That's not an excuse. All this is great. It doesn't matter as much niche marketing as I do, if I don't have this supply chain happening, I've got nothing. When I go to buy insole material, I talk to my suppliers and I say, "Look, show me something that Diana Ferrari and Candy are using, because you're always going to have it on the shelf if they're buying it." That means, you know, what I use is probably 1 per cent of what they would have used. So therefore I can draw on it. Well, they're both gone. We're in a situation where our supply chain is shrinking;

shrinking too fast.

With all this medical grade things, we have EPIC, which is a Down's syndrome awareness group that we do a lot of work with, and we do a lot of - we get a lot of redirection of clients from the Royal Children's Hospital. I've got another girl coming again tomorrow. If you like, I've got a letter from her mum, if you wish to view it. She suffers from hemiplegia - I hope I've pronounced that correct. It's an organ and bone disorder. Virtually this child's heart is growing too big for her chest, kidney not big enough for her body, and in her limbs she has got four centimetres different from one leg to the other, two width fittings different and a size and a half the difference. Now, when her mother first came to me she was almost in tears because she couldn't find, if you would, normal-looking shoes for her daughter. We've been able to help her out there, very much.

We have quite a lot of young ladies that come to us that need something to be cool, if you will. We've got one girl that comes to me - she's one of twins. She's 14, and her sister is very popular, very good-looking girl. So is Beth, but Beth is a cerebral palsy sufferer and she is in the extreme. She's in a wheelchair, she's strapped in, bolted in, if you will. But we make groovy, cool-looking shoes for her, and she's very happy about it. Failing that, she's been going round in socks and moccasins, which is not a good look, as far as she's concerned. She wants to be more like her sister. When you consider one in 4000 births has a deformity of some kind - now, not all of them are foot-related, but also you have these things like strokes and other surgical procedures that happen due to accidents and all that that we fill the niche on.

But my main concern, as I keep harking back to, is our supply chain. If I haven't got a supply chain, I can't even go and buy a scrap of leather to make an insole. It's as simple as that. I mean, you look at all these guys that have got the shoe repair stores. They can't repair a shoe if they can't buy the heel width to replace a heel on a shoe. If the mainstream manufacturers aren't there, the suppliers aren't going to hold anything in stock. At the moment black patent leather, you can't get it. Unless you want to order 300 metres, it will take 12 weeks for the film to arrive from England, and provided that they're ready and waiting, it will take another four to five weeks to finish the product off; 18 weeks for delivery, because the mainstream guys aren't here using it. So our supply chain is really becoming a really big issue.

As for the SIP funding, none of it is within my reach; none of it is within my reach . I would suggest, if I may, that the SIP programming needs to be relooked at. I mean, most of your big players are on their way out pre-empting the tariff cuts that are about to happen and reorganising themselves, and most of your SIP program was aimed at looking after them.

DR ROBERTSON: It's not ours.

MR SUTTON: Okay. I beg your pardon. Most of the SIP program is aimed at helping out those bigger - I can't apply for it because I don't fill the criteria, yet I'm still part of this industry. I'm still part of the problem if you will. The main reason they tell us they're dropping these tariffs is to benefit the community. Excuse me a moment. Let me tell you now that I said earlier that our prices were 4 per cent less on a wholesale basis than some of those brand names. Their difference now, 15 to 20 per cent, right? I've had the same leather increases in price, I've had the same PVC increases in price as they have, but what's happened is when the Australian dollar goes down, their price goes up. When the Australian dollar goes up, their price stays exactly where it was. They just increase their margin.

When your tariff drops, they're not going to decrease their price. Their price is going to stay exactly where they are. What you're going to find is your brand names are now just going to increase their margin. That's all that's going to happen. It's not going to be any benefit to the community in cheaper shoes unless we end up with a flooding of the market of, well - excuse the language, but crap - stuff that's been made for someone else, it's ill-fitting, wrong sizing, it's just not supportive or anything. Where do they get rid of it? Australia is big enough to be a consumer of it, but not big enough to be considered a real customer. No tariffs, we'll dump it there. That's going to be the end result of what we're going to see. You're not going to see any benefits to the community through the better brands being reduced. They're just going to make bigger profit margins, and if I can't get my access to my raw materials through my chain of supply, I'm not even going to be able to make a single pair for these people.

My belief is, gentlemen, we need to revisit this whole program. The SIP program is well and truly out of my reach and many others, and I think we need to halt the tariffs where they are. At the end of the day there is a book which is the Podiatrist's Advice Directory. If you take out the three back pages, which are the guys that manufacture the medical grade footwear, you might as well throw out the rest of the book, because there's no-one left to make those shoes. If we can't find access to these raw materials, we're finished. My business doesn't worry me. We're looking really great, thank God, but what worries me is I'm going to pick up the phone to order my next shipment of leather, and they're going to say, "Sorry, Dave. Talk to China. Order a couple of hundred thousand metres at a time and they might deal with you." This is where our real problem is, our supply chain.

We need help to sort this out. I believe as far as the SIP program is concerned, we need help in the way of developing new products, retooling, and believe it or not I think we need help in marketing our product better. When you think of children's shoes, you certainly don't think of Bilby Shoes, but if you were to think of Australian-made children's shoes, you still wouldn't think of us because you probably don't know about us. I think the SIP program possibly needs to be aimed at marketing, helping us market our product better also. If we can market our product better, we can build our companies back up.

I said I employed 50 people once. I've still got that total infrastructure intact. All I've got to do is find the work and we can rebirth it. It's not a problem. We employ about six people on casual now, and that includes my wife and I. It's not real great, but I believe the infrastructure is still here, the supply chain is still here, there's still time to do something. If we let this go, the infrastructure will go and we won't have the opportunity to change and try and preserve what we've got now. We've got an opportunity right now to preserve the present for the future. If we don't take action to do something about it, we'll regret it for a long time to come. Thank you, gentlemen.

MR ALESSI: I'll just sum up, if it's okay . In summary the City of Whittlesea believes that TCF and L industry has a strong and viable future. However, this viability is based on the industry continuing its transition to become internationally competitive with a focus on flexible, innovative and sustainable companies producing value-added products. In assisting the TCF and L industry to achieve a vision of long-term certainty and international competitiveness, the City of Whittlesea believes it is imperative that policies and programs be adopted to (1) support labour market adjustment, (2) maintain a critical mass of manufacturing base, (3) improve export market access, (4) provide incentives for increased innovation and research and development, (5) develop a highly skilled and collaborative workforce, and (6) encourage interfirm collaboration.

These are all areas where the Commonwealth government should take the leadership. Any future unilateral reduction in tariffs should not be countenanced unless there is overall progress in each of the above. Thank you very much for giving us the opportunity to speak to you.

DR ROBERTSON: Okay. Thank you. I was looking at this job loss figure - you said you lost 300 jobs between - was it 98 and 2001?

MR ALESSI: Yes.

DR ROBERTSON: And yet you estimate now there'd be a loss of 28 per cent which is actually a much bigger percent than the 300 jobs which is about 20 per cent. Where do you get that figure from?

MR ALESSI: John, do you want to come here and - these figures have been developed by our economic development directorate, so I'll pass on to John who has worked out the figures.

MR FRANCIS: The figures are based on the data that we've received at particular times of research that had been done by economists that were employed by our regional development group, together with what the state government has provided to us which was a little bit later. The figures that we had initially which were from the NIIR employment estimates were that, yes, we estimated that in 1998 there were 1500-odd jobs, and in 2001 that had dropped by about 318 which is 21 per cent. The latest figures that we have were based on the work that the state government had done, and their figures were a little bit higher.

DR ROBERTSON: Now, unfortunately the state government hasn't been kind enough to give us those figures. We requested them and we're told that they will ultimately let us have them, but that means that we can't really comment on those, because we have no idea where they come from, but it does seem a huge reduction. After all, you're looking at - when you say "loss of jobs", what's the period? Are we talking about 2015 or 2005 or 2010? Where does 28 come from? That would mean that you would have had a 50 per cent reduction roughly over whatever the period is. Anyway it's very difficult for us to assess those figures when we don't have the data, and that's a bit of a problem for us. On top of that, the state government actually has not decided to grace us with their presence. So we can't ask them.

MR SUTTON: Well, if John has had access to those figures, can we get the figures for you?

MR WEICKHARDT: It's not so much the figures which we've seen cited in the paper many times, but it's the assumptions that lie behind the figures, and what they relate to. The problem is we held a modelling workshop in Canberra where we invited all economic modellers including the company that I think has done this work for the Victorian government. Unfortunately they didn't come along, and so we've really got no basis of, if you like, being able to compare those estimates with other estimates which suggest a lower reduction. It's just a frustration we've got. We don't know whether we're comparing apples with oranges or grapefruit or bananas.

DR ROBERTSON: We're not accusing you of trying to in any way pull the wool over our eyes, it's just that - - -

MR FRANCIS: The 20 per cent is based on - - -

DR ROBERTSON: Is the past.

MR FRANCIS: Yes, the past, and the 28 is based on the future. How they've actually come to those conclusions, none of us really know.

MR WEICKHARDT: Both of us are left a bit mystified knowing that - the point we made in the position paper is we're not shirking from the fact that some employment loss will occur. It's just really a question of how much.

MR ALESSI: And at the end of the day whether, you know, 20 per cent loss for us is a huge loss in our area and it affects our local economy and our residents, and it's the services that then have to be provided to assist these families, because for every job lost, it's not just one person that is affected, there's a multiplier effect in the whole family. As I said earlier, I recall when I used to come home from school and my dad was home and he'd been fired, and it wasn't just my dad, it was the whole family. So there is that multiplier effect. There's the effect on the local shop, the effect on the whole local community, the services that the council has to provide, the services the state government has to provide, local agencies et cetera, and they're all strained for every job that's lost.

DR ROBERTSON: We understand that. We're not disputing that it's unpleasant, but in fact if you look at that 20 per cent figure, 98 to 2001 I think I'm right in saying there were no tariff reductions, and in the period since then to 2003, the main pressure has not come from tariff reductions because there's a pause, and there will be until 2005. So the pressure is coming from within the marketplace, and in that period in fact the exchange rate was largely moving in favour - it was protecting the industry. So there must be pressures within the market that we here can't deal with because it's not a policy question. I think it's technology, it's change in marketing, it's concentration of retailing. There are all sorts of reasons in there that aren't specifically the tariff. If you think I'm preaching, it's basically that everyone is blaming the tariff on the tariff reductions when in fact, you know, there are many other reasons as well.

MR SUTTON: You have to bear in mind, when there's a tariff reduction, a company just doesn't automatically fall over. It's crippled, it's limping, and eventually - it takes a while until it runs out of capital, and then it falls over. So your tariff reduction may have stopped four years prior, and it took five years for that to catch up with that company and it to fall down. Just because a tariff changed today doesn't mean they all close shop. So some of those figures may very well be showing you a weakening company just getting to its knees, and finally dying could take five years.

DR ROBERTSON: Yes. Sure. Look, I agree with you, but I don't think it's just the tariff. I think it's all these other things. I mean, I admire what you're doing here. I'm not picking holes in you at all.

MR SUTTON: No, that's all right.

DR ROBERTSON: I think you've found a niche market on which I'm sure profitability isn't that high because of the people you're selling to, and we've heard this story about obtaining shoe parts from much bigger firms than yours.

MR SUTTON: Good.

MR WEICKHARDT: David, you're mostly importing these I understand.

MR SUTTON: No.

MR WEICKHARDT: No.

MR SUTTON: No, thank you.

MR WEICKHARDT: So they're mostly - - -

MR SUTTON: The granules for my PVC are manufactured in Campbellfield. My leather - I'd like to get it from Australia, I struggle to. I get it out of New Zealand. I do get some that is Australian. The insole board that we used is virtually - actually that's imported in three different components. It's assembled in Australia and we cut it into shape in Australia. Look, as to imported parts in our product, we keep it to a minimal on principle. Like the insole board - like I said to you, I could buy my insole board already cut out to shape. I could already buy my toe puffs - the raw material comes in. I could buy it already cut and skived and ready to go. I'd rather buy it in sheet form, which I do. I then cut it up and process it so that I can then use it.

I'm trying to add as much value to my product for my staff and myself as I possibly can. It may even work out cheaper to buy it already cut, skived and ready to go in, but I'm trying to provide as reliable, sustainable employment for my staff as much as myself. That's why I like the soles we manufacture. I could probably import them cheaper, but we get things where we get a customer that rings up and says, "David, I love your little Bilby sole. Can I get it in red?" Dave runs down to Foster Plastics and said, "Listen, mix me up some red granules. I want to make red soles tomorrow." In actual fact we just did a run of green and gold soles.

MR WEICKHARDT: I wonder why.

MR SUTTON: I wonder why, too. It's a good question, isn't it, but the point is by doing all those things in-house, it gives me a lot more flexibility. Now, at the moment we're mucking around with that as a prototype. I need a much bigger toe puff to make that shoe. So because I've got that toe puff material in its raw state, I can then make it into little shoes, middle-sized shoes and these monsters. So, you know, we are, not directly through others, importing some raw materials, but we are keeping that to the absolute minimum that we can.

I mean, I had one guy say to me, "You know, you can get those stickers from overseas for about half a cent, not even that." I'm happy getting them made local, thank you.

MR WEICKHARDT: And if you had access to SIP funding, what will you do differently?

MR SUTTON: What would I do? Lord, there's an opening for you. I actually almost got some funding off the federal government, but Peter Costello changed it at the ninth hour and we missed out. I actually put in a proposal that we needed help with marketing. You see, as I said to you, our biggest problem is, if you think of children's shoes, you're certainly not going to think of Bilby Shoes. Our prices are 15 to 20 per cent wholesale cheaper than your imported brands. Any brands you want to put up against me that's a brand name, I'm quite happy, quite happy; and quality, quite happy, not a problem. In actual fact we offer something that none of them can offer. We get phone calls from people to order stuff. We're usually dispatching in eight to 10 days.

You've got a lot of stores in regional Victoria if you will. We call them ma and pa stores. They're usually opened by a couple. A lot of them can't deal with the big brand companies because the brand company says, "You want that shoe? You have to buy a pack." A pack will be one three, a four, two fives, two sixes, two sevens, one eight and one nine. They've run out of sevens, that's all they want, but the big companies say you have to buy a pack. Bilby doesn't. Order 27s if you want. I don't care. You're going to pay your bill, I'll do it. So a lot of these little stores survive virtually because of us, these regional stores where there are none of the big department stores, where there are - you know, looking at employment in their regional area, that's where we come up with it.

DR ROBERTSON: We've come across this problem of importing materials of various kinds offshore, and the point you made about, you know, how much you would have to import in order to get orders met, are there no agents doing this?

MR SUTTON: Yes.

DR ROBERTSON: Is there anyone that's looking at this?

MR SUTTON: Yes. There's agents that will do it. They won't hold any stock for you. You've got to put it into perspective if you will. I buy up, say, black patent we were talking about, I'll order black patent to 30 metres a month, okay? I get 30 metres in for the month, I get an invoice for it, I pay it in 60 days. Now, if I had to buy, as you said, through an agent - I've already spoken to a gentleman - I've got to buy 3000 metres - - -

DR ROBERTSON: That's what I mean, if you could import - - -

MR SUTTON: - - - and I've got to pay for it in one hit. I don't have the capital to do that.

DR ROBERTSON: No, and that's what I'm on about. If this guy imports this mass, aren't there a whole bunch of people like you that would - - -

MR SUTTON: No.

DR ROBERTSON: No?

MR SUTTON: There's not. We are pretty much coming up to being one of the last children's manufacturers in Australia.

DR ROBERTSON: And no-one else uses that leather in Australia.

MR SUTTON: Very limited. I notice Mr Ken Watkins here - good afternoon, Ken - he uses some patent, but he uses a different type of patent and he's in a totally different market. You could brush your hair in his patent, mine you could see yourself, but that's about it. It's a different market. It's a different market, so we all have different requirements within those raw materials. We're putting them into fancy little shoes, Ken's putting them into flashy big boots; big difference.

DR ROBERTSON: Yes, we've seen some of those.

MR SUTTON: You've seen them. Yes, he looks good in them, doesn't he, but you're talking about buying in quantity, thank God at the moment Foster Plastic are still producing PVC granules. That's great. If they were to stop, I would have to look at buying from overseas. Now, when I want PVC from Fosters, I ring up Graham, I say, "Graham, I need a tonne. Can you have it here this arvo?" "Maybe tomorrow afternoon." "Fine." I've got it. If I was to buy from overseas, I'm going to have to buy more than a tonne because I've got to fill a container.

DR ROBERTSON: That's why I keep going back to the agent you see.

MR SUTTON: See, the agents don't - I mean, Tasman Tanning is an agent for a Tasmanian leather supplier in New Zealand, okay? They used to have a huge warehouse. They're looking at moving because the warehouse is empty. They will carry no stock any more; no stock. I can give you a good example of - if I was to say, "I'm going to order black patent. I'm going to give the agent an order for 30 metres a month every month on the first of the month in my door for the next two years, 12 months, whatever," okay - I can actually give you a good example of one company that did something like that with fully-made shoes and they gave an order to a company in Vietnam, "We will take a 40-foot container every month without fail and we'll fill it with shoes." They had a contract.

All of a sudden production on those types of shoes dropped off. They still had six months of their contract left, so they had six months of containers of shoes still coming and no sales to match them. They had to lease another place to stack the containers and they were a very well-known brand. So there's lots of pitfalls. Like I said, I ring up Graham - I want granules - I'll ring him up and say, "I want red ones today." I can have a knee-jerk reaction to my supply, as they want it. Gives me the opportunity to be flexible. I need to be different from the importer and to be different from the importer you've got to be able to ring me up and say, "David, my brown shoes didn't turn up" - we had that two years ago at Back to School, a guy rings up, "David, I've run out of brown school shoes. The order coming from Vietnam didn't turn up, can you fill the gap?" I said, "Not a problem, give me the order," 90 pair, bang, out, in his place in a week. He rang up and he said, "David, these are fantastic. How many more can you make?" I said, "How many more can you order?" He said, "296 pair." I said, "Fax it through." I made it, took me two weeks to finish off his and all that and I got it in to him.

If that hadn't have happened, if I couldn't - now, I had five customers like that that year because one company fell over as far as their brown shoes, they just didn't rock up - I think they rocked up as black, okay. I had five customers. We made 1100 pair of brown school shoes in about a week and a half. If we weren't there that wouldn't have happened.

They were nearly all for one of the private schools here in Melbourne. I would have loved to have been a fly on the wall at assembly for the first day back as they all turned up in runners. Because that's what would have happened. We have a private school up in Mildura, their uniform is navy shoes only. It's detention if you haven't got one. So these guys ring up and they order their navy shoes. I'm there, I'll make it.

DR ROBERTSON: You're obviously very good at meeting these, you know - - -

MR SUTTON: Only because my supply chain is.

DR ROBERTSON: Yes, sure, I agree. I'm just looking at alternative ways of keeping your chain going, which is - - -

MR SUTTON: Yes, see, brown school shoes, I don't know, tomorrow those schools might change their policy and might go with black and if I've sort of pre-orders lined up from overseas for brown leather and so forth, what do I do with it when it arrives. See if Ken will take it; I don't think so.

DR ROBERTSON: All right. Did you have anything else?

MR SUTTON: No, thank you very much indeed.

DR ROBERTSON: That was very helpful, thank you very much. Pity we didn't visit you; we did visit Ken.

MR SUTTON: Did he give you some eggs?

DR ROBERTSON: No.

MR SUTTON: Ken.

MR ....: They weren't laying.

MR SUTTON: We've got the same problem with ours at the moment.

MR ALESSI: You're always welcome to come to the City of Whittlesea and Dave will show you through.

DR ROBERTSON: All right. Thank you very much for coming.

DR ROBERTSON: Okay, well, we keep this informal, as you have gathered.

MR WATKIN: I'm sorry you missed out on the eggs.

DR ROBERTSON: I seem to remember when we left your factory I took a long walk back home, it took me about an hour to do it, so I think the eggs might have - it was during the summer and they might have fried. We try and keep all this informal. When you speak I'd like you to introduce yourself, just so that we can identify your voice on the tapes for the purpose of transcribing. I mean, it's up to you, really, how you spend the time. I mean, we've got, whatever it is, 45 minutes or so. What we'd like you to do is to summarise your submission and put the key points you think you'd like to draw to our attention and maybe discuss with us and then we'll take it from there. Is that all right?

MR WATKIN: Yes, that's fine.

DR ROBERTSON: Thanks, Ken.

MR WATKIN: Would anybody like a copy of our submission? There are some spares there if you like. My name is Ken Watkin and I own the Harold Boot Co here in Melbourne and I'd like to start by just talking a little bit about the history of Harold Boot Co. It started around the early 1900s by Ian Harold's grandfather and over the time built up to the stage where they actually had five factories and were producing nearly 5000 pairs a day in their main office, which is the factory that you visited in Abbotsford. They had two or three rural factories, which were cutting and closing rooms and I'm not quite sure of the total employment but Ian thinks at one stage they employed nearly 500 people in the organisation.

It was a very solid company and ran exceptionally well, mainly making up in the name of other people, so they tended to make for EzyWalkin, Whites, Thomas Cook, Morrisons, and it wasn't until 1972, when Ian Harold's father was running the business and Gough Whitlam changed the tariff structure, that the company got into its first bit of trouble and they downsized and Ian's father retired and Ian Harold carried it on. Coming into the mid-80s they weren't really doing much or going anywhere, but had a lot of potential and that's when I got involved with Ian Harold and we reviewed the company and felt that if we specialised and niche-marketed our products we could really survive any changes that the government came down with and over the last 15 years that's really what we've done. We've done it with a very low capital base. We've been fortunate that the industry has been downsizing so there's been a lot of cheap, good machinery coming on the market, so we've been able to recapitalise the place with modern machinery, reasonably cheaply. If we'd had to buy all new machinery we would have a lot of trouble getting to the stage we're at.

We have never been in a position to be able to use the SIP's programs or any of the previous programs because of our size and our lack of capital and I think also early on there was a feeling with the government sponsorships to the TCF industry that it needed to be seeing modern technology coming into the factories and just-in-time and things like that where the direction we were going, which is into very specialist boots, really, that's all we make are boots. We're trying to make boots the way they made them in the 1930s, not the way they're made in China with modern computerised machinery. We only make high-quality, specialised, handmade footwear and I think we do it very well, but I'm a bit biased.

Part of that program that we started in 1988 was to develop an export market, which we started addressing in 1990 through Austrade and with their help attended six overseas Trade Fairs over a six-year period and around the sixth year started to see some results from that. Five years ago we have a 3 per cent export factor from our factory; today we're running at 30 per cent. We also last year had a 30 per cent increase in production, which is relative to the export. It's our belief that with some firm help from SIPs on specific projects and specific item projects we could increase that export to 50 per cent, whilst also increasing our local market by at least 30 to 40 per cent and that's really what I think the government should be looking at with the SIPs program. I'm not concerned - and I'm probably different to a lot of the fashion houses who are competing with the Chinese factories - I'm not concerned with tariffs. I'd much prefer to see no tariffs on imported raw materials, I think that's just counter-productive to the local industry. Tariffs don't affect me in the type of footwear that I manufacture, so I don't think it's fair for me to really comment on them except to say that I think the imported componentry is a damn nuisance at the 5 or 10 per cent duty rate. I think it's totally counter-productive, especially when we're exporting and the size we are, to try and reclaim the tariff we've paid on the imports is just too big a hassle and we don't have the time nor the staff to go about that. So I can't see why we need - we don't have today, when you look at the majority of imported componentry in the footwear trade, there's really nobody here making it anyway, so my feelings are, why have them?

But where the SIP program is concerned, I think the entry level at 200,000, not knowing that if you do spend the 200,000 if you're going to get anything, I think they're problems for us and in my submission I think I pointed out that we were happy with the Option C, we thought that was a cost-effective way, especially for small firms. We agreed with the competitive bidding approach - "would leverage initiatives to improve the firm's competitiveness. It may be criticised as picking winners" - but in effect isn't that what the SIP program should be about. The SIP program should be about picking winners so that they're going to be here in 20 years time. To me it's silly to throw money at companies that haven't shown or aren't in a position to show that they are in a position to survive on a zero tariff level, which is what we're going to have eventually, if we're going to have a level playing field and if we're going to go into international relations with places like the United States and

Europe and places like that. We're going to have a zero tariff level. So I think we need to have a program which is accessible to small companies like my own and David's, because they're really the companies that are going to be left here and I really feel that that's our position.

I put in our submission paper, you know, there are two specific items that we would like to develop and I was saying to Brian that I think we should have a three-stage development because one of the products we want to develop is a - well, we make it now - is a snow boot which we import the componentry for from overseas and it's very expensive and we could manufacture it here for 10 per cent of the cost. But the initial sample tool is going to cost me 15 grand and then I've got to - with that then got to go and establish a market or expand the market and get the orders from overseas and then I've got to go and spend 100,000 on the balance of the tooling and to me that's the sort of help that our company would like. We do some very specific work boots which are - you know, there's one, we do a logger's boot which is a spiked loggers boot. Now, we export a little bit of that. We manufacture for the local market, but it's difficult for us to sell it because we don't have the Australian Standards on it.

Now, it's a boot that has probably got a world market of 500 pairs. To go and spend $20,000 on getting the Australian Standards is out of the question, but if we had some help through SIP for that, it would give us the 500 pair business probably with a 60 per cent export level to the United States and Europe. So that's really what our submission is about; is getting that entry level lower, and access to it from a beginning stage so that we can come to you and say, "Well, this is our proposal. This is what we want to do. What help can you give us?" - and get the guarantee of help, and when we're spending the money, you guys are spending the money, not us trying to come back later on.

DR ROBERTSON: Yes, that's very helpful.

MR WATKIN: Which is basically what we talked about in the faxes really.

DR ROBERTSON: It is, and we're delighted that you made a submission. Our visit to your factory was a bright spot I think in a number of our trips around. But there's one question that springs to mind, and I don't want you to give us necessarily a personal view on this, because it's confidential information I'm probably seeking. One of the things that we discovered, wondering around talking to people in the whole industry, was the difficulty of getting any kind of help from the banks.

MR WATKIN: Well, one of the problems that you have with the banks is that they look at the footwear industry and they look at the way the government is really trying to maintain it and keep it running. They go, well, if the government is not looking at keeping it going in a major scale, they're nervous about financing it. Unless you've got a lot of assets it is very difficult - you know, I know friends of mine in other manufacturing, they have borrowings through debtors and borrowings through capital equipment. In the shoe trade if you haven't got dirt you've got no borrowings, and that's understandable. I don't really have a major hassle with that.

Certainly we actually refinanced our place two years ago and instead of having a company borrowings we just did major personal borrowings and then became the borrowers to the company, because it was the only way we could raise the funds to do what we were doing. But even so, we've got no real capital base to expand from. It is a problem - and it has always been a problem in this industry - that it's very easy to go along and spend $50,000 at an auction and buy some really cheap shoe machinery and start a shoe factory. It's hard to carry 60 days worth of debts. Once you're up and running and making lots of money you can go and buy new machinery and things like that, and it's easy to lease machinery. That's not a major hassle.

DR ROBERTSON: Because what you're looking for is some degree of certainty, isn't it?

MR WATKIN: Yes.

DR ROBERTSON: That if you go into one of these ventures that you know you're going to get the money for it.

MR WATKIN: You're going to get the money for it, and I don't have to go and employ someone for $50,000 to put the submission in, because I can't afford that either.

DR ROBERTSON: No, exactly, I understand that. Presumably you would prefer to have the payment on SIP, if you got it, paid quarterly rather than annually; in other words, paid as you go along, rather than trying to - - -

MR WATKIN: What I would prefer to see is an arrangement where we came to you and said, "Look, we're going to buy - - -"

DR ROBERTSON: It's not us, by the way.

MR WATKIN: No, but I'm saying "you" as representatives of the government or the SIPs program or - but what we would like to see is a situation where it's a specific project, like the loggers I was talking about that I want to take and get Australian standards on or world standards, so I can export it et cetera. I've got a cost of that, and it's probably a one-off cost over a two-month period of 20 grand. Well, what I would like to be able to come along to you and say, "Well, look, this is what it's going to cost to do this. If you think it's okay and we're going to go ahead with it, I'll get them to invoice you your half and you pay it. I don't want the money." It's not that I want the money. I just want the help to get it through.

DR ROBERTSON: Yes.

MR WATKIN: So where it's a piece of machinery and we've got to go and buy the machine and it's a lease payment of X amount a month, which is better for the - if it's a $200,000 machine and we lease the 200,000, we're going to pay 30,000 in interest - is it better for the government to say, "Well, bugger it, we'll just pay 100,000 up-front and you lease the other 100"? That's a decision that - but if we've got a monthly lease payment for the whole 200,000, I would like the money once a month.

DR ROBERTSON: Okay.

MR WATKIN: Because I think if it's going to be a partnership agreement it has got to be a partnership. It can't be, you know, "Well, we'll do it this way." To me, it has got to be equal all the way along, but it has got to be agreed to up-front. It's no good thinking we're going to get it or hoping we're going to get it, because we'll never do it.

DR ROBERTSON: No.

MR WEICKHARDT: Can we talk a little bit about how this might work in a sensible way. I mean, one thing is for sure and that is the government has got a finite amount of money to allocate to this industry.

MR WATKIN: Sure.

MR WEICKHARDT: If they simply gave money to everyone in the industry I think it works out that the current SIP scheme would give everyone roughly 1 per cent of sales, which is probably not going to make any difference.

MR WATKIN: Yes, it's a waste of time.

MR WEICKHARDT: There are a lot of firms in this industry, a large number of firms, particularly at the smaller end. I think what everyone aspires to is something that's simple, something that does help firms that are likely to succeed and where it will make a difference. The question is, how do you design something for the small firms that is non-bureaucratic, it's simple, provides some certainty, and yet does deliver money to the deserving companies. How do you provide the criteria or the infinite wisdom to those who are going to dispense money to - you know, potentially only a very small percentage of the firms concerned - because if you're going to give enough to make a difference to one firm, it probably is only one in 10 or one in 20 or one in 50 that sort of may get some money. The question is, how can you do that in a fair, non-bureaucratic and simple sort of way.

MR WATKIN: That's the million dollar question, isn't it. I think I go back to picking winners. I think you've got to look at what the firm's direction is, what their market is, and what in the long term, if you're not - in this country, I don't believe that we will be able to make volume fashion footwear competitive with imports. There aren't many of those left anyway. So we've got to look at - and I can only talk about the footwear industry. I don't know enough about making carpet or shirts or - but I think if you look at the long-term survival of the footwear trade, it has got to be in niche marketing, a bit like David with his orthopaedic footwear and us with our specialty boots and things.

I think that what you've got to look at. I think you've got to come down with a criteria of what is specialist, what has the potential to easily compete with imports and/or exports, and then work the criteria from there. I don't think you can look at it from, "Well, look, we're going to get this money to make us competitive with China or Fiji or anywhere," because we can't. When you look at your 50 cents an hour that you've come up with US and China - you know, I'd love to import 50 cents an hour staff. That would be really good, but they wouldn't be able to buy a cup of coffee at lunch.

MR WEICKHARDT: So a sort of simple submission that explained why your expenditure was likely to make you successful or more successful, based on a sort of track record of success?

MR WATKIN: I think so, yes, or show - we're fortunate I suppose that we pre-planned for this a little back in 1980. We've been sort of building for 15 years to be in a position that we're not competing with imports. We can compete very openly on the world market in what we do. But we turn over 1.5 million a year. I can see that with the right investment and the right tooling and maybe a little bit more plant and equipment we could turn that into a 5 million a year turnover company and probably double our staff - probably a little bit more than double.

If you look at our history so far, when I got involved in the company in 88 we employed six people in the factory. We now employ 17. You know, we've got a track record. We've got the exports. We're not overly reliant on the dollar. It's nice to have a cheap dollar and I'd get really cranky if it went to 60p to the dollar but you know, we can survive that because we've built a market. I had a customer talking to me yesterday, who has got a stall at the Vic Market, who sells our boots. He was saying that he's suffering a bit at the moment because he hasn't got the English tourists, because of the SARS. He said, "It's interesting, I get more English people coming onto my stand saying, 'Oh, you've got Harold boots,' and buying a pair, because they know them better than the Victorians know us." So it proves that export can work. Our boots are - you know, it scares me when you look at the price of our boots in the UK.

So that’s what I think that we’ve got to look at as a total thing, as a total footwear industry also. I think the manufacturers organisation should be looking at how we get people like David exporting his footwear into Europe and America for kids with funny feet and things. There aren’t many factories left in the world that do this sort of work. One reason we’ve been successful in England is because England has gone through the same thing Australia has gone through in the footwear industry, and there aren’t many left. There certainly aren’t many boot manufacturers in England making footwear of our standard. We export polo boots to England, for God’s sake - that’s selling ice to the Eskimos - because there aren’t people there. That’s what I mean by specialty.

I think if we look at an industry and say, "Well, we need to specialise, we need to be different" - like, I think wool denim for instance is a terrific product, and we should be in a position to - we’ve got cotton, we’ve got wool. We should be in a position to take that to the world very successfully, I would have thought.

MR WEICKHARDT: So if you were suddenly appointed to be doling out money - - -

MR WATKIN: Well, Harolds would get 6 million overnight.

MR WEICKHARDT: I mean, what are the sort of questions you would be asking somebody? Would it be based on track record?

MR WATKIN: No, I think it has got to be track record and/or direction. Someone can turn around and say, "Well, look, I think we can push this product and we can export it." You say, "Well, okay, let’s work with Austrade on this, let’s get Austrade involved. What trade fairs do you think you need to go to? Let’s do some sampling, let’s get over there, let’s get some results and let’s have a look at, and then come back to us." But I think a lot of people, like David, probably need help from Austrade. I think that the textile, clothing and footwear Productivity Commission or whoever ends up handling the SIP thing - I don’t know - should be looking at things like that, and let’s coordinate some of the government departments into this thing and get it working as a package, because there is potential for export, and there is potential for import replacement on specialty footwear.

I think if as an industry we look at that and we say, "Well, okay, why are we buying that spiked loggers boot from Canada" - if we can’t compete with the Canadians, there has got to be something wrong with us. So let’s make the thing here, and then let’s turn around and take it back to Canada.

DR ROBERTSON: It’s interesting, I remember you telling us the role that Austrade played in getting you off the ground in the UK.

MR WATKIN: Without their help, we couldn't have done it.

DR ROBERTSON: Yes.

MR WATKIN: And we did it as a group. There were actually five companies that formed a group that Austrade supported at those trade fairs, and it was a very successful program. I'm sure they've got a similar program going. I hope they do, because we want to do it in America next year. But they're the things that I think that we should be looking at; not, "Well, look, I'm going to go and spend $200,000 on a toe lathe so give me 100,000." "Why are you going to spend 200?" "Because that one is getting a bit old." "Why can't you finance that out of your own business?" But if you say, "Well, I need that toe lathe because this machine won't do that product, and if I can make that product I can do this," that's different.

DR ROBERTSON: We were very impressed with your factory. We're very impressed with you, Ken, so I think that's all we need to say.

MR WEICKHARDT: We're sympathetic to the cause. It's a matter of devising something that - - -

MR WATKIN: That works, yes.

MR WEICKHARDT: Find us a man of infinite wisdom, or woman.

MR WATKIN: I'm not sure about that.

DR ROBERTSON: Okay, thanks very much, Ken. We'll take a break there, until 2 o'clock.

(Luncheon adjournment)

DR ROBERTSON: Sorry, we're two minutes late - shouldn't give us your submission just as we start.

MR PURNELL: We would have given it to you a bit earlier had we completed it, I'm sorry.

DR ROBERTSON: All right. You guys know pretty much how we run these things, as informally as we can, no comments from the audience because they can't be recorded. The time allocated this afternoon for us is about an hour so it's up to you a bit, you know, how that splits up. How long you talk means less time for exchanges. But we'll leave that to you. As you know, we take a transcript. In consequence, before you speak could you announce who you are so that they can identify you when it comes to typing it up and at that point I think over to you.

MR PURNELL: Thank you for that. Leigh Purnell, the executive director international for the Australian Industry Group and if the commission doesn't mind I wouldn't mind going through the material that I've just handed to you.

DR ROBERTSON: Sure, that will be helpful.

MR PURNELL: I've borrowed my colleague's glasses as I've written a few notes, so if I stumble I hope it's because of the glasses. Anyway I thank the commission for providing the Australian Industry Group with the opportunity to appear before you and to comment on your position paper. Firstly, I want to compliment the commission on the quality of the position paper, We believe the paper generally provides a balanced and considered view of the current state of play in the TCF sector and sets out a range of helpful proposals to take the sector forward. Australian Industry Group is also appreciative of the commission's willingness to take into account the findings of our comprehensive survey of our TCF firms.

Our group has the largest representation of TCF membership of any industry association with no particular subsector or group dominating membership. Responding to the commission's paper has therefore been a challenge in that we have sought to present a balanced view reflecting the diversity of positions, particularly large and small firms, and firms included and excluded from the current support arrangements. There are clearly disparate views among the sectors. Our group has listened to these views and resolved to adopt a position that will ensure a globally competitive and strong TCF sector going forward, albeit one that may be somewhat smaller than currently exists. Global competition from low labour cost countries including China, Indonesia and Thailand will challenge the TCF sector in Australia to remain globally competitive.

In our response we've focused on three major issues: import tariffs to apply after 2005, the nature and level of industry assistance and job displacement and employee entitlements. It's not to imply that we do not agree with any of the broader points raised by the commission, particularly in regard to micro-economic reform, taxation, market access, skills training and outworkers. However, like the commission we believe that future policy solutions for the TCF sector centre around the three issues that I've identified.

Looking at tariffs after 2005, following the previous TCF review in 97 and under arrangements already legislated, TCF's tariffs are set to fall in 2005. Faced with this reality firms have adopted measures involving a mix of downsizing domestic operations including staff cuts, moving production offshore and other rationalisations and an increasing focus on pursuing growth strategies including product development, new capital equipment, exports and more R and D. In regard to post 2005 arrangements the commission has outlined four options for tariffs and I won't go through these.

From our perspective our original submission stated that any support for lower tariffs after 2005 was contingent on a pause until 2010 and continued government support for domestic TCF firms. We continue to hold this position and with this in mind the commission's option 4 is considered most acceptable by the Australian Industry Group. While Ai Group agrees that the TCF should be able to operate with certainty into the future, any support for option 4 by us must be contingent on the federal government agreeing to examine the industry environment particularly in regard to overseas market access and tariff arrangements applying in competing countries in 2008.

No-one has a crystal ball to predict with any certainty what the environment will look like in 2008, so such an examination would be a prudent and responsible check to any decision regarding domestic tariffs made in 2003, five years earlier. It's our view that further tariffs reductions in 2010 should be conditional on further action by other competing countries as a matter of principle. To put it simply, while we agree that Australia's commitment to free trade implies that we should work towards this goal, this is not to imply we should do this at the expense of Australia's domestic interests, particularly if it results in significant cost to the TCF sector, regional economies and jobs of Australian workers while other countries remain protectionist.

Finally, Australian Industry Group continues to oppose the imposition of a 3 per cent tariff on imported business inputs including TCF imports where there is no domestic production under the Tariff Concession Scheme. As the commission has acknowledged previously, this tariffs imposes unnecessary costs on the customer and disadvantages Australian manufacturers. Looking at industry assistance, the SIP program, the commission has acknowledged the industry argument that any tariff reduction should be supported by continued industry assistance.

The Australian Industry Group believe that any assistance has three broad purposes: to help firms in the transition to lower tariffs, to minimise the negative consequences of restructuring on regions and the economy and to promote the growth of a strong and internationally competitive TCF sector. Finding the right balance between these objectives has been the challenge facing the federal government in policy setting. Industry assistance currently provided under the TCF Strategic Investment Program is designed to foster the development of sustainable competitive TCF industries in Australia during the transition to a more competitive trading environment post 2005. A total of 677.7 million over five years is provided under SIP.

The scheme provides incentives in the form of grants to promote investment, innovation and value-adding in the industries. In our original submission we stated that the overwhelming view of TCF members was that the SIP program needed to be changed to provide for enhanced flexibility in the program. The strength of these concerns we believe can't be ignored. We stated that more firms should be given access, the rules should be applied less rigidly, process efficiency improvements should be supported and some degree of modulation encouraged. As well, funding should better reflect the distribution of activities in firms within the TCF sector.

The commission has acknowledged many of these points and raised three options for taking the program forward: a modified existing arrangement, option (a), bounty based on additional value-added, option (b), or firms compete for assistance, option (c). Further discussions since that original paper we gave to you with industry representatives and reflecting on members' views on the need for change has led us to conclude that a new SIP program starting from 2005 is desirable. Some fine-tuning, however, may be appropriate in the short term to enhance flexibility along the lines suggested by the commission. This could include providing greater flexibility for companies in receiving funding for value-adding activity type 3 grants, broadening the definition of innovation, paying claimants quarterly and making early stage process eligible for funding.

Rather than SIP being focused predominantly on research and development and investment expenditure, Ai Group believes that SIP should seek to support companies to be internationally competitive through supporting changes to lift productivity and efficiency. This implies that funding should embrace not only R and D and investment, but also the other main drivers of competitiveness, for example labour productivity. Essentially this means opening the program to support process and other efficiency improvements. Such a program could be derived from modifying the existing SIP program, option (a), but would require legislative changes to enable the funding of process efficiencies.

The benefit of this approach would be to facilitate the opportunity for small to medium firms who have the potential to be internationally competitive in niche markets for example, to have access to funding to enable them to draw on all the main levers of competitiveness, whether they be through process improvement, investment, information technology and/or R and D. It would ensure that companies who have a long-term commitment to Australian manufacturing are given the opportunity to grow and develop, whether they be large or small. Broadening the range of expenditures under the SIP program could raise issues regarding expenditure threshold and modulation, raising concerns about diluting the effectiveness of the program, and we're particularly conscious of those.

However, a clearer articulation of program objectives, guidelines and eligible expenditures should result in a more relevant program to the industry's future under a lower tariff environment. These should be enshrined in a new act for SIP beyond 2005. The outcome we believe would be a stronger, more productive and competitive TCF sector. Ai Group's proposal to build a stronger SIP program clearly raises issue about the quantum of funding going forward. The Productivity Commission has proposed eight years of funding until 2013 to the value of 840 million, based on full funding from 205/6 to 208/9 and half funding from 2009/10 to 2013. This amount, in our view, is clearly inadequate to meet the strength and objectives of a new SIP program.

It also departs from the approach adopted by the commission in affording the automotive industry a further 10 years' assistance from 2005. 10 years of full funding would cost $1.4 billion. That's about $144 million a year. This is a small price to pay relative to the near 900 million which the government collects in customs duties on TCF goods each year and some additional 100 million that they get per year in taxes. Ai Group's view is that the commission's proposed funding level falls well short of what is required to lift productivity and competitiveness to assist the process of transition, to lower tariffs and to minimise the economic consequences to regions, the economy and jobs.

Looking at employee entitlements in jobs displacement, as the commission has acknowledged, further tariffs reductions are likely to lead to significant job losses, particularly in regions. The commission has recognised that sector specific adjustment may be required to assist displaced workers facing hardship. This is particularly so, given the experience of about one-third of displaced workers being unable to find work and another third being required to take lesser employment. Recent modelling by the Victorian government has highlighted significant potential damage to regional employment and I've listed those in your papers and I won't go through these.

While these figures are subject to interpretation, there remains the need for the federal government to ensure displaced workers are given an opportunity to reskill and find alternative employment starting from 2005 when lower tariffs come into effect. Ai Group would therefore support additional funding being provided to support the adjustment process in the industry. However, such funding should be provided separate from the SIP. As well, Ai Group believes there is a case for seeing affected regions as being both rural and metropolitan, given there are a high concentration of TCF firms and workers in many municipalities of capital cities.

Finally in regard to protection of worker entitlements, the Productivity Commission has suggested there is a need for an independent review of the broader entitlements issue. Ai Group believes that measures to protect entitlements are best implemented by governments across the whole community. Accordingly Ai Group supports the national initiatives introduced by the Federal Express government to protect entitlements. These include changes to the Corporations Law and the introduction of the GEARS scheme. My colleague Stephen Smith will elaborate on this issue a little later and also Tony Dalton who is our specialist on workplace relations for this sector would certainly be happy to respond to any queries, particularly in relation to workplace issues for the sector specifically.

So in summary we find the commission's paper overall, well balanced. On tariffs we would support option 4 in the commission's paper but on the support program we differ from the commission's paper and urge strongly a 10-year fully funded program, and as I've mentioned earlier we believe the government raises funds to adequately meet this commitment. If the commission is happy, I would ask perhaps my colleague Tony Pensabene, who might want to comment on the funding program, and then perhaps Stephen Smith, my colleague on IR matters, on the GEARS, and they will be reasonably short statements and then we would be happy if we could have an exchange of questions and so on.

DR ROBERTSON: Okay, that's fine.

MR PURNELL: Thank you very much.

MR PENSABENE: Thanks, Leigh - Tony Pensabene. The issue about the future of the SIP program I think has been quite a difficult issue for Australian Industry Group and as Leigh pointed out, we have membership that cuts right across the diverse range of TCF companies, both large and small, and the survey of work we did, as you've reported in your position paper, seems to suggest that those who get funding seem to get benefits out of that funding. They can invest. They can become more competitive. They can value add and in a sense it gives them a competitive buffer compared to other companies.

Our discussions with the industry pretty clearly suggested that those who got the funding want to continue to get the funding and really weren't interested in seeing anyone else get the funding. So there was that dilemma for us on one side. But, you know, on the other side we've got the dilemma where there were a very strong and resounding view amongst a large number of companies that both the program needed modification and I think also that there were a number of companies who wanted access to the program that wasn't possible, given the guidelines and the eligibility criterias and the definitions used in the program, and for us finding that right balance has been a difficult challenge because, you know, those who aren't in want to get in. Those who are in don't want anyone else to get in.

In some ways we thought about whether the current program could be modified and there is some scope for modification and I think the commission has acknowledged some of those points. We're told by the department that they're already moving to let more companies into the program. I think they now say that it's close to 9 per cent of all TCF companies are going to get support through the SIP program. But, you know, more fundamentally when we look at the program and think back about what it really is trying to achieve, I think a lot of the problems that we have in the current SIP program the companies are reflecting is probably a failure at the time of legislation to be specific about what the program is setting out to achieve.

The act has no clear objective other than to hand out money for five purposes and it has been difficult to be clear what the end point objective is. Essentially what conclusion we've come to is that post 2005 it's about time that the objectives of the program are clearly articulated, that they be legislated as part of the act and it's clear what the outcome would be from a new program. I think as Leigh pointed out, we've got a very clear objective. We want to see a strong competitive TCF sector, whether they be large or small, and we believe that to achieve that to achieve that, rather than focusing on exclusively R and D and investment, which are both very important, the program should be focusing on all the drivers, the competitiveness.

Essentially if you look at the three elements which make up productivity, performance and competitiveness that's driven from that, you've got investment, you've got R and D and you've got the other half which is essentially a whole range of reforms and changes that companies can make that can drive high or low productivity. They can be things like, you know, new software. It can be process change. It can be supply chain developments. It could be a whole range of developments and I don't think we've at this point got clarity with exactly what that range is, but it's clear that a new program should be able to embrace a wide approach to productivity.

If companies can be funded to achieve high productivity then that, in a sense, will drive competitiveness and in a sense will drive value-added because the more competitive the company, the more likely they're going to be out there producing more and hopefully in time seek export markets and grow and develop from that basis. So I think in summary, essentially what we feel is that in order to facilitate the need for those who currently get funding to continue to grow and be competitive the need to facilitate some new entrants into the program, who have got an opportunity to grow and develop and be competitive, we need a new program in 2005, a program that's geared to the objective of international competitiveness through enhancement of labour productivity, productivity more generally, and that that should encompass investment, innovation and the other drivers of productivity.

I suppose in a sense that leads us to the conclusion about the level of funding. I mean, again this is quite a difficult issue. I'm sure you're going to say to us, you know, "Well, you want 1.4 billion. What's the pay-back in that process?" But essentially I think if you've got a stronger program, a program that's more clearly defined with stronger objectives and outcomes that in a sense allows the market to drive the outcomes more fully, then I think there's a case to say that a larger quantum of funding could be justified. That's essentially it.

MR SMITH: Thank you. I'm Steve Smith, the director of National Industry Relations for the Australian Industry Group. I wish to focus on the issue of the protection of employee entitlements but we certainly stand by the comments that we made in our original submission about the need for legislative changes to be made in various areas relating to workplace relations matters, but on the issue of protection of employee entitlements, the commission has recommended that there be a review of the entitlements issue. We don't agree that there is a need for such a review.

Since this issue came to the fore three or for years comprehensive arrangements have been put into place by the federal government to address the issue and these arrangements are summarised in a fact sheet that is attached to our submission headed up The Protection of Employees' Entitlements - Take Time to Understand the Facts. They run through in brief terms the recent changes from 30 June 2000 to the Corporations Act which now impose jail terms of up to 10 years and substantial fines on directors of companies that enter into transactions for the purposes of avoiding the payment of entitlements. They outline the issues about the priority of employee entitlements upon insolvency; not only highlighting the very high priority assigned to employee entitlements at the moment but also as you would be aware the review that is currently going on of the proposal that is being debated about whether or not employee entitlements should be elevated even higher in the order. The fact sheet also summarises the arrangements that are in place with the general employee entitlements and redundancy scheme.

GEARS is now paying out approximately $80 million per year to employees who would otherwise have lost entitlements. We believe that it is a very fair scheme that balances the interests of all parties. We strongly support GEARS and we have urged the federal government to enshrine the scheme within legislation. Some unions such as the TCFUA consistently try to argue that GEARS is in some way inadequate. For example, the TCFUA argues that the scheme is deficient in that it does not protect over award severance pay arrangements and we have also attached to our submission a copy of a little booklet that we have recently produced and distributed to our member companies.

On pages 6 to 8 of this booklet which is the final document there, it deals with this issue about whether it is desirable and feasible to have a protection of entitlements arrangement that would protect over award severance pay. Now, we think that it is not possible to construct a national scheme that would achieve desirable outcomes if it sought to protect generous over award redundancy arrangements. The arguments are set out in some detail there. Firstly, most people would regard it as very unfair if a national scheme paid very generous arrangements to one person but far less generous arrangements to another person simply based on what the employer might have agreed to or been forced to agree to at the enterprise level. It would be like having an unemployment scheme that paid an out-of-work CEO hundreds of thousands of dollars and an out-of-work clothing trades worker a small fraction of that.

If such a scheme was put into place there would be enormous scope for abuse. What would stop a company under industrial pressure in the lead up to insolvency agreeing to six weeks per year of service or six months per year of service and leaving either the taxpayer or whatever funding arrangement might be there to pick up the tab. Now, eight weeks is the recognised community standard at this point in time and for every example of an over-award redundancy agreement that is in place in this industry or others, there are many more examples of companies that pay the eight week standard.

There is a case going on in the Industrial Relations Commission at the moment where the unions are seeking to have that standard elevated to 16 weeks for employees generally or 20 weeks for those over 45 and the commission will make its decision. Hearings are under way in that substantial case. But if there was any protection of entitlement scheme that provided benefits of more than eight weeks it would of course not only fuel claims in the context of, say, award proceedings and so on, but it would certainly fuel disputation in the enterprise agreement context for any companies that are not paying that high standard.

Just a few other arguments are set out there on page 8; very powerful arguments. Redundancy pay is not an entitlement. It is a contingent entitlement and someone is only entitled to redundancy pay if they're made redundant. Why should an employer have to protect something that is not an entitlement and may never become an entitlement for many, many, perhaps most employees. Why should they enter into arrangements that come with significant cost for something that may never occur? It's quite different to annual leave and long service leave where they are entitlements and appropriate provisions are required.

These redundancy packages that are often negotiated, they're not negotiated in almost any circumstances with insolvency in mind. They're negotiated to apply to a small number of employees to often make a business more efficient, focus on issues of competitiveness and the reduction of a small number of employees. It was never intended that these redundancy agreements would some day be applicable to every employee of the business. The cost of regarding those packages in that way and protecting entitlements in that way is absolutely enormous and would undoubtedly drive more insolvencies because of the cost associated with those arrangements.

Now, eight weeks pay, we believe, cushions the blow. It is a fair balance between all of the competing interests and issues in this area. The whole issue of GEARS, as we have said, we support very strongly. It's paying out $80 million per year to employees who would have otherwise lost their entitlements. It's a fair scheme. We also have some significant concerns about the unions' approach with protection of entitlements. The TCFUA in this industry argues in support of what is really a metalworker's union's proposal, their NEST scheme. Most other unions aren't supportive of that proposal but the metalworkers and the TCFUA, after five years of trying to get the scheme off the ground, are still pushing the issue in the manufacturing sector.

There are numerous problems with the scheme. There's another fact sheet there that sets out in summary terms the myriad of problems with that arrangement. Disputation has occurred and is still occurring but companies in the manufacturing sector are showing absolutely no sign of agreeing to that very flawed and damaging proposal. We just highlight the words of the Productivity Commission in its paper of December 2000 about the issue of trust funds, and I quote:

> The loss of working capital suggests that some businesses would be unable to pay trade creditors or bank loans. Ironically a mechanism to protect employee entitlements in cases of insolvency might actually be instrumental in triggering such an event and costing employees their jobs.

There is also a lot of material about these trust funds in the construction context in the final report of the royal commission and it makes some very strong statements there about the way these funds often operate. We don't see it as the solution. We believe that a review would be inappropriate and in fact would be counter-productive. The protection of employee entitlements has led to some very costly and damaging industrial disputes in this sector as well as other sectors like the automotive industry. The issue has been addressed by the government in a very fair and comprehensive way and it's in the public interest now for unions and other parties to move on instead of constantly seeking to undermine the arrangements which are in place and to raise unnecessary concerns amongst employees about them. Thank you.

DR ROBERTSON: Thanks very much. Where to start; you have sort of hardened your position since the original submission. Is there any reason for that? I mean, making it - I don't think you mentioned 2008 in the first submission, did you?

MR PURNELL: No.

DR ROBERTSON: You were more willing to accept the program that we had under option. Can you explain why that has happened?

MR PURNELL: I think, commissioner, the main reason is further examination of all the material we got through our questionnaire and our survey of our members; a broader consultation program, and the fact that in looking at the various options we just felt that to come down to the commission's recommendations was going to be financially inadequate to support the companies. It did involve us with a fair amount of soul searching because clearly our membership, as Tony Pensabene has said, those who have access to the scheme were concerned that if it were broadened it might just incorporate companies who really weren't going to be in there for the long haul.

I guess with those sorts of things in mind we really tried to analyse and to test some of our members who were talking about extending the eligibility to see whether it impacted on us strongly enough to feel that there was genuine argument and we believe that's the case. So I guess we have had the chance to more extensively consult; we have had the chance to examine more closely what we feel would be the economic impact of the commission's formula, and we think that that's probably inadequate, or that we think it is inadequate, and secondly, even if you look at the last four or five months of the global environment with wars and SARS and economic changes and we think extrapolate that, you know, for 2010 and so on, it just seemed to be too large a leap.

We examined the international trading world. We see that under the WTO, sadly, we have no agreement on modalities for agriculture. We missed the deadline on industrials for the end of May for modalities there. So my analysis of the global trading world says if we wanted to rely on the multilateral system to help us as we unilaterally take action to reduce protection, it gives me no confidence that the world, the global trading world, is committed to a freer trading environment as we are, and we're not opposing that, but we're not going to be the sole guy on the block and projecting forward, I think since we put in our submission. I am much more pessimistic about the global environment than I previously was.

MR PENSABENE: Can I just add to that. I think harden is probably not the right word. I mean, we had the benefit obviously of your position paper so I mean, you know, we obviously needed to respond to the position paper so I think "harden" is not the right word. I think your position paper and some further discussions have helped us to clarify what we see as the path ahead, and really, you know, the point is a departure from the commission's position paper and our earlier report are really quite small in the sense that, you know, we're saying that tariff reductions really need to be looked at again in 2008. There seems to be no big deal. I mean, that seems accepted for the auto industry, and there should be no reason why it shouldn't be accepted for the TCS sector, and in the case of SIP, well, we have really sought to clarify what we think is a way forward in terms of a tighter program so I think "clarified" is probably the appropriate word.

MR PURNELL: We have a semantic debate here.

DR ROBERTSON: I think you have to be careful about making these extrapolations on recent international events. I mean, of course the world is a different place from what it was at the end of last year, but if you're looking almost 13 years ahead, I mean, if we say we can't do that then we're going to have a review every year and that would be disastrous.

MR PURNELL: We're not saying that. I don't think that's the logical conclusion. I would be interested to debate with you whether you had any optimism about the WTO system at the moment.

DR ROBERTSON: I don't think that fits in, you see. You know my views on this which is that we can't change the rest of the world. We can only change what we've got control over and we have to decide what's best for ourselves, the same as they do. If they're prepared to penalise themselves by raising tariffs and barriers of various kinds we don't have to follow suit. Now, there are qualifications to that of course, but a lot of people have said we shouldn't reduce our tariffs until others do, but then when you think to the second stage you have to say, "Well, what do we mean? Are we talking about bilateral arrangements? Well, we can't do that because we have to have reciprocity under the WTO, unless you do a free trade area. Are we going to have bilaterals with all sorts of other countries? That's the breakdown of the WTO system so, you know, you have to be careful in looking at what others do.

MR PURNELL: But I'm not implying that. I'm simply saying that to provide some level of crystal ball gazing, that we think it's prudent to have a review in 2008 as opposed to saying that nothing can happen in any absolute term unless other countries respond. I mean, we see a reciprocity but we don't see an absolute complete nexus. I mean, these things are going to be happening. We appreciate that Australia has a position about tariff reductions and assistance to the last two remaining sectors, autos and TCF, that have significant assistance, and that is our position within Australia, and broadly speaking we understand that, but I think there is a position that we do operate in a global trading world. We do think that there is some need to understand what reciprocity is around and we certainly, as I look at it, I am becoming more pessimistic about just where the world is going and, you know, I mean, yes, you could say, "Well, tomorrow we don't know what's going to happen so we'll review everything tonight," and I'm not getting in that ridiculous position so I don't want you to take me to that extreme, commissioner.

DR ROBERTSON: No, no, but in fact, I mean, I can't remember how many reviews TCF has had in the last, well, 30 years since the IAC was established. I mean, it must be about every four years and as I understand it the intention in the policy announced in 2000 was that 2005 was the end. You know, there wouldn't be another one. We would change the tariffs after that but we wouldn't have another major review. Here we are, we're doing one now, we'll do one again in three or four years' time. I don't know. I just think that keep on looking at the issue is in fact perhaps doing more harm than good.

MR PENSABENE: I mean, that's an argument that we expect you to put back to us but good public policy is about review and evaluation and the more you can do it the more you monitor change and outcomes, the better the outcome going forward.

DR ROBERTSON: Not necessarily.

MR PENSABENE: Sorry, I'm not aware of a situation where monitoring an evaluation doesn't lead to good outcomes if you're trying to reflect the reality of what's facing you. I mean, I don't know, for instance, whether John Howard will be prime minister in 2008, you know. Do you? No-one really knows and really all we're saying is that it makes good practical sense to say, "Look, why not look at it again somewhere down the track?"

DR ROBERTSON: I'll refrain from comment on the last one for fear that I might do my reputation some damage. But coming back to SIP, how much do you really think - - -

MR PURNELL: So we haven't convinced you about the review?

DR ROBERTSON: No, you haven't, you haven't, no, but that's not up to me really, it's not up to us, because ultimately if there's a change of government between now and then there may well be a review. I just don't think you should earmark, okay?

MR PURNELL: We would like to think that our argument had strong enough merit that you would accord with that view. I'm disappointed.

DR ROBERTSON: You're not the only one that has made that proposal so you're not alone. We'll have to take it into account. Coming back to the SIP, I mean, what you've said sounds very reasonable but in fact is extremely difficult to implement, I suspect.

The reason that I think SIP has the five categories and all the rest of it is because they couldn't work it out last time because four and five have not been used, three has been seldom used. You're going to add on reforms for labour productivity which is an extremely difficult one to get your hands around. Even if you took the figures you mentioned of 1.4 billion remaining for the existing structure, if you added in labour productivity you'd probably want to add in some more, and the amounts are increasing all the time. It looks as if rather than pushing the industry towards becoming competitive, what we're actually doing is giving it more sustenance from the budget.

MR PURNELL: I mean, that's almost a contradiction of the scheme, that is if you give a scheme enough grunt to do the things you want, you're saying you almost create inefficiencies within the sector. That's not what we're saying.

DR ROBERTSON: No, but it's more assistance. I mean, the objective, as far as we're concerned, is competitive.

MR PURNELL: Assistance to have structural reform and to become internationally competitive to be able to meet the ultimate target date.

DR ROBERTSON: But will it ever become competitive if you keep on pouring money in in ever-increasing amounts.

MR PURNELL: Our objective is that we're not about props for companies that can't ultimately be competitive, it is about a time frame.

MR WEICKHARDT: Can I just test whether your proposal is actually going to do that though. For reasons I fail to understand about the benefits of modulation, can you just - why is modulation of benefit to anyone?

MR PENSABENE: That's where it will lead to in terms of some of the discussion. But, look, we're not - - -

MR WEICKHARDT: I mean, if you're going to - - -

MR PENSABENE: I know the point you're getting at.

MR WEICKHARDT: Do you spread it thinner across everyone? If you spread it across this whole industry you get 1 per cent roughly of sales to everyone. Is that your ideal?

MR PENSABENE: No, of course not. That's what I was about to answer in terms of your question. I mean, it would be a nonsense to think that everyone in the TCF sector can get assistance on the program. You would need not 1.4 billion, you'd probably need 140 billion to properly accommodate all that. What we are saying is that the current program does have some - should provide for some degree of flexibility to accommodate more entrants. Now, the question is how many is at issue and I think we're not talking about opening the floodgates but we are looking at the option for small to medium companies to gain better access in a fairer way to the program.

It doesn't mean you wouldn't have a cap on the program. It doesn't mean you wouldn't have a fairly tight eligibility requirement as it currently applies. It doesn't mean you wouldn't have strict guidelines about what would be eligible for expenditure. But it can accommodate a much broader rate of expenditure. The question of modulation is the question of by what degree of modulation should be facilitated. We don't have a clear answer to that. I mean, we can look at the experience of component manufacturers who had modulation applied. I don't hear them complaining. I don't hear them saying there's no certainty. I don't hear them saying that they don't get any efficiency benefits from funding or they can't drive their industry forward. Indeed you could even argue - - -

MR WEICKHARDT: In the automotive industry you'd find there was a lot of complaint about modulation.

MR PENSABENE: Not from the components; maybe from the car manufacturers.

MR WEICKHARDT: From both sectors there's a lot of complaint about modulation.

MR PENSABENE: Maybe during the auto inquiry process as part of the lobbying process that might have been a part of some of the discussions. But you could even argue, taking your proposition that, you know, why are we giving more. Well, essentially what you'd be doing is actually giving less to individual companies and in a sense that should be a less reliance upon funding. So you actually achieve the objective you're seeking to do by having a more flexible program.

MR WEICKHARDT: Well, I guess the question is have you targeted it people who are going to make a difference and make this transition. I'm not suggesting that SIP is achieving that at the moment, I'm seeking to understand your submission.

MR PENSABENE: I would acknowledge that it's a large proposition to change the program to one where I think there's more flexibility and a greater scope for companies to achieve efficiency gains for low productivity. But it doesn't mean that it's impossible and it doesn't mean it's not a desirable outcome and I think there would be a need for fairly detailed design work to accompany that.

MR WEICKHARDT: Can you talk about the issue of process efficiency. In my understanding there are a number of companies we've visited who have made claims on process efficiency improvements.

MR PENSABENE: My understanding by way of R and D that's possible but we're talking about broad process efficiency improvements that may not necessarily be related to R and D.

MR WEICKHARDT: Which involves capital or involves R and D.

MR PENSABENE: Some of it may involve capital, some - - -

MR WEICKHARDT: I would have thought both are allowable under SIP under type 1 or type 2.

MR PENSABENE: They are, that's right. But there are instances where small companies who can't meet the threshold requirement are missing out. We raise also the proposition that maybe a broader approach to productivity improvements is desirable. We don't necessarily have all the technical details to say what is in and what is out but it is clear that companies do achieve productivity returns through more than simply R and D and capital investment. I mean, there's a whole range of spin-off benefits from software IT usage. There are supply chain benefits that could be achieved and there could well be broad process benefits to be achieved. There could also be management changes that will facilitate stronger productivity. All we're saying is that we shouldn't cut that off completely from the funding program.

MR WEICKHARDT: There's also a lot of people saying, "Please make it simpler," so I hope you're going to tell us how you can do all this and make it simpler too.

MR PENSABENE: It's part of the challenge, yes. I acknowledge that there will be the issue of getting the design to meet those balancing objectives. I mean, I think there would be some trade-off in simplicity but in saying that there should be a broader to the program, that's not denying that investment and R and D will be probably the chief focus of the program. I just don't want to give the impression that we're talking about radical, totally changing the program to something radically different. We're talking about fine-tuning the program to facilitate some of these changes.

MR WEICKHARDT: Okay. Your point that funding should better reflect the distribution of activities and firms within the TCF sector, I mean, does that mean that you feel because there are X per cent of shoe manufacturers or X per cent of skirt manufacturers or X per cent of T-shirt manufacturers that it should be democratically smeared across those sectors?

MR PENSABENE: No, but I think you have to ask the question when you see a program that's so much out of skew with the distribution of the companies and the output that there might be something in the design of the program that's leading to that outcome. That's all we're saying.

MR WEICKHARDT: It could be but, I mean, going back to your survey you say the companies who are receiving SIP are more inclined to spend capital or are more inclined to spend R and D. That could be because they self-selected themselves - is this a chicken or an egg situation?

MR PENSABENE: Yes, probably a bit of both.

MR WEICKHARDT: I have some questions I'd like to go back to on entitlements too.

DR ROBERTSON: Let's just finish on this one first. I'm still a bit worried about how much you think we should increase the SIP. I mean, you want it to go for 10 years and presumably in order not to handicap the ones that have been taking advantage of it, you would increase the quantum quite substantially to allow in others.

MR PENSABENE: Our proposal talks about maintaining existing funding arrangements, funding levels.

MR PURNELL: We put that cap on it of 1.4 billion.

DR ROBERTSON: You stick at 1.4, okay. So then you're going to spread it differently.

MR PENSABENE: Well, that's one of the issues, I think, the question to what extent you would spread it more thinly.

DR ROBERTSON: One of the worries that we've had pointed out to us is that most of the money goes to the big companies, most of it goes to textiles rather than clothing, for example. The question we have is whether or not that leads to additional investment or whether it simply funds investment and it would have already taken place. Have you given any thought to that?

MR PURNELL: Given a lot of thought to it but, I mean, that is the question asked of every support program that I've ever been involved in. I don't know whether there's ever been a really definitive answer. I don't think we can give you that definitive answer. I mean, you talk to the companies, would they or would they not, the response is that overwhelmingly it does make the difference. It does provide the certainty there. It might just make the difference between something that's marginal, yes or no. To try and give empirical evidence has always been hard on many programs. There's usually significant lags. So, I mean, if you look at the data available now of what is SIP doing, you might say how effective has it been. I think overall the industry would say there are lags there. We probably don't have official data that would reflect truly what's happening. So without being able to have data that's absolutely accurate in reflecting, because it's lagged, we'd take what the industry is saying and what hopefully will show in official statistics - - -

DR ROBERTSON: Eventually.

MR PURNELL: - - - eventually, and I think that's the best answer I can give you.

DR ROBERTSON: Okay. Phillip, do you want to take up the entitlements issue?

MR WEICKHARDT: Yes, I just want to clarify - I mean, you've said you do want to see GEARS legislated. That would certainly address one issue that's a fairly constant point of contention I think with some of the unions. Are you also advocating this change in order of entitlements in terms of the case of preferential availability of funds to creditors?

MR SMITH: We have some significant concerns about that issue.

MR WEICKHARDT: Okay. I'm not asking you to debate it, I just wanted to clarify - - -

MR SMITH: No, we're not.

MR WEICKHARDT: Okay. We propose in the position paper some form of overall inquiry because I guess the feedback we have received from a large number of firms and the unions was contrary to your assertion that this now meets community expectations, it meets the community needs and if only people gave it a fair chance it would do the job. Now, you might be right but the noise level we received was pretty high and the number of cases of companies still incurring industrial disputation and trying to solve this problem at a firm level - which I think we're in heated agreement isn't the right answer - still seems to suggest that this is a pretty hot potato. So the question is, apart from continuing to bang your drum and say this is good enough, what do you suggest is going to be a circuit-breaker that stops industrial disputation? The very firms that ought to be becoming more productive with unions working effectively with them to become more productive, are bogged down in the trenches arguing about this issue.

MR SMITH: Yes, we've been living and breathing this issue now for three or four years. We have analysed it from every direction. We just focused on it enormously. Personally I've had a lot of involvement in a significant number of industrial disputes. Tony Dalton has been involved in some of the big industrial disputes in this sector about it. But when you analyse the issue to the extent that we have, we keep coming back to the issue of the fact that there is an appropriate set of arrangements in place and we have debated them endlessly with unions, the ACTU level through the national secretaries of various different unions in numerous forums, and we have not been convinced that there is a need for other arrangements.

Now, we question the motives of unions in continuing to raise concerns about this issue. They are trying to establish trust funds that we - for the very reason that the royal commission has identified in its report in great detail in one of the volumes, and I perhaps should have had some - - -

MR WEICKHARDT: You don't need to convince me about that.

MR SMITH: But what the royal commission highlighted - and it was highlighted in the Giles royal commission - that the idea of having some complicated trust fund where everyone has got to pay into it, that is there for the purposes of protecting entitlements is fanciful. There are other motives associated with these trust funds. The reason why unions continue to raise the issue, in our view, is because they want to establish these trust funds. That is where the problem lies with that.

MR WEICKHARDT: That might be the case. However, there was a lot of evidence provided to us - which we didn't try and chase down in each case for accuracy but it appeared plausible - about long-time delays in companies that have become insolvent before liquidators were appointed, with individuals waiting in some cases up to two years to receive money and in some cases still hadn't received money from GEARS. So I have no sympathy personally for the idea of unions thumping the drum about trust funds, but I do have a lot of sympathy for an individual who waits two years for some sort of entitlement under GEARS.

MR SMITH: Commissioner, that information is very publicly available. Once a year the auditor-general does a review of the GEARS scheme and it analyses what has been paid, it analyses the average delay and so on. What that information shows is that there is a natural time delay of course because when a company becomes insolvent it's the insolvency practitioner that has to evaluate all the claims on a limited amount of money. That process takes time. Once the insolvency practitioner has determined the competing claims our analysis of that independent analysis of GEARS is that the department pays the money very quickly. If there are any problems in that area then that is an area that is easily addressed.

We have not ever had any problems with raising issues with the part of the department that administers GEARS. They're very approachable and we are not convinced that there is a problem in that area, other than the natural problem that occurs. You've got, for example, the issue of independent contractors, even labour-only contractors. Those people are in a position very similar to employees. Whatever you give the employees there's less money to give to those people who are lower down in the priority order. So it's a matter of fairness that the issues are appropriately evaluated before those amounts are assigned to any particular party.

MR WEICKHARDT: So you think two years is an uncommon experience, do you?

MR SMITH: It is definitely uncommon, and the auditor-general's report which I'm happy to provide - because I've got a copy of it - shows that's not the average. That's really the exception.

MR WEICKHARDT: Perhaps I'd rather you had a look at the union submission and commented on some of the assertions they've made there.

MR SMITH: Just on that point, commissioner, one of the documents that is attached to our latest submission is a response to the TCFUA and they continue to raise these issues with us. We continually give them back factual information and we have not had any adequate response to our arguments. It's just a series of what we believe are unsubstantiated arguments that are not backed up by facts, and the facts are clear and we've analysed them, as I've said, in great detail.

MR WEICKHARDT: Okay. I'll look forward to reading that. Just in terms of your survey which you've quoted in your original submission, I was a bit intrigued by the fact that the firms you surveyed all suggested large declines in local production, 85 per cent; employment, 74 per cent; new investments 60 per cent. But only 57 per cent of them said that prices were declining. Given the fact that tariffs normally would be expected to cause pressure on firms through price declines, I'm sort of curious that only 57 per cent thought prices declined but 85 per cent thought local production would. How do these invaders suddenly sort of steal all their market if the price doesn't go down.

MR PENSABENE: I'm just trying to remember that. I think that's the question about what had been changed in the last five years, I think.

MR WEICKHARDT: Yes.

MR PENSABENE: I suspect part of the answer is to do with the fact that price deflation has only been a phenomenon we've seen in the last couple of years with excess capacity and prices being pushed down. I really can't comment on the years before that. It may well be that a lot of companies have been holding their prices. I really don't know.

MR WEICKHARDT: It looks curious.

DR ROBERTSON: Okay. I was just looking back through the submission myself. I may get in touch with you on some questions about the same sort of thing. I can't remember exactly what they were at the moment and we're already at our time. In your latest submission on page 6, you refer to this Victorian government thing, figures. Did you see the report?

MR PENSABENE: I saw the presentation material, which is essentially what you've got there. I haven't seen the full report.

DR ROBERTSON: No; nor have we.

MR PENSABENE: I gather it's by National Institute. So, you know, I can't really comment on the methodology or the detail, but the basic proposition that's being presented is essentially no different from the modelling work that you've done in previous reports, that essentially there are going to be significant regional impacts from tariff reductions. You know, you may want to quibble about the numbers, the size - - -

DR ROBERTSON: Well, we can't quibble about the numbers because they won't give them to us. I mean, we got in touch with the Victorian department last week and asked them if they could provide us with details of this NIEIR report. We were told that it wasn't available, not to us at this stage. Now, you know, we're at the end almost in the sense that by 20 June, we need to have all submissions. They said they would provide it ultimately, but lots of people are quoting it to us and we just cannot accept it at this stage because we don't know where they come from, how it's being done, and it's holding us up. A lot of people are using these numbers. I just wondered whether you - - -

MR PENSABENE: There is a presentation which I'm happy to forward on to you, but I know what you're saying.

MR WEICKHARDT: I don't think the presentation is the issue, and you know you can produce anything out of your model. We held a modelling workshop in Canberra to try to avoid this sort of issue of people sort of saying, "You know, my model suggests X," to try to get everyone together to say, "Well, what are the assumptions behind this and what does it all mean?" Now, unfortunately the organisation that has done this work declined to attend that. So I think if you can simply go back to the Victorian government and say - and I'm sorry we're using you as an intermediary, but I think given the fact you've quoted it as a reputable organisation, their numbers, to simply say, "If you want your numbers to have any influence on this inquiry, you've really got to provide some substantiation of how those numbers were derived, of what assumptions were made behind them, what model lies behind them," because other I think very reputable modellers have predicted different numbers.

MR PURNELL: That's a fair comment. We'll do what we can to get you that information.

MR WEICKHARDT: Okay, thanks.

DR ROBERTSON: Look, we're running a bit over. I don't know, Leigh, whether you want any final comments - - -

MR PURNELL: No, thank you.

DR ROBERTSON: Well, thank you very much. That was very useful. We'll take a short break.

DR ROBERTSON: You've been here so you know the way we run the show. If you'd like to lead off and we'll comment on what you've got to say or ask you some questions. Thank you.

MR BUTLER: Yes, commissioners. Thanks for the opportunity. I guess I come to the table as a practitioner in the technical non-wovens industry, and as an overview of what I'd like to talk about, it's basically - I want to focus my comments to the SIP scheme to give you some background on how that scheme has been applied to a business, and to maybe suggest some improvements that could make the scheme more effective. I really don't want to talk about tariffs and those sorts of things, except to say, I guess, that as I said this morning, I do have great sympathy for those who are going to have to go through the process of change, and I think the report that has already been presented also makes those same comments.

Also I think I come to the table really maybe with an international perspective about the non-wovens field. I've operated on a global scale for some 18 years, and I think maybe have some comments to make. I think in some regards, when I look back, I've been involved in the industry since 85 and the government has been quite supportive of the process of change over that period of time. We have had the TCF Development Authority, we've had the export credit scheme and the SIP scheme, and I think in comparison to, for example, some of the adjustment measures that the Europeans have had to put up with, we've had a very supportive approach from the government. We should bear some thanks for that. I think also as far as the SIP scheme is concerned, we've had a lot of support from AusIndustry. They have been tough. I think we're one of the companies that have been audited on two occasions, but I guess as a citizen of the country, it's nice to know someone is being very diligent in handing out a lot of money.

In many regards, just over the years of SIP, since the SIP scheme has been in play, you could look back at it and say that business has been a bit of a lottery in many ways. For example, in our industry we buy our equipment out of Europe and, you know, we buy the equipment in Euro. The Euro to the Australian dollar has been relatively stable over that period of time. However, most products that compete in our industry are all imported and they're normally imported in US dollars, and as you're probably aware, the US dollar has moved from 47 cents to 66 cents, and my calculation is that's a 40 per cent swing. As I said, that's a bit of a wildcard when you have to buy your equipment in a stable currency and your competition is moving the other way. Success though really is about timing, looking for opportunities and being able to move with those opportunities, and in my opinion opportunities exist right at the moment in the Australian industry, and I think it's crucial that we have and are given the incentives to move quickly to try and get the business stable, so that we can be sustainable over the long term.

I think as far as my business is concerned, you'd describe us as an SME that is growing quickly. We have two primary problems that are going to constrain our growth. One is the cash necessary to invest in new equipment. The equipment is expensive. I think the other issue we need to do is to convince our prospective new customer base that the business can be internationally sustainable over the longer term. I think there's some interesting ratios that I'd like to put forward on the public record in the hope that people can see that changes going forward can be sustainable in our industry. Our labour rates as a percent of sales have declined from the year 2000 - they were about 11 per cent of sales - and currently in 2003, they're 8.9 per cent of sales. We believe that they will plateau out for the year 2004 through to 2010 at 8 per cent of sales.

Our overhead structure - I think we have a reputation for being very focused on trying to drive our efficiencies, and we've managed to get our overheads down over that same period of time. 2000 they were 36 per cent. We expect that overhead reduction to reach 20 per cent by the year 2004. I think the key and crucial thing is the ability to drive a technical textiles business with a labour content of sales of 8 per cent. In years gone past, our competition for sophisticated materials was either America or Europe. The competition is no longer Europe or America; the competition is now China. Hence the question is, can we be sustainable when the competition have moved to China? There's a couple of issues here. I've already mentioned about the currency movement. I'm a great believer that the REM MB, you know, cannot remain pegged forever and when it does go, it will go with a big movement.

But I'd like to go back to that percentage labour cost that I mentioned of 8 per cent. On non-woven fabrics, there's a 5 per cent tariff. That means there's three percentages points. Even if the labour content in China is Euro, we have three percentages points disadvantage when you consider currency movements of the order of 40 per cent. It means the whole thing is out of question. I think the worst problem for the industry really is the perception that it's a dying business rather than an exciting business that has a future, and I have to admit I've been shocked trying to convince some of our major potential new customers of the fact that they can buy products in Australia at prices equivalent to those in China.

I guess I'd like to move forward on this argument also in the amazing differences that exist in things like availability of fibres and proccesors. Australia is extremely lucky in that we don't have fibre cartels or other forms of distortions in the fibre market. You know, the world price for viscose can be anywhere from $US2.20 a kilo to $1.30 a kilo; again, a huge swing. Polyester fibre can be anywhere from $1.75 to 80 cents a kilo; again, a huge swing. I think Australia is very fortunate in that, particularly in the technical textiles industry, that we have the right dynamics that will allow the industries to be sustainable, and I think also we have the availability of materials here in Australia that, for example, the Europeans don't have.

So going forward, I've tried to present the picture that I feel very strongly that we have a sustainable business, and not only my own but the technical industry generally. So the question really is, well, if the business is there, what's the problem? Why have I come to the table? It's really about the complexities of some of the SIP scheme, and particularly with regards to cash and cash generation, and I've made that submission in the written format. As I said, SIP has been a major factor in the turnaround of my business, not just the grants that have been received but I think the comfort that it has given the financial institutions to continue to support us. But there are two problems with SIP that I'd like to bring to the commissioners' attention. The first is that there is a 5 per cent cap, what we call a WTO cap, 5 per cent of turnover. We made an approach to Canberra through AusIndustry to present the argument that this was a major disadvantage to small companies because a major investment takes a year of detailed engineering and it takes basically two years to bring that plant up to full production. We've been asked, "Why does it take so long to do that?" It's a complex business, and I think those involved in process engineering will understand why that would be so.

The scheme has been modified to allow us to roll the grants forward which, you know, we are very thankful for, which means that essentially we don't lose those grant funds. I apologise - this is a dry argument, but it is to us critically important and also, I think, of great importance, you know, to the forward restructuring of the industry. As an example, we have made some major investments and you've been able to see those, that equivalent operating. The problem really is that the investments we made in 2002, if as a company we stopped investing money today, not another penny in either type 1 or type 2, which I would like to reassure you we would not do, but if that is the case, we would not receive the final payment until March 2005, which is some 31 months from the time we made the investment. There is another problem. At the end of the current scheme, there will be something just under a quarter of a million dollars outstanding that still needs to be rolled over. I know it's a complex thing and I put the numbers on the table and am prepared to support them, but I'm just indicating that that "WTO" thing is a major disadvantage as far as cash flow is concerned. I mean, the cash comes in, but it's the cash flow argument which creates the problems. The second problem really has - - -

MR WEICKHARDT: You might be coming to this but do you have a solution to that problem?

MR BUTLER: To that one, I don't, no, because of the WTO situation. I just don't know how you can get around that problem apart from things which may be aren't in the spirit of the act. There are ways around it but we're not prepared to do that. What it basically boils down is that we need to increase our turnover, that's all. We just need turnover so we could buy and sell things at the same price to increase the turnover, but we're very focused and it's very easy to take your eye off the target so it's something really to put on the table to find out if the - I believe that people recognise the problem. I don't know what the solution is.

MR WEICKHARDT: Yes. Perhaps we can come back to that.

MR BUTLER: Okay. The other problem, and I think you visited the Textor plant in February of this year or something. To be honest I don't think we were aware of the complexity of the second point I want to make. The type 3 grant basically allows you a doubling of type 1 and type 2 up to 5 per cent of the value add. The value add is defined as a percentage in the dollar, 46 per cent or whatever the percentage is, multiplied by the turnover. For the record, the value add in our company is 46 per cent. I would like to present a slightly complex argument, but for a company of, say, identical - operating in the same industry that we operate in with a value add of 46 per cent but say, for example, there are larger companies, say $50 million, if they had have spent exactly the same amount of money that we've spent, at the end of the first stage of SIP they will have received back $1.175 million more than Textor, and I think in some ways that's a little unfair.

Why is that so? Because for smaller companies growing SIP hits you on two fronts. It defers the cash payment; and secondly, it reduces the amount that you've got forward. For example, in the year 2002, a larger company would, for the same investment, and the same type that met the requirements of the act, would have received a 40 per cent rebate on their investment, capital investment for type 1. In the year 2002 we will receive 26. It's a powerful argument and I have used numbers in the public forum but to us we believe it's - yes, it's not within the spirit of trying to get companies to grow and grow quickly.

To answer the question, commissioner, I think you were going to ask, how do we overcome the problem in type 3? One way around that would be to abolish type 3 and raise type 1 and type 2 to 40 per cent and 90 per cent. That could be a possible solution. I don't fully understand why type 3 was included in the process.

MR WEICKHARDT: Do you understand why the cap was ever put there for type 3?

MR BUTLER: No.

MR WEICKHARDT: Nobody in AusIndustry has explained that?

MR BUTLER: We're just at the stage I think of - we're just starting to refine this argument. We're just starting to present it to Canberra and through AusIndustry and I think there's a degree of disbelief that the numbers are current but they are. That completes really what I had to say. I mean, I've already got a thorough written submission. I don't want to change that under any circumstances. I just think that that point on type 3 was so powerful for us, and to be quite frank, it got through to the keeper. We weren't aware of the impact of that on our business.

MR WEICKHARDT: Somebody put to us that they had actually had the experience of making an investment to improve efficiency which reduced labour cost which ended up perversely reducing their value added and they then capped out. I found the arithmetic of that a bit hard to understand quickly as they were talking. Have you had any experience in that sort of thing?

MR BUTLER: That doesn't make - I mean, all I can do is I'm very focused on my own business, my ratios. I can't really understand how that would work.

MR WEICKHARDT: Okay.

MR BUTLER: It's too complex for me.

MR WEICKHARDT: There are two of us now then.

MR BUTLER: Yes.

DR ROBERTSON: Perhaps you would like to go away and sort it out. No, that was very useful, especially on this SIP type 3 because over the period of the last day and a half it seems that having five types of financing available under SIP, three of them we have had doubts about them and now you actually indicated a fault rather than just doubt.

MR BUTLER: I'm not sure it's a fault. I just think it discriminates against smaller companies and I really feel in some ways that the object of the SIP scheme was to allow the industry to grow. The SMEs do have the power to grow and grow very quickly. I have heard some comments from the commissioners about amalgamation as a way of growth but in some ways this is a very creative business. I mean, I have thrown a lot of figures about fibre movements and types and things and equipment. A larger company has a tendency to be quite bureaucratic and can't move at the speed that we can. We're really modelling our business on the emerging European companies, particularly a lot of the Italian businesses that are of the order of 40 till 120 million size; very focused, very close supply chain arrangements with major international corporations and being flexible and adaptable to be able to move as the technical requirements change over time.

I mean, if you put the equipment the product demands aren't going to last for 10 years. We have to write out equipment off over five because it's such a dynamic industry. Things are changing so quickly.

MR WEICKHARDT: Can I just test opposite type 3? I can't immediately think of a way of solving the first point, the 5 per cent cap on sales unless, and this might be disallowed under WTO, unless you could be loaned the money that you were entitled to down the track to sort of solve your cash flow problem. If it was advanced as a loan I don't know whether that would solve the WTO issue, but we might explore that.

MR BUTLER: That's a great idea.

MR WEICKHARDT: But opposite solving your type 3 problem, do you have a view from your own experience, both insofar as how it would change your behaviour and how it might change behaviour elsewhere in the industry, whether it would be better to solve the problem by simply removing type 3, and as you suggested, doubling up the entitlement under type 1 or 2, or alternatively, simply removing the cap altogether under type 3?

MR BUTLER: I can't speak for the industry. I can speak for our own company. If we could just double the entitlement it would accelerate investment quite dramatically.

MR WEICKHARDT: Would not removing the cap under type 3 mathematically produce the same result for you?

MR BUTLER: No. No, for us it would be worse because our rate of growth in sales is quite exponential and again this understanding, we had the pleasure of the Minister Macfarlane down saying, "Well, why does it so long to get the machine up and running?" This is extremely complex equipment and our customers have extremely complex supply chain arrangements and it's a form of insurance. You know, 10,000 components make up one particular line. If one of those things goes down you get zero output. It's either 150,000 square metres a day or zero. There's nothing in between.

MR WEICKHARDT: I mean, I'm speculating that type 3 might well have been introduced to try to avoid a situation where people would simply get rewarded by spending money on capital and R and D but produce nothing, but the capping out on a rapidly-growing sales line that you have described, I suspect, as a mainly intended consequence.

MR BUTLER: Yes. As I said, we do take an ethical attitude towards the industry and we support the industry. The industry associations and things do support AusIndustry. We supported the fact that we had two, not just audits through PWC, but audits from AusIndustry and we'll probably get a third. I don't know why, but we support it. We don't have a problem with it but, yes, I can understand why, if that was the fact that it was just money for - - -

MR WEICKHARDT: I don't know. I'm speculating.

MR BUTLER: Money for expenditure, but I don't understand why someone would spend a couple of million dollars to get $800,000 back. I don't understand why someone would do that.

MR WEICKHARDT: The capping out under type 3, are you allowed to roll that forward too?

MR BUTLER: No. So it doesn't matter how much I plea, that's gone, so in the first part of the scheme in comparison 1.17 million negative, and for a small company that has suddenly become - - -

DR ROBERTSON: I'm sure it is.

MR WEICKHARDT: In general from what you have sort of seen as SIP and the way SIP operates and you have talked about your international sort of experience and presumably you have seen counterparts operate in Europe - I mean, to what degree can you make some comment about the efficacy of SIP, the generosity of SIP versus other international practice? And the degree to - you have heard from the submission before there are lots of people who want to see SIP continued at the current rate for a long time. I think its intention was to buy transitional behaviour change and I applaud your comment saying that's the way you view it. Other people see it as there for the long term. Do you have any comments about the way you sort of perceive that compared to international practice?

MR BUTLER: I can give you a few from the parent company that I work with many years was English based so I know the European scene very well. I don't understand the American scene and I don't understand the Japanese situation. I do have some experience in Asia, Korea and in China. So from that perspective I think the scheme is very encouraging for investment. The problem with the Australian market really is, and one of the reasons why my company failed in the past, was the view was the markets were too small, they were too far away, it was just insignificant. It's much better to put something in China. In fact, I built plants under my responsibility in China and Sri Lanka were the two that we completed so we have that negativity about the size of the perception that Australia is an insignificant part of the world textile scene.

But putting that to one side, I think, in comparison, it's a very supportive scheme. I commend the government for what they have put forward. I think it's a great incentive to get moving and there are opportunities there for businesses to change and to focus on those areas that will have a sustainable future. So in comparison to, for example, England where I have seen - it was an English textile company. The English technical textile market has been decimated, as has the German market, and it has moved offshore to Turkey.

DR ROBERTSON: Why is that? I mean, we came round to your plant and it's - - -

MR BUTLER: I think it's flawed, to be quite honest. I think what's needed is really a new way of thinking; how to measure profitability; how to approach customers; how to move things. I mean, in our own way, a very simplistic way of deciding whether or not we're going to attack a market, and in the past we were very elitist. We only wanted very high margin, especially technical materials. We suddenly found out that we can make very good rates of return by being internationally competitive and accepting the rules that exist in this market. I mean, this is a global market. The people operating in - be they China or anywhere around the world, are likely to be running the same sort of machinery that I'm running, the same brands that I'm running.

We put together building blocks and the building blocks may be different but, you know, you see the same German, French, Italian machinery, so it's really about how you approach it; how you approach your labour force, but that's the way it has happened. I think unfortunately the industries grew up in the UK and in Germany and there are a lot of entrenched problems.

DR ROBERTSON: Really?

MR BUTLER: And the ability to be able to work their way through those problems, it was easier just to go to Czechoslovakia or Poland or Turkey because everyone was doing that. I guess in some ways we're challenging that point saying, "Well, look, hang on a second, labour is only 8 per cent. That's not the problem."

DR ROBERTSON: Since we came to see you we also went to Kimberly-Clark and as I recall I think there had nine or 10 people on duty and was 24 hours a day, seven days a week, and of course the nine people were very well qualified. Now, in yours I seem remember it was 16 or something.

MR BUTLER: On each shift we would have about eight people.

DR ROBERTSON: Yes, so 24 overall sort of thing.

MR BUTLER: Yes. It all depends on - they have a lot more support staff than we do.

DR ROBERTSON: Yes.

MR BUTLER: But I think we have all got to learn by that. I mean, the key point there is that Kimberly-Clark runs 24 hours a day seven days a week. We've got to start to address those issues too. We shut down at Christmas because the textile industry shuts down at Christmas. I mean, I'm supposed to moving change and it has come as a shock for me to suddenly realise that the thinking we've been applying in the past really is no longer relevant and everyone needs to change, and so the process of getting a team of people on side and your employees on side to be able to make those transitions is critically important.

MR WEICKHARDT: Phillip, if you put to one side the concerns you have got about the cash flow impact and the capping out on the two 5 per cent constraints, in your experience is the design of SIP pulling the right levers? Is it motivating you if you sort of take your own experience to do things that you think are genuinely in Australia's best interests of building a competitive sustainable sort of productive operation or is it perversely making you behave in a way that's really counterproductive?

MR BUTLER: I can answer that with a practical response that happened. We had a business in Korea, a joint venture in Korea, and it has just been liquidated, so all this beautiful equipment is sitting there and I had the opportunity to pick it all up at some very low price but SIP basically allows you to buy state-of-the-art business and also state-of-the-art equipment, but also state-of-the-art equipment that's tailored to specifically what you want to do and where the markets exist. So there's an example where, with my old ways of doing it, I would have been opportunistic and tried to cobble together something which really wasn't really relevant for the next 10 years. The plant you've seen is 2002 generation equipment. We are cooperating with La Trobe University and with CSIRO at the moment and we see the need for replacing all of our equipment of paramount importance because it will all be computer controlled in the future.

We'll still have the same number of people but we'll be driving those machines harder. They won't be working harder but they'll need to be trained in statistics and computer operations and with the new systems that are now coming in, they are also user-friendly. They're just touch screens like your ATM machine. They're that simple. You don't have to be an engineer to run them. It is possible - I mean, we were surprised; the new line you've seen, there's almost no manual labour there at all and we had Lily, who is a Macedonian housewife, used to be one of our trusted employees but used to work in a manual job, came up to us and said, "Can I try and run the machine," and Lily ran the machine. It shocked us and we suddenly realised that with the right equipment, state-of-the-art equipment, all user friendly, it's possible to take people and convert them into running world class machinery.

MR WEICKHARDT: The Lily test.

MR BUTLER: The Lily test.

DR ROBERTSON: That's all fascinating. Look, have you any suggestions about how SIP might be amended? We were going to finish up with one of two by the look of it and the rest of it is going to perhaps be changed and I just wondered if there's any specific kind of objective for SIP assistants that you can think of that would be helpful; not only to, you know, a high tech industry like yours, but perhaps even extending further .

MR BUTLER: I think it's very hard to have one scheme which tailors everything. I think with due respects your suggestion about a loan on type 1 is a great way round the problem. The solution to type 3 is to abandon it and multiply it out. I think for the technical - I can speak from the people that I know. The technical textile industry, I think, has been a great boon for us and it has helped the industry move forward quite dramatically. In some ways it has brought the industry together. The industry has now formed an association and it's very dynamic so it has all just been positive.

I mean, it is, I guess in some ways, a coincidence but the industry association has been formed at the same time SIP has been formed and the whole industry has been transformed in a very positive cooperative way; even to the stage where we, you know, share training, share equipment, spare parts, information on fibre sourcing. That would never have happened three years ago, never, but it is happening now. So I think in some ways, you know, SIP has been part instrumental in maturing the industry and giving it a focus that the opposition wasn't internal in Australia but the opposition is the export potential and the important replacement potential. In other words, the threat is really external, not internal.

MR WEICKHARDT: Just for the record, I mean, could you clarify your point? We, in the position paper put forward three alternative ways in which SIP might be modified. One was really sort of extension; that it was a modification to the existing scheme. The second was based purely on value added and the third was based on some form of competitive application; the beauty parade, we called it. Which of those alternatives would you be voting for?

MR BUTLER: Well, the second option, no. So, I mean, we would be very selfish and think we would have a good chance on the beauty parade but I just wonder whether picking winners is a fair and equitable way of doing things. I think if the current SIP scheme could be modified so it was more equitable than the definitions of capital investment and R and D, you know, they seem to us to be fair and reasonable and we can work our way through those so we would support probably modification of option 1.

MR WEICKHARDT: Again, if it was your firm and you were only with your own self-interest at heart, how long do you need for the support from the SIP-type scheme?

MR BUTLER: I think in the written presentation I have given you, I indicated where we would be. I think our figures show by 2008, 2009 our business would be self-supporting. You know, the cash generated from the business could stand on its own two feet and one of the critical things for us would be for us to reassure our customer base and they are all going to be sophisticated world-class customers, that we would have the capability to continually reinvest so that we could always be state of the art.

DR ROBERTSON: I think that's very useful. Thank you for that. I think you have given us more ammunition. I will accept it anyway. That's great. Thanks very much. We'll take a short break.

DR ROBERTSON: We tend to be as informal as possible and of course we assume everything you're going to say is true. The whole thing is transcribed of course so if when you speak you could announce who you are so you can be identified on the tapes, it would be helpful. What I suggest is we have more or less half an hour. If you'd like to introduce your submission and perhaps raise the major points you would like to and then we can discuss them and deal with questions if you wish.

MR WEICKHARDT: Please assume we have read your submission.

MR BRINDLEY: Fraser Brindley is my name. I'm a councillor with the City of Moreland in the Lygon ward, which is south-east Brunswick. Perhaps just to outline Moreland's interest in the TCF industry, I've got some figures here off the state submission, slightly different to ours. Our figures are that we've got around about 1900 people. The state says we've got around about 2200 people employed in the municipality. That's in and around that figure obviously - which equates to around about 7 or 8 per cent of Victoria's jobs in the textile clothing and footwear industry or about one in 25 of Australians with jobs. So we're no insignificant player in the TCF industry in the country. We're the largest local government area in Victoria in terms of employment. Yet since 1991 we've had around about a 50 or 60 per cent decline in employment in this sector and that's largely due to the first round of tariff cuts, as well as obviously the global factors which are playing into this sector left, right and centre.

To put the importance of this industry into context is our broader unemployment which is sitting at around about 9.2 per cent at the last ABS figures which is about 60 per cent higher than the Melbourne average of 5.7 per cent. So that paints a picture of an industry in decline which is integral to the municipality, in a municipality which is experiencing higher than average unemployment than Melbourne. For anyone who knows Brunswick and/or Coburg will know the importance of the TCF industry to the cultural and historic fabric of the municipality. Many of the post-war migrants who came out to Australia of Italian or Greek persuasion started employment in the TCF industries and that pretty much helped them build their society and build Brunswick and Coburg as we know it.

So it's both historically important and also important to the future of the municipality that we maintain this industry in as best shape we can possibly do, the thrust of which is that we see the propositions put before us by the Productivity Commission as threatening that, even as they are - the suggestion that you've put forward is the lowest of the four that you've dealt with. The eventual abolition at least of tariffs we see would be detrimental to this industry in Moreland and would put further pressure on unemployment in our municipality. I might ask Maria to kick it off in perhaps an overview of our submission which we've put to you so far.

MS BERRY: Yes. About a year ago we did some work and that's been attached to the submission that we presented and it looked at the pattern of change within the industry sector in the city. I suppose at that time we obtained a considerable amount of feedback from the industry in the city which has changed in its structure. Once upon a time the industry in Moreland was probably characterised by a very substantial proportion of large industry, and that's well and truly gone. The textile mills in the north of the city I think are remembered now really only by the chimneys that remain, the medium of planning protection. But there's still a quite vibrant industry in the city at the smaller scale - businesses that range from probably 250 employees down to the smaller 20 employee businesses.

We consulted with them last year and we're in the process of touching base again with them this year in relation to how they see the future of their industry. I think there's an acceptance certainly that change has been with them and change will continue to come. But I think for many of them they're struggling to find the ways to adapt and they're not finding that, while it might seem graded to some, it's quite rapid change in terms of the tariff regime and it has been in our consideration from talking to industry in the city, not being accompanied by an appropriately effective support mechanism. I suppose in talking to industry we've identified a number of things and they're I'm certain not new to you in terms of - even over the past year, our consultation with industry says that staff numbers are down, turnover is decreased, profit is decreased. These are due to other business factors, it's not just tariffs, but that's part of the settings of the industry.

Exports have gone up for some but remain the same for most. With a lot of firms there has been little investment because of the concerns they have about the future. Obviously investment only occurs in an environment of expectation of profitability and improvement. So one of the things we've talked to them about has been the SIP program. We've found a mixed awareness of SIP with two-thirds being aware of the people we've spoken to so far and one-third not being aware. A number of the people we've spoken to, a third have applied for SIP and those who have applied have been successful. There's another segment there though who are aware of SIP, investigated it and found that it's not targeted to their needs or it's not accessible to them. It's either too hard or too expensive or misses the mark for them. The reasons for not applying would be that they knew they couldn't qualify or it was too hard. It doesn't fit their vision of where the business is going to go, or that it's too complicated and time-consuming.

So in the context of substantial structural change in the sector with the tariffs coming down, we're finding that it's not working for people insofar as it should. There's been a mixed view about how beneficial SIP has been for businesses. The good points for people have obviously focused on their ability to upgrade their technology. The R and D improvement that they have been able to implement has made them more competitive. So there's a positive view from a number of those who have been successful, not uniformly positive but I don't think that's an expectation of any program that it's going to work 100 per cent. Interestingly, a substantial proportion of those who are aware of SIP thought that it needed change, on the basis again of too hard. They were looking for it to be made administratively easier to reduce the start-out point at which their investment - the 200,000 is certainly a barrier for businesses already suffering. They found the definition of innovation too hard or too restrictive is probably the best to describe it, and that it was not really able to be supportive of businesses at the smaller end of the scale.

Some of those businesses have got, I would think, a market opportunity to be responsive and short production run, able to respond in quick time, where there may be market measures in the future. But in discussing the problems with them it was they needed to adapt but the SIP thing didn't quite deliver what they needed to do. It won't be surprising for me to tell you that there was a sort of a mix of - when we talked about tariffs per se - in that context, resignation and unhappiness and not seeing enough assistance to get a clearer way forward. So in some ways I suppose it's worth saying that we perceive this as a double whammy - the reduction of tariffs which in our submission we've suggested would be better not to occur, especially since the benefits are arguable, but even that proposal is not accompanied by a really effective SIP program.

I think we made mention in our submission about whether or not - I think it's about $628 million that's the notional fund for SIP over the five years. How much of that is really expected to be expended? And looking at the table in appendix C of the position paper, it looks to me like the number isn't going to reach the allocated budgeted funds and I guess one would have to ask the question that, is the program really being terribly effective if, whether by design or accident, the funds that are supposed to be out there assisting the industry, don't make it out of the funnel?

Now, you can say that's part of the way it's been structured. I think we'd be looking to that sort of - both the money not going out and the businesses out there not getting value from it or not being able to access it. We say that that's plenty of evidence of a program that's in need of reform. I mean, to some extent you've touched on that in the position paper but I guess one of the concerns that you've expressed in terms of the potential for gaming the system needs to be traded off against making it so inaccessible, it doesn't do what it's intended to do. So I suppose they're some of the two-pronged approach to what Moreland sees as being needed for assistance to the sector over the next 10, 15 years. It would be both the pause in tariffs and better programs, whether they be through a SIP-like program and a labour market adjustment as well for the loss of jobs that is continuing to occur.

DR ROBERTSON: Okay, thank you. Is there anything being done at the local level to help? I mean, are you getting together with TCF firms? Are they setting up their own groups to think about ways through this? We've had submissions from other principalities that, you know, are actually saying, "We've got this program going, and we've got that program going." I just wondered. You didn't mention that.

MS BERRY: Yes, we do a number of things. TCF businesses are able to participate in our general enterprise improvement programs which, you know, vary across a range of industries. We haven't been preparing programs specifically targeted at the TCF industry through but they have participated and they're certainly eligible to participate in the more general programs that we have for enterprise improvement. In the course of this exercise we've had feedback from businesses in fact that they are looking to council to coordinate some local industry liaison and enterprise improvement activities but I think from our perspective we're more than happy - I believe our council would be more than happy to facilitate those things but it would need to have the funding support out of the Commonwealth to actually be able to implement programs in various areas of enterprise improvement to put it on the ground. So, you know, council can contribute a certain level of resource but we can't replace the Commonwealth.

MR BRINDLEY: It's a facilitory role, our role in economic developments. Usually that's the primary part we take. We've also undertaken a planning zoning industrial land use strategy which has really shored-up industrial land where most of our industries are based so that they're not subject to market speculative buying that would lead to their rezoning to residential. So we've made it very clear - our contention is very clear that we want to keep industries in those parts, and that would certainly facilitate those niche industries continuing on should all other factors be in their favour as well.

DR ROBERTSON: Okay. You mention that some of the firms are exporting which suggests that there are some pretty efficient firms.

MS BERRY: Yes, I'm not - certainly don't suggest that our firms are not necessarily efficient although there's certainly opportunities for business improvement. Look, some of the exports are indirect exports. They can occur through supply - well, as an example, suppliers to Kmart, and then Kmart goes on to distribute through its chains, at least in New Zealand, and there's probably some further opportunity via retail distribution channels that more businesses should be exploring, and that might occur not only in the apparel areas but in specialty textiles as well, whether they be in the furniture-type area or a number of other areas, and I suppose it would be fair to say that those who've identified an opportunity or had an opportunity waved in front of them, some of them have certainly been in a position to take advantage of it.

But I suppose part of the change in the industry is that - and this was a fairly common theme from people - "Look, we're really good at making clothes, making this. We're manufacturers," and where we need to change is not just necessarily in the manufacturing skills but in those other skills that will help them really change the business in ways other than getting new machines. It's not all about the machines. It's also about the other skills in the enterprise. So, yes, some of them are finding and seizing some opportunities and others are battling to do so.

MR WEICKHARDT: Can I just explain one thing I found a bit curious in your paper. You say several times there are a number of propositions that can be relied on with reasonable certainty, and the first of those is that, "Tariff reductions scheduled for 2005 are very likely to occur as per the agreement between the TCF industry and the federal government." I think you're right and I'd think they're very likely to occur.

MS BERRY: That's from our 2002 paper prior to - I'm just saying this is a description and they're likely to. It doesn't mean they should but - - -

MR WEICKHARDT: You then go and say, "The council broadly supports not proceeding with the reduction in tariff legislated for 2005." I mean, I'm curious. The TFIA entitled their submission to this inquiry, certainty and fairness. If companies have planned about this and they think it's reasonably certain these reductions are going to occur, why is the council recommending that they shouldn't occur?

MS BERRY: I think there's nothing wrong with preparing for the worst. That doesn't mean you have to plan to have the worst materialise. As I said, in the 2002 paper we said at the time it looks as if those tariff cuts will occur, and I suppose if a national sports bet was taking money on the outcomes of these things they'd be probably giving shorter odds on it happening than not happening but we don't support that.

MR BRINDLEY: The council represents the employees as much as the companies, and it's fair to say the employees don't stand to benefit as much as the company owners themselves out of those proposed changes, and that's guiding our stance more than - on the balance of those two, more than anything.

MR WEICKHARDT: And yet you describe in this report a series of things that have happened, "As a result of the changing conditions, local firms adopting a range of strategies, manufacturing, increasing in proportion products imported, investing in skills training, and reducing staff levels, increasing domestic subcontracting, buying better equipment, focusing on niche export markets, investing in product development, changing the product mix." I mean, if these are the things that companies do with the expectation that tariffs are reducing, I would think the policy makers and the federal government would say, "Excellent, that's exactly the sort of behaviour we would hope that companies would go through because that's what's going to generate an internationally competitive TCF sector in Australia."

MR BRINDLEY: And it's also what's contributed to the decline in employment in our municipality.

MR WEICKHARDT: Yes, but - - -

MR BRINDLEY: And that's our major concern.

MR WEICKHARDT: But companies that become internationally competitive then start to invest and grow. We had, I think if you were here for some of the last submission, an example of a company doing just that - - -

MR BRINDLEY: Yes, and there are plenty of examples in our municipality - - -

MR WEICKHARDT: - - - growing rapidly.

MR BRINDLEY: - - - where they're divesting and shrinking.

MR WEICKHARDT: Sure.

MR BRINDLEY: Offshore, and that's happening in our municipality left, right and centre, and that's the problem we face.

MR WEICKHARDT: Our terms of reference suggest that the government is really only interested in having a TCF industry in Australia if it is internationally competitive. So they want, you know, a thousand Textors, for example, and they don't want the large textile mills that are trying to compete on labour costs with China paying people 50 cents an hour.

MR BRINDLEY: Sure, and I understand that that's the confines in which the federal government has asked you to consider this but Australia is a radical leader in free-market reform at the moment. We are leaps and bounds ahead of many OECD countries and indeed south-east Asian countries in terms of our tariff reduction. So we are hanging out to dry, in essence, with these proposed changes. Our tariff reductions are leading the way. What's the cost benefit of that and what's the national interest of that if we, in 15 or 20 years' time are out there with a - trying to enter into a level playing field which no-one else has come along to play with us on and all our industries are gone? 30 per cent of people who are retrenched are not finding work and another 30 per cent are finding lesser work. Our unemployment rates continue to go up, and all that without the federal government having considered the impacts of a free-market deregulation.

The joint standing committee on treaties asked them to do so in their report Who's Afraid of the WTO? The report 42 of the joint standing committee on treaties. The primary recommendation was that the federal government investigate the socio-economic impact of trade liberalisation. Now, the federal government has failed to do that. A report came out in 2001. We're just going in blind into these reforms. Now I understand that that's not within the confines of what you've been asked to do but I think it would be negligent of you not to raise the point with the federal government that they're advancing ahead of their own joint standing committee's recommendations in terms of finding out what the impacts of these sorts of reforms are going to be, given that the rest of the world is not playing with us.

DR ROBERTSON: My first answer would be Australia is also the fastest growing economy in the OECD. So we can't be going that far wrong.

MR BRINDLEY: No.

DR ROBERTSON: And the second point I'd make is that a senate inquiry is not a government organisation. That's composed of all the parties in parliament.

MR BRINDLEY: Mm.

DR ROBERTSON: So, you know, the government can choose or not to follow recommendations from senate committees, as they do with the - - -

MR BRINDLEY: Sure it can but I think it holds weight and it still doesn't diminish the point which that joint standing committee made that, you know, there hasn't been relevant study of the impacts which have been proposed, not just to this sector but right across the board made for Australia and it would be negligent for them not to have a good look at it and - - -

DR ROBERTSON: But I think they have, you see. I mean, if the economy is going so well, you know, the envy of everybody else with a rising dollar that's made - - -

MR BRINDLEY: Yes, it's momentarily successful.

DR ROBERTSON: Oh, come on, 10 years? 10 years?

MR WEICKHARDT: Are there any companies in your region that you can cite as sort of successful companies who've responded to the sort of increasing pressure of international competition and have invested and are growing?

MS BERRY: Look, as I said, some have responded to - yes, there are and I suppose this is part of the perspective and certainly in the context of what we looked at a year ago. You know, businesses haven't been totally unresponsive. They haven't gone to the wall. Yes, they've adjusted and clearly over a period of time they've needed to make a number of changes and they've done those. We haven't wanted to paint a black picture. It's not an industry that - I mean, I'm sure people are coming across - you know, the industry's dead, it's in decline. In fact it's not, it's in very tumultuous change in a number of places and that's variable. I suppose what we're interested in doing is extracting the maximum benefit of it, you know, using the change to advantage, and clearly the tariffs that have been reduced to date have instigated considerable change.

The question is, does the industry need more of the same medicine or in fact does it need a different medicine for this different stage of its condition? And one of the things that we're suggesting is - we certainly haven't said, "Let's bring back 130 per cent tariffs on apparels, so that we can move back into the past." We've said there's been an effect. We've said though that if we actually don't want to kill the patient before it recovers - and in fact I think there's an element of that in the fact that you guys haven't actually said, "Let's turn it to zero tomorrow." The idea is to make sure that we end up with a very healthy industry insofar as we can, and we can. We've said that there's two things needed to enable the industry body to continue to be well, and that's to ease off on the caster oil or the emetics or whatever it is that's going through the system and use some other remedies, and that it's the judicious mix of those that will actually get the best outcome, and I think we're all grappling for that judicious mix.

MR BRINDLEY: I can cite one. WHR Med are on the corner of Brunswick Road and Nicholson Street, and they do finishing to linen and bed linen types, embroidery, all that sort of thing and they're, I think, indicative of that sort of niche market end, higher manufacturing end, which is remaining in Brunswick but at the same time they've just redeveloped their property because they were - the real estate pressures upon their property are such that they needed to go for a mix of industrial and residential to stay in the area. So their sustenance is in part, you know, to do with other - basically making hay out of their property while they can.

MR WEICKHARDT: Probably paying higher rates to the council too.

MR BRINDLEY: Perhaps so, although our strategic planner has spent a fair bit of time helping them on their way.

MR WEICKHARDT: You sort of showed three possible scenarios of competitive advantage, steady decline or cluster collapse. Are you attempting to make any forecasts of which of these might arise under certain circumstances?

MS BERRY: No, I think that's us daring to be a little speculative and theoretical about things sometimes rather than try just to recite some facts. We're actually hoping that people with, sort of, an academic approach to it might be intrigued enough by the idea to explore it further, and we talk to people in that regard. I mean, it does talk about things and they've been raised with that issue, that issue of critical mass and at what point do you find that - industries can, upstream and downstream as well, find it extraordinarily difficult if we, in the search for efficiency - which is a fine thing - swing the pendulum too far too quickly the other way and have that drop out, and I guess we had to be kind of speculating about the future, identify that as a real risk, and it's a risk we really want to avoid and it's one of the backup reasons for saying a lots' been done to change the industry. I think we're at the point where we just don't want to race off, swing the pendulum and then find we've gone absolutely too far when we could have had something revived rather than buried.

MR WEICKHARDT: I think we share that view. We just have different expectations of the rate at which adjustment might occur.

MS BERRY: Mm.

DR ROBERTSON: You mention that a number of people had applied for SIP and a number had said that - and were successful - and there were a number of others who said that it wasn't working well and it needed to be changed. Do you have any ideas of what kind of change you might have in mind?

MS BERRY: I think we're looking at a couple of things. I suppose in terms of the options that were proposed in your paper, we'd be talking about option 1 - well, option (a), I think you've changed to letters at that point - which is a reform SIP rather than the competitive tendering or anything like that, and I think you started to flag a reduction of the $200,000 minimum investment level. That's something that came through and also I think we've been picking up from people that it seems to them very focused on machinery and buying new machinery et cetera. I think we'd like to look at a much broader enterprise improvement approach to it because it's not just about machines. Competing on a world stage is as much about brands and service and responsiveness, and we've got to attend to those parts of the industry as well. I mean, yes, it is about the machines and R and D and all those things but we think that - the industry is saying to us, especially the smaller businesses, that they want to go down that path of change and responsiveness, and that will also enable them to sustain their workforce, which is a primary issue for council, sustaining the workforce.

So we think that change of easier access with a lower threshold of investment, a broader approach, and perhaps a broader definition of what innovation is, which is tied up with that broader approach to enterprise improvement. And again, although there is a risk of gaming, I think a certain amount of that risk has to be borne in order to get the support channelled through, and I'm sure there are tools for avoiding that but, you know, it's frustrating for people who say, "Look" - and they are, they're bona fide manufacturers, they make stuff and they find the rules are set for other people who are better able to play the game, and the rules are set to stop those players but the perhaps unintended consequence is that other people that I think it's intended to get through to, access is beyond them.

DR ROBERTSON: This concept of innovation is an extremely difficult one to define. Just having it there is a problem because I don't know how you define it and I don't know how the regulators, the administrators of the policy can do it. Innovation could be switching the buttons on your jacket from left to right or it could be inventing a whole new material or a new machine. It's extremely difficult. In fact that's one of the big problems, I think, we face in trying to deal with small firms - and they're not all small because you've said you've got some with 250 workers, which is quite large - - -

MS BERRY: Yes, but then they're probably, in terms of the - they're the people who've found it easier to access SIP. It's the next level down which is going to be the 100 and below that ideally are going to be able to be bigger than the 100 but they're not necessarily all going to be - in fact they will not be all the people working on machines.

DR ROBERTSON: No.

MS BERRY: It's interesting. I mean, part of the definition of innovation that we're working with at the moment is that it's innovation for the industry rather than innovation for the enterprise, and I guess I'm suggesting that really to be effective, SIP needs to be more attuned to innovation in the enterprise and not just innovation in the industry, and that's probably where the switch needs to occur, and, yes, look, the definition - you know, if you start going down the complex path of defining "value added" and figuring it out, it's, like a, "We make shoes," sort of response by people.

DR ROBERTSON: Yes. We've heard plenty of those kinds of responses. Is there anything further you'd like to say? Thank you for giving us your reports.

MR BRINDLEY: Thanks for the opportunity.

DR ROBERTSON: We appreciate hearing from you. Thank you.

DR ROBERTSON: Right, over to you. As you know this is being recorded so if you'd introduce yourselves when you speak so that they can register your tones in order to get the typing right, informally as far as possible and if you'd like to introduce your submission or give us a few thoughts on where you stand and then we'll take it from there.

MR BENNETTS: Okay, thanks. My name is Ray Bennetts from Feltex Australia. My colleague, John Kirk, is also from Feltex Carpet Manufacturers employing 800 people in Australia, 740 of whom are in the western suburbs of Melbourne. We have lodge a submission prior to the release of your position paper and we have lodged a further submission in response to your position paper. Essentially we are integral part of the carpet industry in Australia and you've heard from the Carpet Institute of Australia and we essentially support their views. But we're here to possibly just elaborate on a few things that we believe are particular to Feltex.

We note that your position paper is proposing further tariff cuts beyond those that are in place and I understand that the submission is for a further cut to 5 per cent for carpets from January 2010 following the reduction from the current 15 to 10 in 2005. I think in our first submission we submitted a graph or a chart there that plotted the movements in tariffs versus the levels of imports and market share in the carpet industry. Just to refresh your memory in 1991 when tariff levels were at 35 per cent imported carpets had 11 per cent market share in this country. By the year 2000, 10 years down the track, tariffs had reduced to 15 per cent from 35 and market share of imports had grown from 11 to in excess of 20 per cent. All that had occurred when the market had remained static, in other words, there had been no overall increase in the market volume but there had been a 10 per cent increase or a doubling almost in market share of imported products.

From that, of course, we deduced that all of that increased volume or that it came out of the local manufacturer's market share and during the 1990s that's on the record that we did see substantial restructuring within the carpet industry, a number of businesses ceased to exist. In our own business we had a substantial rationalisation and we had a downsizing in the workforce of over 600 people. The increase in volume that market share delivered to imported product was of the order of 6 million square metres in that 10-year period. To put that in perspective, that is a very substantial part of Feltex's current overall business and way exceeds the volume of any other manufacturer other than the major two in the carpet industry. So it equates to the demise of several sizeable entities.

There is a clear relationship between the growth in carpet imports and the reduction in tariff rates. The key point - the further reductions in tariffs as proposed in your position paper down to 5 per cent by 2010 we submit will further negatively impact the share of volume that Australian carpet manufacturers enjoy as demonstrated by the historical evidence. The other issue to consider is exchange rates and what impact exchange rates have on carpet imports and it's interesting to note that during that 10-year period the exchange rate had fluctuated from in excess of 70 down to the low 60s and down to the low 50s at one stage. I'm talking about up to 2000 so maybe it got below 50 a bit after that.

But the interesting aspect out of that was during that time that there was no correlation that could be draw between exchange rates and the change of imports. It was more a function of what was happening with tariff rates and we deduced from that that the volatility of the exchange rate movement has probably discouraged importers from getting too involved just on the exchange rate-driven mechanism. Turning to Feltex's particular position. Feltex is, as I said, one of the two largest producers of carpet in this country. Feltex by volume produces almost 80 per cent of its carpets in manmade fibre and I make that point because wool carpets primarily come into this country - made in Australia and imports come from New Zealand and New Zealand has had duty free access to this market for in excess of - well, certainly before 1990.

So the changes in tariffs we don't see will have a significant impact on the wool sector. The sector that's at major risk is the manmade fibre sector of which Feltex has a particularly exposed position. We further submit that the increases in imports, whilst submitting they'll come mainly out of the manmade fibre sector of the market, will almost most likely be at the premium end of the market. In other words, at the higher value products generally with higher profit margins. This is because at the lower end of the market the freight and distribution costs make it less attractive for importers to bring in cheap product. Of course, at that end of the market profit margins are somewhat - it's a more competitive end of the market and profit margins are less attractive.

Under that scenario we submit that Feltex is at significant risk with the ultimate probability that some downsizing and/or exiting of some of or all of the market sectors is a distinct possibility. As I said on the outset we employ 800 people in Australia, 740 in the western suburbs. This workforce is largely semi to unskilled. It is a very diverse ethnic mix. We have in excess of 30 nationalities working in our business. We typically translate employee bulletins into 16 languages. The English language skills are fairly low and we submit that these people are not easily redeployed. I think we had a conversation once before when it was suggested that these people could find jobs elsewhere and I submit that that's not as easy as it sounds. These people were trained, their skills have been on the job learning in our business and their ability to walk across the road and walk into a higher technology industry or higher skilled levels are probably fairly restricted and therefore not being easily redeployed, these jobs are extremely vulnerable in any downsizing or ultimate closure of the business.

Our position, Feltex's position, is that there should be no further reduction in tariff levels beyond the 10 per cent that has already been scheduled until there has been a full investigation undertaken to assess the economic consequences of such further reductions and this study should address or should assess the impact on a range of issues, not just employment but also the impact on investment, the impact of the investors in the business and ultimately on the range of choice available to consumers.

Feltex is also concerned about the issue of special assistance for regional entities in the TCF sector. There has been publicity, there has been press. There has been a lot of comment about that there should be some special assistance given or provided for regional employers in any transition, adjustment or development programs that might be part or parcel of this review. Our view is that, as I said, we employ 740 people in the western suburbs of Melbourne which is not classified as regional. We submit that these people are no less disadvantaged than employees in regional areas and it's not appropriate that they be discriminated against or we as a business be discriminated against on a regional or a location basis.

On the question of ongoing support for the industry we do support a continuation of a SIP type assistance program as proposed in your position paper. We tend to support the option (a) or option 1, whatever it was, which is probably a continuation of the existing type program. However, we believe that the time frame should be 10 years at least and it should be funded at current levels that are currently available under the first five-year program. The reason we say that is that the original SIP concept was to incentivise TCF entities and our company, being one of those, has taken that challenge on board. But we need to move towards international competitiveness in a lower tariff environment.

However, our view is that this does take time. There are big investment decisions and there's a restructuring that needs to take place and we believe that this is more appropriately spread over a 10-year period than fully funded at the current levels than an eight-year period fully funded at current levels, the first four and at 50 per cent levels for the next - the final point that we would like to make, and this an important ingredient in the mix, is that for the future viability for the employment in the TCF industry is that we must address workplace reform and in particular in the carpet sector. Such issues as the protection of employee entitlements have been divisive and they are potentially very damaging and we have a very specific hard experience in this area.

We note with some interest in your position paper that you did propose or put forward the view that some independent review of that issue might be appropriate and it's Feltex's position that we would support that and indeed encourage an active pursuit of that objective. As I said at the outset, we support the carpet industry submission and we've just presented these few issues that we believe are pertinent to our particular entity.

DR ROBERTSON: Thank you very much. That was a very comprehensive presentation I thought. You say, "One of the big issues for us is the SIP," and it's put on one side the 10 years' duration and indeed to continue at current levels. That's something that will have to be decided and we'll have to make recommendations on it. But I wondered how you find the SIP working, you know, the 1 to 5 types, and have you made claims? Have they been successful? Have you had problems in meeting conditions and so forth?

MR BENNETTS: It's interesting you make that point. We had a great deal of difficulty in year 1 of the SIP program, particularly around the definition of what was innovative and what was not innovative under the type 2 part of the program. But there has never been any problem with type 1. I think that's clear-cut and that's probably beyond debate. But the type 2 issues, particularly the innovation - and what is innovation? We had a great deal of difficulty in finding common ground with AusIndustry on that. In fact we had to go - we had a fairly substantial part of our SIP claim rejected under type 2 on the grounds that it didn't meet the definition of innovation.

It caused some frustration to us as a company because we had embarked upon, in good faith we believe, the pursuit of introducing change and innovation into the business to embrace the ideals of the SIP program, as I said, to be internationally competitive over time. I think it has probably largely been defused now because we did take that issue to the AAT and we ultimately were able to negotiate a satisfactory outcome with AusIndustry a month or so, maybe two months ago now, and our subsequent claim for year 2 has been submitted to AusIndustry and substantially has been agreed with them. So hopefully we now have a better understanding between us as an entity and AusIndustry as, you know, a - - -

DR ROBERTSON: Administrator.

MR BENNETTS: Administrator of the scheme, yes, as to what is - so we're far happier campers now than we were three or four months ago.

DR ROBERTSON: Right. Could you tell us what the problem was in the definition of innovative or innovation? This is a problem for us that has come up many times.

MR BENNETTS: No doubt it could vary from enterprise to enterprise. But in our particular case, you know, we had embarked upon a substantial restructuring of our whole supply chain in terms of getting product, meeting our customers' expectations in a shorter time frame, reducing the risk of carrying excess inventory, reducing the risk of having the wrong inventory and being caught with the wrong inventory at the end of a cycle, if you like, or a fashion cycle and we had embarked upon quite a substantial degree of rejigging of our business and AusIndustry had rejected that on the grounds that - well, at the time they said it was just standard business practice which we contended that it wasn't.

But we've continued down that path and we've been able to generate very significant gains for our entity through that program that are and will continue to assist us to be more competitive, you know. I think it was interesting in the original paper and I'm sure you gentlemen have read it, but the carpet industry in this country is in a fairly unique situation internationally in that we are a mature market, one of the most mature carpet markets in the world. But we have the unique situation that we don't have a dominance of one fibre type versus another. We have wool fibre commanding a fairly substantial market share as well as manmade fibres commanding a fairly substantial market share, and this has evolved I believe over time through wool in this country and also in New Zealand being viewed as the fibre of preference.

In other words, the perception of the consumer is that wool is better. Whether it is or not is open to debate, but nonetheless we have a split demand that really does spread the resources of an entity like ours fairly thinly in terms of we've got to support both the wool and the manmade fibre, and that's why we're particularly vulnerable as we go forward to imports of manmade fibre because product coming in from countries outside of Australia are coming from manufacturers that are able to concentrate or, you know, standardise on one particular fibre type versus the other. We don't have that luxury.

DR ROBERTSON: Did you have any other observations on SIP, not so much on your experience, as to whether perhaps 3, 4 and 5 are relevant or - - -

MR BENNETTS: I think the Carpet Institute made some observations on SIP and without going into those, I mean, we did support what they were saying.

DR ROBERTSON: Okay, right.

MR WEICKHARDT: I'm interested in your comments about entitlements. Could you just clarify are you members of the AIG?

MR BENNETTS: We are, yes.

MR WEICKHARDT: You are. Have you spoken with the AIG at all about your position on entitlements?

MR BENNETTS: Our company was represented on an AIG working group on that issue.

MR WEICKHARDT: You may or may not be aware that whilst you have suggested you supported our line on entitlements the AIG this afternoon said they didn't support our line on entitlements and they felt that the years scheme was entirely satisfactory provided it was legislated and felt, I think, that this was best left as it was.

MR BENNETTS: I didn't have the benefit of hearing the AIG presentation so I have to plead ignorance on that one at this stage.

MR WEICKHARDT: But you still - - -

MR BENNETTS: No, I mean, the point that I made though doesn't go away, that it is a divisive issue not just in the TCF sector. We're saying that now in other sectors as we speak there's industrial action happening out there on this very issue and the one thing that we do not support is the concept of trust funds. We are vehemently opposed to that.

DR ROBERTSON: One of the problems of looking at the period since 1991 and looking at the changes in TCF in the broad, one of the problems is that a lot of people blame tariff cuts, it seems to me, for all the changes that are going on in the industry. Has the technology in carpet making, both wool and manmade fibre - has that technology changed much in the last decade? I think technically it has.

MR BENNETTS: I think, yes, the technology has changed, not so much that there has been radical new technology but there has been sort of fairly significant enhancements on existing technology in terms of the speed that machines can operate at. The productivity of equipment within a time frame has certainly improved quite significantly. So I guess the short answer is, it has changed but there has been no new green fields, ways of making carpets.

DR ROBERTSON: No.

MR BENNETTS: It's not as though we've gone from weaving to tufting, like what happened 30 or 40 or 50 years ago.

DR ROBERTSON: So in fact the import competition hasn't been generated by offshore companies having some kind of edge. It's just that they've decided to try and sell into the Australian market for the number of reasons you pointed out.

MR BENNETTS: Well, I think, you know, the economies of scale that offshore manufacturers have, I mean, for a number of years we were a subsidiary, a wholly owned subsidiary of the very largest carpet manufacturer in the world, out of the US, and I can tell you that they have single plants that can produce more than our entire business can produce and they've probably got 40 or 50 of those plants. So they are able to focus their business into very narrow sort of product SKU programs within each plant and their economies of scale are infinitely larger than ours.

MR WEICKHARDT: You mentioned I think that you felt you had more natural protection at the, I guess, lower end of the market because freight was a larger component of the overall selling price, if I understood your point correctly. In terms of your ability to sort of hold market share and differentiate yourself, however, I would have thought that your ability to do that, to offer customised or special Australian colours, designs, pander for Australian fashion at the upper end of the market, would have also given you a strong competitive advantage over importers there too.

MR BENNETTS: Well, that's certainly an opportunity but time will tell. There needs to be some modelling done as to what the impact of all this will mean. We would certainly be going down that path, to use whatever opportunities we have to differentiate ourselves from what came in from offshore. But certainly Australia has no unique designs of that nature within the carpet industry and we do tend to follow world trends. So there's no unique Australian carpet as such outside of the wool component which is certainly larger as a percentage of the total market than perhaps in the US. But certainly colours again, you know, tend to be the international type colours that are coming through. So I don't know that there's any unique advantage we have at either end of the market.

DR ROBERTSON: Well, sir, we've got the drift of your arguments about more time for the tariff to come down and for SIP to be a bit more generous. We'll take those into account. I don't know if there's anything else you want to add to that?

MR BENNETTS: No.

DR ROBERTSON: Okay. Thank you very much.

MR BENNETTS: Thank you.

DR ROBERTSON: I declare this session closed, unless somebody wishes to speak from the floor - no? Session closed, we meet again tomorrow morning in Geelong.

AT 5.04 PM THE INQUIRY WAS ADJOURNED UNTIL
THURSDAY, 5 JUNE 2003

INDEX