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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 SYDNEY ON THURSDAY, 12 JUNE 2003, AT 9.05 AM

Continued from 5/6/03 in Geelong

DR ROBERTSON: Welcome to the Productivity Commission inquiry into post-2005 assistance arrangements for the textile, clothing, footwear and leather industries. My name is David Robertson and my fellow commissioner is Philip Weickhardt. The terms of reference were received from the Treasurer on 19 November so this is a fairly short investigation. We released our position paper in April, 16 April, and we are required to present our final report by 31 July, so by the time we finish this we will have about six weeks. Last week we held public hearings in Melbourne for two days and that was followed by one day in Geelong. Today and tomorrow we have hearings here in Sydney.

What I'd like to do is to remind you what our task is because some people have rather wandered off the subject at different times and moved into areas that are not within our terms of reference. Our job is to evaluate the effectiveness, efficiency and appropriateness of current assistance programs in meeting the government's goal of achieving structural adjustment and an internationally competitive TCF sector. Secondly, it is to identify policy options, including tariff options consistent with Australia's international obligations and to analyse the implications of each option, including specifically the effects on the regions and workplace relations, to report on the effects of the international developments on the TCF industries.

So they're the three main parts but there is one part that I keep drawing to people's attention which is that we're directed to bear in mind the government's desire to encourage the sector to adjust into activities where it can become internationally competitive with lower levels of government assistance and secondly, to improve the overall performance of the Australian economy. So we do have slightly broader remit than just TCF. In our position paper we outlined our assessment of the TCF sector according to these instructions by proposing options and raising questions for general discussion and that's why this is valuable to us in preparing our final report.

We invited further submissions and indeed we have had a number and this opportunity of public hearings allows comment on both our position paper and indeed on wider ranging topics. We like the hearings to be as informal as possible. I remind you that transcript is being made of the proceedings and the Public Service Act requires that people speak the truth. Comments from the audience are not welcome during the formal hearings, however, if I have time at the end I will give an opportunity for people to speak from the floor.

I invite participants to address the key points in their submissions because an exchange is better than just listening to you go through submissions you've already made. We have read well over 100 submissions and we welcome the opportunity to discuss some of the points. We and the staff have also of course made 70 separate visits around the country to businesses, industry groups, labour organisations and state governments so we've had a lot of time to discuss these issues before we started writing. We're very grateful, as are the staff, for all the assistance we've received and indeed, the consideration on our visits.

If anybody wishes to communicate further with us after the hearings I would remind you that we need any written comments or further information by 20 June, which is Friday next week in order that we can have time to take them into account. After that we're going to be completely pre-occupied on what we have to do. Now, let's begin the hearings. Because of the transcript would you introduce yourselves to begin with so that we can identify your voice easily and I will hand over to you.

MR WILLIAMSON: Thank you. Alan Williamson, CEO Bruck Textiles.

MR KREITALS: I'm Peter Kreitals. I'm an adviser to Bruck Textiles and have been for the last five years.

MR WILLIAMSON: Commissioner, David, ladies and gentlemen, I notice that you were looking at me specifically when you referred to wandering and I'm not surprised. Those of you who know me know that I have a passion and it's a good idea to remind me about wandering and in fact breaking with my normal tradition I've actually got some notes. Truth and informality also sit very easy with me. So without further ado can I first of all - whether it's appropriate or not I never really usually care so I won't now - can I commend you so far on the manner in which this PC has been held and the commitment that you've shown yourselves and I guess somewhat controversially on most of your findings.

I welcome the opportunity to present views direct to the commission. Bruck Textiles is Australia's leading manufacturer of woven cotton and manmade fabrics for furnishing, industrial apparel, defence and institutional use, plus can I make a point which I think is very salient very early on? It's time to explode the myth that Bruck Textiles is the leading manufacturer of ladies' wear fabric in Australia. When I took this job a tad under 24 months ago 34.7 per cent of Bruck Textiles production went into ladies' wear apparel a la Katies, a la Target, a la Just Jeans. Today something like 3.9 per cent goes into that area. Bruck has already undergone a major effort at transforming itself to prepare itself for the future and I repeatedly hear references to Bruck's activity in the ladies' wear area. We identified some time ago that whilst we don't necessarily acknowledge any level playing field, that we needed to move ourselves and focus on areas where we could ensure ourselves a future.

That said, we have invested significant time, effort and money to reposition ourselves. We have shifted away from the basic apparel fabrics. We do still service the market to a lesser extent but with imported fabric, not vertically woven in Wangaratta which is where our main focus of production lies. We're now focusing ever more on high value, technically specialised fabric for protective defence purposes, furnishing. We supply 90 per cent of the defence force requirements for material, 100 per cent of the combat clothing needs which involved us in investing in a printing plant, amongst other things, which is a significant investment as most of you would know and we are a major player now in soft furnishings and coated fabrics. Coated fabrics appears to be something in which Australia can be, and is to some extent, a world leader.

We continually explore opportunities to expand into global markets. Current and future focus is leaning itself towards the fire-retardant fabrics for which we are the licensee for the fire-retardant chemical and application use for all rural firefighters and in certain military uses. We are focusing on coated fabrics into Asia, furnishing fabric into Europe, protective fabrics into the US, although I must point out that initial examination in detail of US trade laws, preparing ourselves for the goal of FTA, would suggest there are some significant hurdles there.

In order to do this we obviously have to continually develop our product, we can't afford to sit still, and we have to ensure these days that we offer benefits to the customer, not just in price. We have improved plant efficiency and processes to reduce production costs. Our forward thinking on capital expenditure - and I actually yesterday had a five-year plan approved by my board - is aimed at enabling a value-for-money product to be offered and a product which we can take outside of Australia. Can I say that in order to take it outside of Australia, and I stressed this maybe 50 times during your visit to Wangaratta, it will be very difficult to do so if I lose my domestic market - chicken and egg, I think we spoke about.

SIP has been of major benefit to Bruck, not necessarily initially in the manner in which it was foreseen, but it has been of major benefit to Bruck and has facilitated a lot of what I've just explained. Moving forward we agree with the PC position paper that fabric tariffs should be retained at 10 per cent from 2005 until 2010, acknowledging that legislation is in place for 2005. We do not believe they should be reduced further after 2010 until 2015, not 2010 as recommended. To get to that end point we have suggested that fabric tariffs be phased with a 1 per cent point annual reduction from 10 per cent in 2010 to 5 per cent in 2015. We agree with the Productivity Commission that further budgetary assistance is warranted beyond 2005. We are with the TFIA that the funding should be provided for the full 10 years and at current annual levels for the full period.

We favour the retention of a SIP-type program with further modifications and I will just briefly touch on those because obviously the can be available in more detail in part of our submission. We're not opposed to the concept of a competitive scheme, provided the right criteria for selection are provided, eg demonstrable uptake of new technology, skills development, capital investment, productivity improvements, product development, new market growth et cetera. In truth these sort of attributes can and are already encouraged by the SIP scheme. Under a modified scheme we would recommend the following modifications: we would allow eligibility for second-hand equipment; we would allow market research and market development expenses undertaken by companies to be eligible under the SIP type 2 funding component; we believe in enhancing the restructuring rationalisation component of the scheme so that it provides real incentive for industry consolidation which I think is critical, including consolidation within company groups and not just between two or more entities and we would remove the 5 per cent cap on value added, but of course retaining the overall 5 per cent cap on turnover.

We also believe very passionately that future assistance arrangements should recognise the critical important nexus between the TCF industries in Australia and Fiji. Whilst there is a side show discussion going on at the moment which obviously we're fully committed to, I think it bears pointing out that Fiji is a major market for Bruck. There are in our opinion considerable growth opportunities for Australian business if a strong strategic approach is taken to the future development of the collective TCF industries. We believe urgent action is needed to modify SPARTECA and/or the SPARTECA TCF scheme to foster further industry development and trade between the two countries. I'm now happy to answer any questions.

DR ROBERTSON: Could you give us some idea of the proportion of your output that's gone into exports and how it's changed over the last five years?

MR WILLIAMSON: Including Fiji?

DR ROBERTSON: Yes.

MR WILLIAMSON: The export lean on the company today is the company's export is I think 18 per cent. That would have increased over the past - let me tell you over the past five years that would have actually increased marginally, only on the basis that we have lost business in Fiji, obviously with the loss of the import credit scheme, but we have been successful in developing some initial niche markets overseas.

MR WEICKHARDT: So, Alan, if you exclude Fiji what would the percentage be?

MR WILLIAMSON: It would be in single figures.

MR WEICKHARDT: What, having gone from zip to - - -

MR WILLIAMSON: It might have been at 1 per cent.

MR WEICKHARDT: And now high single figures or - - -

MR WILLIAMSON: Six or seven.

DR ROBERTSON: It's interesting that you've moved into these new areas. The immediate problem that occurred to me is these are niche markets and you have a high volume plant. Is that going to affect your overall efficiency by trying to cater for these specific markets?

MR WILLIAMSON: No, I think there are some very big niche markets. I think some of these countries, what they call niche, we would call gross. I think it's a very good question but, I mean, I think in the coated area we're getting inquiries now from having gone out and first stuck our toe in the water which I believe you should do. I see Myron Mann is in the audience. It's something Myron and I speak at length about. Myron ran Bruck two CEOs ago and he's got a great knowledge of our company and he's very active on the world scale now and I often call on Myron for some advice and I think he agrees with me that what Bruck needed to do, which it has done successfully, was first of all put its product out there.

The next step is to go and actively pursue the run-on effect of having done that, and I believe that when we talk niche, niche can sometimes be taken in too narrow a band of mind-set. I think there are some very large niche markets. Coated fabric is one of them. Australia seems to, for some reason, be far more competitive than China on quality coating of fabric and that is one area alone but, I mean, the problem with export are the problems you would have heard before. I'm happy to repeat them but there are different problems in different regions but despite my accent, I'm not necessarily a fan of the existence of Australia within the Commonwealth, otherwise why would I be here, but I find it very frustrating exporting to the old country, paying 10.8 per cent duty as a member of the Commonwealth where, anywhere from Turkey to Portugal and any country under various schemes in Africa and Asia, just about everybody except for their close allies appear to get duty free access. I find that very frustrating, and trying to trade within the EEC from outside the EEC calls for a good deal of expertise these days.

DR ROBERTSON: Yes. I won't comment on that but I agree with you on the whole. I'm trying to remember where I read it; whether it was in your submission or another one, that Fiji has tended to go to other places to get its basic fabrics. Is that right?

MR WILLIAMSON: I might even call on Peter here because Peter has had a lot of time dealing with - I shouldn't call it the other side - but the Fijian angle on this, but the SPARTECA scheme has encouraged now what the Fijians love to call a shandying effect. The fact is that - not to put too polite a point on it - the SPARTECA scheme is an abject failure. It is in on our opinion over 90 per cent under-utilised and it's an abject failure. I know it might not sit well with certain people but I think that it falls upon people like me, whose very existence could depend on this, to bring to the attention of this commission that it's an abject failure and it's something we are addressing outside of the commission. I think that one thing that is certainly now forming definitely in the minds of the major players into Fiji, and I stress the major players and the Fijians themselves, the major manufacturers, is that without each other we are both under threat.

MR KREITALS: There's no question I think the Fijian garment industry is very important for the Australian textiles industry. It has been for a long time and the two industries should be working together; where companies have fallen into partnerships that work together well are getting some good returns out of it but it's only a few companies that have done that . Getting back to the question where Alan says SPARTECA is an abject failure, that's the SPARTECA TCF scheme, not SPARTECA as such, of course, and it's the SPARTECA TCF scheme that encourages that shandying effect, if you like. The whole idea was that it gave Fiji the flexibility to be able to utilise third country fabrics on the basis of how much Australian fabric they used, but it's not enough of an incentive to drag through the Australian fabric and keep their costs down. They need something else to improve their own cost structures there.

All it does is create a substitution effect. The idea was that it may enable them to broaden and diversify their product base and therefore move into different markets, but most of Fiji, the production is on a CMT basis. They're really at the beck and call at what orders they get out of Australia. Essentially it's the same garment lines anyway so if they're going to use the scheme it's only to be able to average out their costs and, as I say, substitute for Australian facts in areas where they really don't need to be doing that and the scheme is struggling, to say the least.

MR WILLIAMSON: As we understand it, the SPARTECA TCF scheme - under this scheme there are now 12,000 people employed in the industry over there as opposed to the 19,000 at the height of the import credit scheme. I suppose I find it politically challenging that we're considering all sorts of aid into that region; not just Fiji; specifically in the area of law and order and I would have thought one of the main causes of law and order problems in Fiji would have been unemployment.

MR WEICKHARDT: Alan, I want to change focus for a bit. In terms of SIP and SIP distribution and the supply chain effects, it has been put to us by some other companies that because the clothing sector is the downstream user of a large amount of Australian-produced yarn and textile, it may not be the case in your situation because you have moved, but I would like your reaction to this proposition in general. It has been put to us at the moment that there's a sort of perversity around the distribution of SIP funding in that a large chunk of SIP funding goes to the more capital-intensive yarn, upstream textile production, carpets etcetera, and yet the proposition that has been made to us is it's the clothing sector that's downstream without that - effectively pull through that domestic production.

You made the point that you can't have an export business unless you have got a domestic business. So the proposition that has been put, perhaps self-servingly, is that SIP funding ought to be skewed much more significantly towards the clothing sector because unless you save the clothing sector, the textile sector that's upstream from it, will not survive. I guess the further proposition is that it's the clothing sector that's most vulnerable; it has the largest reductions potentially in tariff to make and is exposed most heavily to the competition from the low labour-cost countries. Interested in your sort of views of the sort of supply chain effects in this whole industry policy issue and the way we should think about that in your view; how vulnerable is your business, for example, now to a clothing sector in Australia which sees significant contraction from where it is.

MR WILLIAMSON: Now I know why I was on first - controversy. I think it is self-serving. I can understand the position but I suppose trying to go through it stage by stage, if I compare Bruck to a clothing company and I compare the up-front investment that Bruck needs every time it changes a face or moves into a new financial year, I intend to spend next year something like between 5 and 5.8 million dollars on capital expenditure. I wouldn't imagine there are too many clothing companies considering that and it sometimes irks me that the money and the funding of what we do, and into the areas of business that we try to service, doesn't seem to be recognised by our colleagues in the clothing industry; and by "clothing industry", some of them have forced us to do what we have done so they've actually done us a favour by, shall we say, their lack of adherence to what I would call the so-called one-eyed loyalty to Australia that we all profess to have.

I mean, it is a lot easier to be a lot more flexible in my opinion as a clothing company because you've got the alternative of either import or manufacture locally with a lot less capital risk than somebody in the manufacturing industry so I would be sensitive to that suggestion. I don't personally see any justification in the claim of a special need in clothing albeit I must say to you I'm not surprised that you have received it.

MR KREITALS: Sorry, if I could add to that. You mentioned, Philip, that there's an argument that funding should be skewed towards clothing. That suggests that there should be lumps of money set aside for individual sectors, and I would have thought regardless of whether it's an entitlement scheme or a competitive scheme or whatever the driver should be, that you're meeting certain objectives and meeting certain - what can I say - targets or whatever. So isn't it more a question the clothing industry isn't getting the support that it needs, and if it's said - there should be more that it's a matter of identifying what the criteria should be that should trigger that support rather than skewing particular funds.

MR WEICKHARDT: I'm not attempting to act as a spokesman for that particular point of view. I'm simply asking a question but I guess the logical proposition was could Australia be completely wasting all the money that's going towards helping companies in the textile area become competitive if, in the long run, all their downstream domestic customers disappear?

MR KREITALS: I think that comes down to the criteria that is set for the assistance and the funds that Brucks is using is to reposition itself. It still has a proportion of its output that goes to clothing. It will do that to improve its cost structures to be more efficient in supplying the fabric to provide a greater diversity of fabric. It's using it to move into other fabric lines as the clothing industry contracts. The alternative would be to provide money - and I'm not saying this is the case, but the scenario you suggest is that it's money to parts of industry that are contracting anyway, yet you've got other parts that can be competitive, are competitive, but need to change. Surely you want to use the assistance to drive change, not to support just what's there.

MR WEICKHARDT: From a narrow Bruck point of view are you indifferent to whether or not there's a clothing sector downstream of you in Australia?

MR WILLIAMSON: I believe that the clothing sector that I service by and large is going to remain in its current form or in an amended form which we have already identified.

MR WEICKHARDT: Okay.

MR WILLIAMSON: That doesn't mean that having identified it we are not fearful of it. We're extremely fearful of it. The obvious statement there is the findings of your commission will be absolutely critical to where we sit in the future on the basis of that but, you know, if you just toss in Bradmill and ourselves which are two companies that have often been compared, we have probably got a combined turnover now - I mean, Bradmill have obviously had a major rationalisation but we've got $180 million, I would imagine, of which I would imagine a third is export. Now, I would turn it back on the clothing people and ask them what their possibilities of exporting to that degree are going to be, and I would wonder what they are with Australian wage rates as they are, so I would be again rather sensitive to any suggestion that that's money being poured down the tube.

I mean, the clothing industry that we service, and this again is where, I think, in all the submissions you have considered, a remarkable number in the period of time, I think people tend to think the clothing industry is Katies and Just Jeans and Target et cetera, but it's not. It's defence and there is a furnishing industry out there and there's a protective industry out there and I would like to see our defence forces in the past 12 months try and get themselves set overseas as they have done with having Bruck available in Australia because I can tell you now that they couldn't have done it.

MR WEICKHARDT: Can I just roll on to a further sort of issue that's sort of related. We received a number of suggestions from companies including your own about the fact that any ongoing budgetary assistance and SIP scheme should have some modifications considered in it. You're not the first company to suggest that the cap on type 3 should be either lifted or completely removed. I guess I would be interested - this is the first part of the question - interested in your view as to why it was there in the first place and whether or not there were any issues of safeguard or potential abuse or incentive in mind that could potentially have been the reason that was there in the first place.

The second question is you suggested that market development and research expenditure or market research expenditure be allowed under SIP. Interestingly, you've suggested only type 2. Could I - I mean, my rather cynical, forgive me, question is do you think it should be under type 2 because that's got a bigger multiplier than type 1 because I guess if it was an investment in the business, a la, you know, brand support, market development, you know, as capital, my logic would be it's not innovation. It's a cap on investment and therefore I would instinctly have suggested if it were included it would be a type 1 type expenditure. So I was just wondering what the logic was about you suggesting it be a type 2 expenditure.

MR WILLIAMSON: Don't apologise to a cynic for being cynical. Why don't you answer the first part of the question on the historicals of why it was there, because you probably pushed for it.

MR KREITALS: No, in fact I'm as intrigued as anyone as to why that cap is on the type 3. I really don't understand. There was very iterative process of sort of industry consultation, ideas coming from industry and ideas coming back from government in developing, except the industry position at that time was for the introduction of a scheme that essentially was based on our outcomes and the best way to try and identify that was saying that if there's improvements in value added, however a firm can generate that or wherever it invests money, the objective would be to improve its overall returns, so we were saying that there should - when I say "we", the TFA at that stage - that there should be triggers there that allow firms into the scheme, but then once they're in there and those triggers are by way of achieving certain attributes or certain outcomes, that then the basis of payment just be incremental value added.

Now that, of course, is very difficult, as you identified in the position paper, in terms of how you define value added, where's your starting point, where you finish and the government came back with the idea of the - "No, it's better basing it on actual expenditures for certain activities," and I'm only guessing here, but I think the value added component simply stayed in there because that was the starting point of what industry had asked for as to - but as you know, the value added in itself isn't a driver for the funding, it's purely a doubling mechanism and I can only guess that they put in the 5 per cent cap there, assuming that value added in the industry would be around 50 per cent of turnover, which for TCF as a whole I think it roughly was at that time, certainly for clothing it is. For capital-intensive firms it's not, particularly with the way - with the definition, it's more an economic definition than anything else. In effect it's - I mean, it's more than that, but putting it in simple terms the value added is roughly equivalent to labour costs and margins. Of course the more labour-intensive you are, the higher your value added. Why have a cap? No idea. You know, that's something to ask the department, I guess.

MR WEICKHARDT: This is a supplementary to that first part and I'm sorry to get you side-tracked on this, but somebody else actually did make a comment on the value added driver which made me question it's appropriateness and I suppose it relates to this issue of - given the definition of value added, adding labour, which is probably not what we're really trying to motivate companies to do, it actually increases value added - a comment was made at the hearings in Melbourne that one of the carpet manufacturers had actually looked at an investment proposal - and I'm still struggling to actually mathematically get my mind around why this would be so - but they said it was a proposal to replace labour by some capital equipment to automate and they found in that process that although they said there was a pay back on a capital that the value added under the scheme actually dropped and therefore they were penalised effectively under - have you encountered any of that sort of phenomena?

MR WILLIAMSON: No.

MR WEICKHARDT: Okay.

MR KREITALS: There's no question where - I mean the expectation would be that on any capital investment that you'd get back 40 per cent. Now, if you're up near the ceiling it will be that you - - -

MR WEICKHARDT: Fully - by the time you've doubled - - -

MR KREITALS: Yes, by the time you've doubled up, but if you reach a cap obviously there's going to be a reduction of that and you won't get the full 40 per cent, that's the only thing I can imagine that they're driving at, but in terms of it'll impact on their value added and pull the return down, well, I mean, you're talking about your value added in the given year that you've made the investment, or you would think that there's going to be some sort of lag between having that impact on you value added anyway, so I don't understand that.

MR WILLIAMSON: I think the second part of your question is just definition I think. I look at market research and market development as being a stream of R and D, to be perfectly honest; I don't see it as being a capital expenditure item. I think we need to get serious about export, I mean, you would have heard this before, but we can export - we can't export everything, there are those - and we maybe alluded to them a couple of questions ago, who would like to think they could, but you've got to get real. There's been a lot of pain and a lot of contraction in this industry and we've got to get real and we've got to realise what can we do. I mean, you can't go to shareholders today and ask them to stomp up money because, "I'm going to get this and I'm going to get that," and there's no real plan down the track. Well, I certainly can't. I'm a victim of sorting out my own board. But at the end of the day if we want to export in this country we've got to get real about it, and the fact of the matter is that it is a competitive market out there; it is white-hot just about everywhere for different reasons, including a lot of prohibitive practices. The fact is that you are going to have to invest in market research, market development, in order to develop yourselves in the mainstream in order to get bulk, in order to retain capacity of fill our capacity at its current levels and I do believe that the Australian market has contracted to a point where we are, as I said, we identify with, I think, now where further contraction will occur, taking a fairly conservative approach too, and what we're trying to do is gear ourselves for all eventualities through to 2015. That's a long, long time in our industry. Of course, when you've got floating just off your left-hand side, Fiji, which really is floating in a sea not knowing which direction it's going in, it's a very difficult call, but I think that one of the things we can do is get serious about export. But you know, to export, you've got to be good today.

DR ROBERTSON: Continuing on this SIP issue, one of the problems that we have to struggle with is how much new investment was triggered by SIP and how much was simply investment that benefited from the handout. Do you think that, in fact, SIP has stimulated investment in the industry, or do you think it has just provided assistance in the adjustment process?

MR WILLIAMSON: It certainly stimulated a - I keep switching to Peter because I think Peter's got - and that's why I want him here - he's got a broader industry base. I mean, for the whole industry, what would your answer be? For Bruck it has certainly stimulated investment. For Bruck going forward when it looks at capital expenditure, the problem is we're not sure what's going to happen after 2005, but the fact is that you know we're trying to run a company today that stands on its own two feet, but you know obviously significant support and significant SIP funding can be make or break, and it's why we're just going slightly off-beam again, we're very committed to the idea of second-hand equipment, which may not have legs, but I've got a jet park at Wangaratta which has 14 machines in it. In truth it needs full replacement. It doesn't need full replacement today, but in truth the company would be well served by that. It would see productivity gains which would make it more competitive. The initial investment on that jet park alone is $2.8 million. Now, the fact of the matter is that were I able to buy second-hand equipment in that area - and anyone that knows about jet dying vessels would know that they've got a life of anything between 15 to 20 years, good ones, the fact is that there is a massively contracting industry in the United States and Europe and the fact is there's a lot of almost brand new machinery out there, that initial $2.8 million, with oncosts, installation, labour, et cetera, I think I could have. And it appears to me to be a bit of a waste, but - - -

MR WEICKHARDT: Just on that score though, Alan, I guess there is a sort of logic behind the government saying, "Well, we want to support the industry to become state of the art and modern," and there's a risk that the Steptoe and Son instinct in some manufacturers means they can't resist buying something that looks cheap and I can see continued arguments then as to, "This 1910 piece of equipment really is still state of the art," and they will find some consultant who will, you know, sort of sign a letter saying it is state of the art. If taxpayers' money is supposed to be buying genuine change and 21st century equipment, is there a risk that this second-hand equipment will end up perversely just motivating people to scrounge around the scrap heaps of the world and buy crappy old equipment?

MR WILLIAMSON: I think it's a very small risk, in truth. I don't think "crappy old equipment" hangs around for too long now and in truth you'd be a fool to bring in a piece of crappy old equipment with the demands placed on you by the EPA, et cetera, et cetera, et cetera; OHS issues, I mean, really you'd really, really have to be opportunistic to the point of fraudulent and I'm not sure they're still around, if they ever were.

MR WEICKHARDT: What do you think industry-wide?

MR KREITALS: Sorry, about "fraudulent"?

MR WEICKHARDT: I think we'll move off fraudulent.

MR KREITALS: I won't comment on that one. I believe the industry is very good. Look, there's no question that SIP has accelerated investment and induced new investment. People have brought investment decisions forward, they've gone beyond what they might otherwise have been able to do. They're also - it's given them the opportunity to turn the equipment over more quickly, otherwise you wait for the full economic life and the full payback period, ensures the payback period and ensures that you're continually upgrading and improving and companies have responded in that manner, no question about it.

DR ROBERTSON: I was going to follow up on that.

MR WEICKHARDT: Okay, yes, go on.

DR ROBERTSON: How do you think - some people have been complaining that there are higher compliance costs in getting a SIP project through and - are they too high, do you think? Could it be simplified in a way that would reduce the costs of actually making a proposal and indeed following it through and getting an outcome.

MR WILLIAMSON: Yes, I think so. We actually have prepared a separate brief paper on this which - would be happy to present separately - - -

DR ROBERTSON: We'd like to have it.

MR WILLIAMSON: It does have its drawbacks with its complication in applying, there's no doubt about that.

DR ROBERTSON: Because one of the things we're obviously set on doing is trying to simplify the process. 4 and 5 haven't been used and it seems pointless to have them there, but we may have to change other things - - -

MR KREITALS: Perhaps that's because it doesn't offer enough incentive though.

DR ROBERTSON: Sorry?

MR KREITALS: Perhaps 4 and 5 is because it doesn't offer enough incentive to drive the purpose that it was there for in the first place.

MR WILLIAMSON: People will find the resources to utilise it if it's attractive enough.

DR ROBERTSON: But we would appreciate it if you could let us have that paper.

MR KREITALS: In terms of the compliance costs, though, I mean we've talked it - if it could be simplified, that's good, because it certainly is a high administrative and compliance cost, but equally, if you're dishing out money, you want to make sure that it's getting the right return, so - it's very difficult.

MR WEICKHARDT: Just again on possible modifications to SIP, from Bruck's point of view and from your point of view more generally of looking at whether or not this is going to help a more robust industry develop, what would be your views around the possibility of simply abandoning the type 3 claims and just grossing up multiple on type 1 and 2, effectively doubling it up.

MR KREITALS: In effect, that's all it's doing anyway. With the Bruck suggestion of removing the 5 per cent cap or the other suggestions of increasing the cap, in effect that's what you're doing. It's a bit of a misnomer having that type 3.

MR WEICKHARDT: Sure, but in terms of the - well - - -

MR KREITALS: Or you don't simplify it because you don't need to calculate your value added, you don't need to go through all of that - - -

MR WEICKHARDT: Correct.

MR KREITALS: - - - but it does seem to be superfluous, to be honest.

MR WEICKHARDT: So from your point of view would that be a good change?

MR WILLIAMSON: Yes, from our point of view it would.

MR WEICKHARDT: And do you see any dangers of - I mean, theoretically I guess there's a danger that people spend the money and do nothing. Hopefully, most people who spend money have a motivation to do something afterwards.

MR KREITALS: Well, at the end of the day you're spending the money up front, it's the time before you get the return, you're not getting the full 100 per cent back, so there's still the cost involved and no-one is going to spend money just on the off chance that they might get something back.

MR WILLIAMSON: There's not - I don't think there's an inclination today. I don't think as you sit here today there's the inclination, certainly not around the people that are going through my mind now that they would do that.

MR WEICKHARDT: And with appropriate safeguards, if the definition of what was allowable under the current type 4 and 5 were simply allowed, type 4 and 5 were abolished and effectively expenditure became allowable under type 1, again, what would your views on that be?

MR KREITALS: I'm not sure. I think that's difficult, because I mean it would mean that you'd need to build in other criteria to type 1, I mean essentially we're talking about restructure, consolidation, so you'd have to be able to spell out what sort of spending is eligible, but otherwise it's just the label, isn't it, it doesn't matter where it's put.

MR WEICKHARDT: Yes.

MR WILLIAMSON: That's a furry one. But there is no doubt there is need for simplification and that's why we came up with this draft because I think it's easier to say you need to simplify it. I think it's prudent and good governance that we at least make some suggestions. They might make no sense or be rejected outright but we do have a think tank document on that which we'll happily submit to you.

MR WEICKHARDT: Please.

DR ROBERTSON: You carry on talking because I've just had a thought and forgotten it.

MR WEICKHARDT: You mention that one of your important customers potentially and in the future, or now and in the future, is the furnishing industry. You would be aware the Furnishing Manufacturers Association have called the current tariff a furnishing tax although they were at pains - I'm not sure whether there was a dead horse in their bed one night, but they were at pains to say that that didn't mean that they were suggesting the tariff should be lowered on textiles but simply they should be given some relief to compensate for this. I mean, to what degree do you have some sympathy for the fact of your customers being made less competitive by your desire to extend and indeed for sort of onwards and upwards from our recommendation in type 4 you want to extend the tariff on textiles? In doing so, might you be killing your downstream customer?

MR WILLIAMSON: I don't believe so. I believe the furnishing market is vastly different to the apparel market, be it fashion apparel or non-fashion where we've gone. I believe that the availability of alternatives in furnishings are a lot less than they are in the fashion apparel area. I believe that the minimums, I believe that the turnaround, I believe that the whole nexus of the furnishing business - quite frankly that submission sounds a little bit like there one we talked about from the special consideration from the apparel manufacturers. I think it's just a special consideration push and it doesn't sit with where we see the furnishing market. We're experiencing growth in that area. We are competitive in some areas. There is no doubt that there are - you know, the world is becoming a smaller place and we're certainly not sitting on our substantial backsides. But we see real possibilities to in fact export some of our furnishing products, so I reject that.

MR WEICKHARDT: But if you can be competitive exporting can't you be competitive in the domestic market without that extra tariff support?

MR WILLIAMSON: Well, we believe we're competitive at the moment where it sits. Our whole concern - and I've said this before and I know it's a chicken and egg - is that if we are not careful we will lose our domestic market before we develop our export markets and I am sure that people have sat in chairs like this and said this in the past. But I think today that the serious players in this industry, certainly in the textile manufacturing, have got to focus on the fact that there are only 19 million people in Australia and if you want to have bulk high-speed production you've got to find additional people, and as I don't see immigration going over 100,000 in the next few years I've got to look elsewhere.

The problem is again the chicken and egg: if we had moved too quickly - and I won't bore you again with my opinion on what other people do. But if we move too quickly and we become obsessed with again having to lead the field to show what good boys we are because we want to be part of a bigger world - which wants us anyway, by the way - you know, we're not going to have a domestic market upon the basis of which, the core of which, we will build an export market. We won't have it.

DR ROBERTSON: I remembered my question. At one point you said that you wanted the SIP to continue at current levels to 2015 whereas we of course propose the reduction in 2009. Now, the industry has been contracting quite strongly in the last five years and we suspect, especially given what has happened to the exchange rate, that we would get a lot more contraction beyond 2005. Wouldn't that leave a lot of money for a much smaller industry? I mean, that's what was bothering us and what we had in mind was that we have a particular sort of level of assistance through SIP which is applied to a larger industry and then as the industry declines, which is almost inevitable - not necessarily textiles but certain textiles will and clothing clearly will - that the assistance level doesn't need to stay up there.

Now, you're talking about extending it even further. That would give sort of 25 years of adjustment, a whole generation. Do you think it could - I mean, I'm sure you can spend it but do you think it should be spent?

MR WILLIAMSON: Obviously I did. Do you want to give the industry position and then I'll give Bruck's position?

MR KREITALS: Well, I mean, we're here for Bruck. But the issue there is, we've also asked for changes to the scheme which would create more demand on the moneys that they've - market development, market research is allowable and as Alan has said, we've got to be looking at - I was going to say exploiting - exploring that export market. It's going to cost money to - - -

MR WEICKHARDT: Freudian.

MR KREITALS: Exactly. Yes, we accept that point, that the industry will continue to contract. But equally there will be further changes and if you modify the scheme that allows more incentive for restructuring for rationalisation, that will call on the funding. If you allow market research and development that will call on funding as well. But it means that yes, there's more money available for more targeted activities, if you like, and the key issue is now you're saying that there's two key differences, One is, we've asked for a 10-year program of assistance and you've asked for eight. So okay, you can say it's only two years but that's an extra two years and the question is: does it get phased down in any way or does it get stepped down?

Look, our preference obviously is to have the funding at the full amount. If it doesn't get spent, it doesn't get spent. But at least if it's there, there's the encouragement. It sends a signal for the industry that there is going to be the availability of support for you to try to change the way you do things.

MR WILLIAMSON: I think the idea of running a SIP scheme that expires before the arrangement or whatever arrangement you come to on tariffs, I think that, you know, the industry probably would handle better two concurrent schemes. As far as currency is concerned I'd just give everybody a piece of advice: I hedged currently for the next quarter yesterday so you can bet your life the dollar is going strengthen like mad for the next two days. I'd get out there and on Monday start buying.

DR ROBERTSON: No, the time to start worrying would be if I took that position as well. So did you have anything further?

MR WEICKHARDT: I don't think so.

MR WILLIAMSON: I think the currency thing is relevant actually to explain the union bid and how business needs to change. We're doing today 12 more contracts with our major customers. We used to do monthly or quarterly and you can do that once you've got stability and once you've got a plan and et cetera. One of the things that SIP and one of the things that I think a clearly focused, sensible policy will do will give companies the opportunity to intelligently trade because they will know where they stand over a period. I mean, I'm protected against whatever the currency does at least till December. In fact I've only got upside I suppose if I have any import component.

But of course come December or come the negotiation period of September, October for the following 12 months, wherever the dollar sits will be very important to me. But it's probably prudent to point out that again, coming out of the fashion market the way we have, Bruck is working far more in the contract area now than the "what are we going to do next week" approach.

DR ROBERTSON: Yes, I can see that that would make - we, as you recall from in the position paper, I mean not quarrelling about the eight years versus 10 years for the moment, we saw this as being a way of giving stability even for the 10-year period beyond 2005. A number of people have said they want another review before anything further is done. Are you in favour of that or do you think that it's better to have a 10-year cycle rather than, say, a five-year one and then we review it again and look at another five years?

MR WILLIAMSON: That depends if you're going to give me what I want for 10 years. If you're not, give me what I want for five and I hope to see you in five years' time - is the honest answer.

DR ROBERTSON: All right.

MR WILLIAMSON: And I think that the industry is best positioned if they've got two schemes running concurrently, to be honest with you.

DR ROBERTSON: And for a longer period?

MR WILLIAMSON: Absolutely. 2013 does not have a nice ring to it.

DR ROBERTSON: Is that your retirement year or something?

MR WILLIAMSON: Don't go there - this is on the record.

MR WEICKHARDT: Alan, interestingly enough, in a quirk of page numbering systems, on page 15 of 12 in your original submission you say in your conclusion:

> However, there is a role for government to play as well to help us get through the transition period as we continue to restructure. This does not mean that Bruck believes the government needs to or should provide blanket support across the whole TCFL sector when some sectors of the industry either are not making any efforts to change or are clearly unsustainable into the longer term.

I think we could all say, "Here, here," to that in a philosophic sense. But the question is: with the sort of changes that you have suggested to SIP and tariff support, are you confident that the government's money will be directed into the sectors that are making changes and will be sustainable in the long term?

MR WILLIAMSON: Yes. I genuinely believe that the industry that sits in front of you today is different than it ever has been before and I say I haven't been here before when people have made submission to you. I'm fairly positive that some people will have said similar things. But I don't think anyone can deny what they've seen in front of their eyes in the period of the current scheme and I think that the industry that sits there today is a lot more transparent and I think the whole risk factor to the government I think, I imagine - and it's one of the reasons I keep turning to Peter for historical input. I would imagine the transparency factor that there now, the risk factor to the government over a variety of risks is significantly reduced. I think the industry sits in front of you warts and all today; I genuinely do.

MR WEICKHARDT: But what provokes you to write those words? Were you concerned that the current scheme actually does provide money to sections of the industry that aren't making an effort to restructure and aren't sustainable?

MR KREITALS: I think it's more - that was the first submission and we really didn't know where the government was - as to whether you would be recommending the extension or continuation of SIP, whether you would be recommending some alternative schemes, and the proposition there is really that whatever scheme you have in place that it helps to keep driving change, that it shouldn't be a question of just propping up companies that are there, which is something that had happened in the past, as Alan says. It's not really the case there now. But you need to design the scheme in such a way that it's acting as an incentive to keep moving forward rather than just helping people stay where they are. That's really the point.

MR WILLIAMSON: And if necessary discourages opportunism and I guess I also - I mean, I got to page 15, I was probably limited, told to keep it to 12, and I wandered. I kind of knew you'd get the sort of submissions you've been very kind to reveal to us today from certain narrow-minded special interest groups - happens in every area of public life today, I would imagine.

MR WEICKHARDT: Thank you for your comments.

MR WILLIAMSON: Thank you.

MR KREITALS: Yes, thanks very much.

MR WEICKHARDT: Thank you very much. We'll just take five minutes' break.

DR ROBERTSON: Now we're turning to Albany International led by Barry McDonald. If you would each introduce yourselves when you start speaking so that you can be identified when it comes to time to get up, and as I just explained, if you would like to make some brief opening comments and we'll discuss things and whether you raise questions with us or we raise questions with you is open.

MR McDONALD: Are you happy for us to begin now?

DR ROBERTSON: Yes, please.

MR McDONALD: My name is Barry McDonald. I'm managing director of Albany International Pty Ltd. We're located up at Lisarow on the Central Coast where a part of Albany International Corporation which is a global company with our headquarters in the United States. We're a manufacturer of engineered textile-type products for a wide range of applications, the majority of which involve either conveying or filtration applications in some form. We have been located on the Central Coast since 1966 and we currently employ about 320 people and at least 50 per cent of our production is for export markets. So that's just a quick overview of who Albany International is.

In terms of the purpose of today, we certainly appreciate this opportunity to make some comments about the current program, and more importantly, about the Productivity Commission inquiry and what may or may not be a relevant program for the future. So I'm certainly not going to monopolise our presentation and I'm certainly going to count on Sandra and Jim who will introduce themselves when their turn comes. I'm going to count on them to assist me to make some points, but maybe if I just begin by saying that we, Albany International Pty Ltd here in Australia have been a beneficiary of the government programs right from the beginning. We certainly were a beneficiary under the import incentives program, the previous program. That program helped us immensely. We have grown, our export market in particular, tremendously over the years.

The current program, the SIP program, we're also a major beneficiary under that program and have found that program also to be well thought out and extremely beneficial to us. So the thrust of our recommendations here today, the principal thrust of our recommendations here today, are that we would like to see the SIP program continue so I guess in terms of the commission proposals, it's proposal A that we're most interested in talking about, a continuation of the SIP program, but we do have a couple of comments on proposed changes, modifications to the current SIP program, that are Albany specific. So against that background introduction I would like to hand over to Sandra first to make a few comments because Sandra has put together some material for us that's more specific than what I have just said so on that note I'll hand over to Sandra.

MS RAE: My name is Sandra Rae, I'm the product development management of Albany International. I guess what - to start with we would like to just express our view about the support for the SIP program. The SIP program at Albany International has certainly formalised our research and development, it's brought a discipline to what we do at Albany International now. It has especially helped us in substantial savings and organisation of our R and D costs and product development and we feel that it also helps us remain - or has been extremely more competitive to get organised in this respect. We also feel that the research and development and the products that we are pushing through out R and D SIP scheme area certainly adds value for our customers and we've demonstrated that with an organised way of being able to bring product from idea concept out to the customer. What else did you want me to talk about?

MR McDONALD: Well, I think you could lead into the state of the art equipment and then hand it to Jim to talk about financial aspects on that side of things. That's the major area of change we're proposing.

MS RAE: Yes, do you want - - -

MR CHAPLIN: Jim Chaplin, I'm the financial controller at Albany International. When we reviewed the three options, as we said, we support the option A proposal. Within that option A proposal it also talks about the modification to change the capital expenditure component to include state of the art second-hand equipment. Given the type of business that we are in, second-hand equipment that we bring in from overseas is incredibly expensive, can cost millions of dollars to bring in, firstly to purchase and secondly it can cost upwards of a million dollars to install the equipment and get it into position that we can create - - -

MS RAE: Product, quality product.

MR CHAPLIN: Yes, quality product. In a lot of cases that second-hand equipment is just as good, if not better, after modification, than brand new equipment. So it's a significant cost to us to continue in this industry. To be able to continue on this industry we need to continue on purchasing and acquiring equipment, but not necessarily brand new equipment. State of the art second-hand equipment is good quality and can product the quality product that we need in our industry. We've just been through an installation of two large pieces of equipment that installation costs alone and shipping costs to bring it into Australia has cost us upwards of a million dollars and we are now as - I think in our proposal - we're now in a position where we are the centre of excellence for Albany in this region, the South Pacific and Asian region and without further equipment we will lose that status in the Albany corporation world, but also in the industry that we're in.

MR McDONALD: If I could just make a few more comments relevant to this question of state of the art equipment. First of all we totally appreciate that what we're asking here is a complex matter and if it were to be adopted there'd have to be some very stringent guidelines to make sure that this flexibility wasn't abused, so a few points are relevant. We are not saying that we feel we should be recognised for the capital value of these pieces of equipment. In our case these pieces of equipment are coming from other Albany locations in other parts of the world. So Albany has already purchased the pieces of equipment and because Albany is making decisions all the time about the best way to service the world markets and where to concentrate centres of excellence and technology and production capacity, because we're doing that all the time sometimes pieces of equipment have ended up in the wrong geographic location.

So to Australia's credit we down here have been recognised as a centre of excellence for the manufacture of some of Albany's product range, and equipment previously located in other parts of the world has been transferred down here. So, as I say, we're not asking for recognition for the capital cost, but what we're suggesting is there may be room to consider the relocation costs associated with bringing the equipment down here and installing it into our plant. Already, when we recondition equipment, if it needs reconditioning, we already put new parts into the machinery and the current scheme caters for new parts going in, so that's already covered. But what we're looking for is just an extension of that to see if it would be practical to cover relocation and installation costs, including - possibly including where appropriate - any additions to buildings or anything to take the new equipment. So that's the area we're interested in.

Now, in terms of how - what would be acceptable state of the art equipment, we recognise that if this change was to be considered, there'd have to be a mechanism that somehow or other decided what was eligible state of the art equipment and what wasn't and we'd be more than happy to work with any criteria that was set up that put the responsibility on us to make our case, on a case by case basis, for individual pieces of equipment that may or may not qualify. We don't think for one minute that it would be acceptable just to say "any piece of" - to use the term - "second-hand" - which I don't like using. It wouldn't be practical to just have a clause that said "any piece of second-hand equipment" was eligible, because how do you know it's not a piece of junk and we don't expect to have any credit for buying junk.

So, yes, it's a complex issue but we really do believe, in our case at least, because we're talking about very specific pieces of equipment that have been already purchased because they're high-tech pieces of equipment, all we're doing is relocating them here to strengthen the base in Australia and we need these pieces of equipment to grow our capacity and to maintain our technological leadership and grow our export business and generally improve sustainability. So that's sort of the background of why we believe that it would be practical to at least have a look at this point we're making. I can't speak for any other companies, whether there's any relevance to others, but this particular point is of extreme relevance to Albany International.

DR ROBERTSON: Right.

MR McDONALD: And just while I've got the floor, one final comment I'd like to make is just to pay tribute to the AusIndustry people associated with the delivery of the current SIP program. We can't speak highly enough of the help, advice, cooperation that we've had from the AusIndustry people responsible for delivering the current SIP program; they've been first-class.

DR ROBERTSON: I'm sure they'd be pleased to hear that. First of all let me apologise, because we didn't get up to Gosford. As I said earlier this morning, we did make over 70 visits between the beginning of December and the end of February, which was difficult, with the holiday in the middle of it, and we would like to have come up to Gosford but didn't make it, so we're not aware of what you're doing, what you're making. Now, we have visited other similar plants, so - we've been to Textor in Melbourne and Geofabrics and we've been to Kimberly-Clark in Albury, so we have some idea what your industry is about, but what exactly are you doing, you know, what is the product used for?

MR McDONALD: I'll start that Sandra and - - -

MS RAE: Okay.

MR McDONALD: - - - I'll give you a bit of time to think and then I'll defer to you. A couple of general comments first. We are always interested in having people come to visit us and get to know first-hand what we do, because as you correctly point out, it is fairly difficult to appreciate what we do from a distance. To that end we have had people such as Alan, Alan Coleman. Alan Coleman has visited our plant. We have actually Ian, Ian McFarlane, has promised to come and visit us before the end of the year as well, so we have had quite a lot of visitors - and the people delivering the SIP program from AusIndustry have been to visit our plant.

Now, to answer your question, "What do we do?" Whilst we have something, in fact many things, I guess you could say, in common with people like Textor and even Kimberly-Clark, having said that, we've also got many things that are fundamentally different as well. The biggest difference we have is size, physical size of the equipment, volume through the plan and ultimately the types of products we make. So what do we make? We make textile - our products are all textile-type products, in that they are either woven on weaving equipment which means they've got yarns in two directions and turn that into cloth which has an application, or they're a combination of woven base cloth and needle punch making a composite product. Now, those composite products are used only in industry. We have nothing whatsoever to do with apparel. We have nothing to do with the traditional clothing industry.

Our key customer groups - I'll start with our biggest - our biggest customer group are the people who manufacture paper and pulp: in this country, in Australia, people like Amcor; the Pratt group; Visy Paper; Kimberly-Clark of course are a manufacturer of paper; Carter Holt Harvey; Norske Skog, a Norwegian company making all the newsprint in Australia. People who manufacture paper have a big production line, a big paper-making machine that in simple terms, as the very dilute slurry of cellulose fibre and water is passed along the machine, the machine takes the water out of the slurry progressively until eventually you end up with a sheet of dry cellulose fibre with about 7 or 8 per cent moisture content in it, and that sheet of dry cellulose fibre is a sheet of paper.

The means to get the water out down the paper machine are first of all primary filtering through a forming fabric, a mesh product that we weave, into a pressing section where the sheet of paper is squeezed to take more water out, and then into a drying section where steam-heated cylinders are applied to the sheet to dry the last bit of moisture out. So our products are in the three parts of the paper-making process. That's our biggest customer group.

On the other side we have a very large industrial products division, where a typical example of their product is the filter bags that are used in the bag houses to clean the emissions from so-called dirty industries. A good example is coal-fired power stations, where they generate electricity by burning coal. Once the coal is burnt, the exhaust gases from the burning pass through thousands - tens of thousands - of cloth filters, so that the clean gases pass through the cloth and eventually to atmosphere, and the contaminant particles are trapped on the cloth and eventually are collected and disposed of appropriately.

So many of our products in the industrial technology side are used in filtering air, filtering liquids et cetera, in mining industry, power generation, fertiliser industry, cement industry - any industries where those sorts of things are appropriate. Then there's a final one. We also have an application for one of our particular products in the manufacture of fibre cement, building board products.

You're probably familiar with the James Hardie Corporation. It started off as a large Australian company but now has obviously worldwide interests. We supply almost all of their requirements for our particular product, which in their process has a conveying and filtering application and also incorporates a squeezing, a pressing application as well. So I don't know whether I've made you more confused or clarified anything but that's - - -

DR ROBERTSON: No, that's fine.

MR McDONALD: Sandra, with her background, can add a little more as to what we use in raw materials and - - -

MR WEICKHARDT: I think that's fine.

DR ROBERTSON: Yes, I think that's enough.

MR CHAPLIN: Just one thing. Did you visit a company Huyck in Geelong?

DR ROBERTSON: No, we didn't manage that in Geelong.

MR McDONALD: There is only one company in Australia that more or less does pretty much the equivalent of what we do - only one.

MR CHAPLIN: And that's Huyck.

DR ROBERTSON: Okay. The reason I started on that tack is I notice you've got 320 staff, and indeed in your submission you talk about labour problems; labour costs, industrial relations matters and so forth. The other non-woven places we visited virtually had no workers. You know, you go to Kimberly-Clark and I think they had nine technicians on duty, and they have 24 hours a day, seven days a week. So 320 people sort of makes you look quite different from Textor or the others.

MS RAE: Absolutely. Most of our product is more woven than non-woven.

DR ROBERTSON: Right.

MR McDONALD: Also, we're bigger.

MS RAE: The scale is definitely bigger.

MR McDONALD: We're bigger scale and we're bigger in the area of industrial products. Take the example I gave of the filter bags. In the process of making filter bags, making the base cloth which is a true textile process, then we come into the cutting and the fabrication, the sewing. Some of those processes are fairly labour intensive, so that contributes to the labour.

I have to be honest, though. Another reason for the 320 - which I should have touched on right at the beginning - we also have a third division. It's our smallest division and has no relevance at this stage, or at any stage as far as we can see, to the SIP program or to this Productivity Commission, but the employees in that other division are counted in the 320. Just for general interest, that division manufactures a range of industrial doors that cover wide openings in factories and are capable of winding up, opening and closing very quickly - rapid roll doors.

MS RAE: That's not a textile product though.

MR McDONALD: How many people in doors, Jim?

MR CHAPLIN: There would be 40.

MR McDONALD: So 40 of those people are associated with our door division. So really for this purpose you could say 280 is a more relevant figure.

DR ROBERTSON: Yes, but it's still a quite different operation from - - -

MR McDONALD: Very much so, yes.

MR WEICKHARDT: What are the annual revenues, roughly?

MR CHAPLIN: It's about 70 million - 70, 75 million.

MR WEICKHARDT: Okay. Just on the issue of the sort of cutting, sewing and fabrication of the filter bags, you made a point in your original submission about the EOAP not - I think, if I gleaned your point correctly, you weren't eligible to operate under the EOAP. Why aren't you, and what would need to be changed to make you eligible?

MR McDONALD: Okay. Our understanding - and this understanding comes from fairly exhaustive discussions with a lot of people, AusIndustry and Alan Coleman and others on the EOAP question. The reason we believe we're not automatically eligible for the EOAP program is that it was very specific to some tariff classifications and it was extremely specific, and the provisions of the EOAP were designed to assist quite a narrow range of companies, let's say - applications. So we had good advice that no, we weren't automatically eligible. That's probably the only way I can answer that one. As to why that might be, that's a different question.

Now, why is it of interest to us? It's of interest to us because, as I said before, Albany International has recognised what are the strengths of the Australian operation and how to build on those strengths so that we have a very sustainable future, we can grow exports, and to that end we have identified that we're going to continue doing certain things in Gosford and making certain products. That's where the state of the art machinery - these multi-million dollar pieces of machinery - are being sent to Gosford to follow that identified path of best practice and core business and what we do best.

Quite frankly, one of the things we don't do well - and I have to say Australia doesn't do too well - is prosper in areas that are straight-out labour intensive. So what we are doing - Albany has plants in other countries as well. We are the principal plant, the management plant, for Albany's activities in the Asia Pacific corridor, which is the area of most rapid growth for our type of business. We have a factory in mainland China and we have a factory in South Korea. So what we're doing with the filter bags - most of the filter bags, I have to say, not all but most - with the filter bags we're making the base cloth here in Australia. Then we send the cloth up to our own factory in China where our people, our employees in China, turn that cloth into filter bags, then bring the bags back to Australia and we distribute, sell, service to our customers.

What happens is - because in one particular area of our business the raw material for those filter bags is extremely expensive. Nomex and products like that are very expensive. They're temperature resistant et cetera. We produce a cloth in Australia with a high value, high raw material value. We send the cloth up to China and they fabricate the bags at their labour rates. When we bring the finished bags back to Australia - China being a developing country, it's subject to 10 per cent duty, but 10 per cent duty on the full value of the bag, which has this very high component of raw material, the fibre cost. So when we add the 10 per cent to the full value it gives us some real problems with our pricing and ultimately our margins in that particular side of our business. So that's why we've been talking a lot about EOAP.

In some other areas, where the raw material cost is not so excessive, then it's not so big a problem. But unfortunately - or fortunately, whichever way you look at it - technology is taking that industry towards, and very rapidly towards, the more expensive raw material, because temperatures are going up and they need those products. So it's becoming more difficult for us, so that's why we've been bringing up the EOAP.

MR CHAPLIN: I think it should be noted that that's about 6 to 7 million dollars business, just that part that relates to the EOAP. The majority of our business is in the paper machine clothing type of business.

MR WEICKHARDT: I assumed it had to be reasonably small, because I guess an option would be you set up a facility somewhere like East Timor, where you could sew them and bring them back duty free if it was a big deal.

MR McDONALD: Well, we want to deliver a quality product to our customer. That's first and foremost.

MR WEICKHARDT: Sure.

MR McDONALD: So we want to keep absolute control over this process. So we have our own factory in China, with our own employees. So we much prefer to keep all of this work in-house within Albany, rather than try to farm it out to any outside body, no matter what price they may quote for doing the work. So that's kind of the logic of why China and why not explore somewhere else. As far as keeping control of the technology that goes into these bags, far and away the technology is associated with the cloth, not the sewing process. The cloth is under our control here.

MR WEICKHARDT: You talked about being a member of the international Albany group and the fact that Australia is seen as a centre of excellence in certain areas. Would you like to comment on how you believe productivity, labour flexibility, our labour practices in general compare with your experience elsewhere internationally?

MR McDONALD: That's a good question. I'll start, and I'll happily defer some of that. We have plants all round the world. Our headquarters, if you like, are in the United States. But just to give you an example of how widespread our experience is, we have plants in Canada, Mexico, Brazil, Finland, Sweden, France, UK, Germany. So the purpose of going through that list is just to make the point that it is very difficult to compare us to everybody in one statement, because various countries have various strengths. China has low labour costs for instance, et cetera.

But generally speaking - across the board statement - there is no way in the world Albany corporation would continue to invest big money down here in Australia if they hadn't seen a proven track record for many, many years - remembering we've been here since 1966. They've seen a proven track record from the Australian operation of consistent quality; consistent productivity measures, by anybody's standards; in our case, very minimum problems with industrial relations issues, absolutely minimum issues, convenience in terms of geographic situation; where we are situated geographically compared to the identified growth markets that remain in the world for our types of products, and obviously I'm talking Asia.

So there are a whole host of criteria that are used all the time by the corporation to vindicate decisions on where they continue to invest and I think the best thing I can say, to answer your question, is they continue to invest in us, in Australia. So we must have those criteria you identified under control. Sandra and Jim, I'm happy to defer it if you wanted to add something to that.

MR CHAPLIN: Yes. I suppose with flexibility of workforce that drove us to an extent to outsource the bag making option up into China. As you're aware, we've got 280 people on site and the pay rates for what we call a B skill level person can either be a bag maker or can be a weaver, in weaving. We don't have the flexibility. Our bag makers are well paid, both on the central coast and compared to a bag maker that would work for one of our competitors in Australia even. So that's what was killing us competitively and we couldn't get the flexibility there with the workforce to be able to do something there to change wage rates or what have you.

On productivity issues and so forth I think maybe Sandra can back me up there, but it's difficult to find training courses and areas to develop our people. Most of the improvements are done in-house although we have the latest course that we're sending people on. There is a little bit coming out of Melbourne which we're getting support with at the moment, which is helping improved productivity and knowledge of our people. But it is a difficult industry to get support within Australia. A lot of our support, we need to go offshore to actually send people on training courses offshore, to bring the knowledge back into Australia.

MR WEICKHARDT: If you just put the perhaps low labour cost countries like China to one side and you look at the higher labour cost countries that we might sort of compare ourselves to, when you benchmark yourselves against those operations where are the areas that you are, I suppose, reminded you need to continue to improve in terms of labour practices, productivity, quality, efficiency, safety etcetera, or are you saying that Australia comes out tops in all those?

MR McDONALD: No, we're not saying that. I'll take that first shot at it. A few years back Albany Corporation acquired a German company, a company called Geschmay. Geschmay had been a formidable competitor for Albany for many, many years and the aspect most recognised and most talked about, about the Geschmay performance in the field was their quality, their consistent high and topping quality. When we took over Geschmay and understood more about their processes and their products and their people that was reinforced. So we have recognised that compared on a quality basis against some of our operations we still have room for improvement.

Now, that is being achieved in large part by equipment upgrades because Geschmay had superior equipment. That has been rectified now and Albany is investing in equipment. But also their technology and their training is something that we value and we're benefiting from that, and to this end any day now we have one of their key people arriving in Australia to spend a considerable length of time with us, helping us to optimise the output from this new equipment that has been put in. So I think we could go - and Sandra may have some better examples. We can go to some other divisions and say, "This area is the centre at the moment for quality. We're learning from them. This area has gone a step ahead with best practice or automation and this area has some other skills that we value." So Albany is worldwide, is global but we're a tight-knit family as well and sharing best practice is encouraged and driven, very much so from the top.

MS RAE: Paramount, absolutely. What I'd probably add there too is, it's a very global company as far as they have many technology groups within all the different products that we make and we have a lot of communication between all the different companies, all the different divisions of Albany. But I guess Albany has set up themselves what we call a corridor effect where we have the Americas, we have the pacific region and we have Europe, and to have confidence in us to be the centre of excellence for the pacific region instils that we're putting together plans to increase our quality and product development. I mean, we've just started a product development department. So Albany itself as a corporation has, I guess, given us the confidence to be the centre of excellence for this corridor, the pacific corridor. But we have so much communication between all the different Albany divisions.

MR CHAPLIN: I think also SIP has helped in that way and it has probably taken us to a level that we wouldn't have been at.

MS RAE: Yes, definitely.

MR McDONALD: Without doubt.

MR CHAPLIN: And probably taken us above some of the other Albany companies in the corporation.

MS RAE: Divisions, yes.

MR CHAPLIN: They're learning from us in what we're doing with our R and D recording and so forth.

MS RAE: Documentation and product development.

MR McDONALD: A couple of other points - - -

MR WEICKHARDT: Do you find - if I could just - - -

MR McDONALD: Yes, all right.

MR WEICKHARDT: - - - give an elaboration on one point. Do you find, to the extent that you have unions involved in your workforce that they are either facilitators in terms of introducing this best practice, upskilling and creativity? Are they neutral or are they a hindrance? Where would you put them on those scales, crude as they might be?

MR McDONALD: Being perfectly frank I'd probably say neutral. I wouldn't go so far as to say negative, but I would have to stop short of saying that they facilitate. So that only leaves me with neutral.

MS RAE: Yes.

DR ROBERTSON: This 320 people, how would you break that down between - presumably you've got a lot of women who work on the weaving machines and the bags and - no?

MR McDONALD: On the bags, yes.

MS RAE: With the bags, yes, but the weaving machines is predominantly men. It's heavy work.

MR McDONALD: But we have got some women in weaving.

DR ROBERTSON: Well, are there many women in the 320?

MR McDONALD: Yes. Jim, have you got any figures at your fingertips?

MS RAE: On the factory floor there would be about what, 30 per cent women?

MR CHAPLIN: Yeah, that would be - so we've got about 200 factory people and 100 staff. So of that about 50 to 60 of the 200 would be women.

DR ROBERTSON: Would be women, okay.

MR McDONALD: Just a final point on that, each year we have more women involved in the business generally and that is on the shop floor sure, but we also have more women each year becoming involved in managerial roles within the total operation. People like Sandra hold key managerial positions. So our sales office manager, personnel, we have women in key positions.

DR ROBERTSON: What I was trying to get at - I wasn't into whether you've got a feminist workforce or not. But how many of these 320 would you regard as being technically qualified rather than - the reason I mentioned women was, you know, weaving machines, I've seen them in all sorts of places with women handling 10 of them, walking up and down the things. But how many real technicians do you employ in that 320?

MR McDONALD: I'll just make a comment first and then try to answer your question with a more specific answer. We pride ourselves on the fact that we have a very high percentage of our people have been with us for a long, long time. In our main entrance corridor in our plant we have our honour boards as we call them and we've been in operation in Gosford since 1966 as I said, and we have a huge number of people that have been with us 25 years plus, 20 years plus. So those people over that period of time pick up a lot of skills.

Now, they might not have entered the workforce with a tertiary qualification or anything like that when they entered. But I would certainly regard those people today as being highly skilled in our business and we value them highly. So if you accept that kind of broad-brush definition as being what is meant by highly skilled or skilled in our business, a very high percentage of them have a high level of skills. If your question was more on the academic side, how many have some kind of formal qualification, not very many.

MS RAE: It's the nature of the area too, I guess, because we're out of Sydney. We support the local community and a lot of those people have been living and working on the central coast for many years.

MR WEICKHARDT: If you started again from a clean sheet of paper, is operating outside your major metropolitan area a plus or a minus?

MR McDONALD: A plus I would say, providing you're not too far. We're heavily into export. More than 50 per cent of what we make goes overseas. So we have to have clear access to shipping ports, airports et cetera. So there's a limit to how far we could go and still be viable from that point of view. But the benefits that we get in maintaining a stable workforce with an absolute minimum of disruption caused by industrial relations disputes and spin-offs from other people's industrial relations disputes, the benefits we get from that, being a little bit out of the mainstream, are very significant. So if we were starting from scratch again I'd say we would still probably end up where we are.

MR CHAPLIN: The weaknesses are in the staff where we miss out on the skilled labour there.

MS RAE: Yes.

MR CHAPLIN: Designing our fabrics is a very technically oriented business and we really struggle to pick up people in that way with those qualifications. So being either in - - -

MS RAE: They don't want to come and live on the central coast.

MR CHAPLIN: Yes, they're either in Melbourne or Sydney. We would be able to pick up engineers and people like that, which we are restricted on the coast from doing that.

MR WEICKHARDT: That was what I was really getting at, because as I said, when we went around Kimberly-Clark in Albury there were certainly no more than 10 people on duty and they were all highly qualified because, you know, their concerns are making sure that the mechanics of the machines work.

MS RAE: I absolutely agree.

MR WEICKHARDT: Including a lot of computer link-ups.

MR CHAPLIN: But of our staff there would be a lot of university degrees, a lot of very well skilled people.

MS RAE: Now a lot more, yes. But even on the weaving looms we have, like, loom tuners who are three or four above the skill level of a basic weaver.

MR CHAPLIN: But then those qualities they've got, you couldn't transfer to any other business on the central coast.

MS RAE: No. We're talking about looms that - so we've got our biggest loom which is, you know, 21 metres long. So the equipment is huge and they learn their skills on the job virtually and that's why I think we have such a high loyalty rate as well.

DR ROBERTSON: That would certainly be an advantage, being regional, in terms of loyalty.

MS RAE: Yes.

MR McDONALD: But we are trying to compensate for these points we've been making by being as critical - if this is the right word - as we can be when we're recruiting key staff for managerial positions. We certainly look for academic qualifications in our key staff appointments. The Gosford area of course is progressing in terms of its opportunity to provide further training. These days we do have university facilities in the Gosford area that weren't there in the beginning. So the tyrannies of distance away from Sydney, if you like, are shrinking over time.

DR ROBERTSON: Do you think that there is a threat that a lot of these processes could go offshore on the basis of labour cost?

MR McDONALD: If labour cost alone is the primary consideration in the product and process that they're involved in, if it's such a critical aspect of it and there's no other differentiating factors then unfortunately I think the answer is yes. The industries that have the most chance of prospering and growing and being sustainable into the future are industries that even if they have a reasonably high labour cost component, even if they have that, they have significant differentiating factors. They're either in a niche market or they have technology that's patented that has exclusivity to it, that it's theirs and they can take advantage of it and Albany is definitely in that category. We have so many patents I've lost count. We do have quite a lot of technology that is exclusive to Albany.

So yes, there is a danger that labour intensive type process will move off-shore, unless there's this technology based differentiation and that's where we're putting all of our efforts to making sure we are. We have no hesitation in saying we are the leader in our particular field and that's no idle boast, we can support that with statistics. But having said that, our challenge is to stay there. If we start to come back to the field, life becomes more difficult.

MR WEICKHARDT: Given that situation, you know, you're technological differentiation, your 50 per cent exports. You've mentioned that SIP has been important in changing your, you know, sort of in helping to advance your business, you haven't mentioned the word "tariff" once. I mean, could I be forgiven for thinking that in your situation that tariff is almost irrelevant.

MR CHAPLIN: Oh, no, depending on the market. Are you looking - for exports?

MR McDONALD: Tariff, which way?

MR WEICKHARDT: The tariff into Australia.

MR McDONALD: Into Australia?

MR WEICKHARDT: Yes.

MR McDONALD: Tariff into Australia isn't a big problem for us, to be honest. Jim's comment, I'm sure, was directed at tariffs for our products getting entry into markets, that's of interest to us.

MR WEICKHARDT: And market access is an issue for you?

MR McDONALD: Oh yes.

MR WEICKHARDT: Where are the areas where you are encountering the most difficulty?

MR CHAPLIN: Malaysia is probably the worst.

MR McDONALD: We have a tariff - or our customers have a tariff consideration for our products, of some degree, in almost every Asian country, to be honest. Ranges from 30s and 40s - percents - going into some countries, to 10s and 15s going into other countries, but our customers have a tariff consideration when buying our products almost everywhere we send it, except to Europe and to the United States, but all the Asian countries - it's a consideration. Some countries - - -

MR CHAPLIN: South America as well.

MR McDONALD: - - - are a definite problem. South America, we have some horrendous problems getting our products into places like Brazil. 48 per cent, you know, is common.

DR ROBERTSON: Do they have domestic industries that compete with you?

MR McDONALD: Yes. Even our own companies down there say - - -

DR ROBERTSON: Well, there you go. Thank you, you've answered the question.

MR McDONALD: But they still import a lot, they import a lot.

MR CHAPLIN: Though not in Asia where Malaysia, for example, is our prime example, where we compete against a local - another multinational that's got - - -

MS RAE: Yes, they're put a facility there.

MR WEICKHARDT: So they've managed to get the ear of somebody.

MR McDONALD: But apart from the EOAP 10 per cent thing we mentioned before, tariffs and duties, et cetera, coming into Australia we can cope with, we don't have an issue there.

MR WEICKHARDT: Okay. Thank you very much indeed.

DR ROBERTSON: Look, thanks very much for that, that's very helpful, because we were somewhat puzzled by the difference between your labour ratios and the other firms in the non-woven area.

MR McDONALD: If it would be of any help to you in the short term, until you get some time to maybe come and visit us, we do have some videos that we've taken that show what we do at Gosford reasonably clearly.

MS RAE: The size of the equipment and things like that.

MR McDONALD: If you would like one of those - only run for five minutes or so, they won't bore you to death - if you would like one - - -

DR ROBERTSON: That would be useful.

MS RAE: Give you an indication of how different we are to people - - -

DR ROBERTSON: Okay. Yes, we're not likely to get up to see you because you know all submissions have to be in by 20 June. If you want to add to what you've already said then that's the deadline and then we have just six weeks to finish the job, so we won't get up to Gosford. If we couldn't manage it in February we won't manage it now in fact. But thank you very much for coming in, that was very informative.

MR McDONALD: On behalf of Sandra and Jim and the company I thank you for the opportunity. Thank you.

DR ROBERTSON: Thank you for coming.

MR TAYLOR: My name is Wes Taylor. I'm chairman of the Technical Textiles and Nonwoven Association. We have put in a written submission. My taking off my coat, David and Philip, as you know means nothing. We certainly have been supportive of the program and certainly of what has been done so far.

Once again we welcome the opportunity to discuss with you some of our industry requirements, and also to provide an initial response to some of the matters that were raised in that commission paper which you released through in April. We certainly are, as an industry, supportive of what we have so far received from the government. I refer particularly there to the SIP scheme. It has been fairly well utilised by our sector of the industry, both in terms of R and D and in terms of expenditure on productive equipment.

A quick overview of the Technical Textiles and Nonwoven Association. It's a national industry association and representing the collective interests of the Australian technical textiles and nonwovens industry. We have 49 member companies, which accounts for about 80 per cent of the industry. These members include technical and nonwoven textile manufacturers, suppliers of raw materials, converters, packaging et cetera, suppliers of machinery to the industry, government bodies, research and development bodies, educational bodies, testing bodies and consultants to the industry.

The main characteristics of our industry is we have a fairly highly skilled workforce, we tend to be capital intensive and we require large investments in research and development, innovation, product development and production facilities. The sector is highly dependent on other manufacturing sectors. These include building, construction, automotive, food industry, various other industries which we supply. Some traditional textiles and fibre products are making the transition through into technical textiles, which is good to see. We once again just want to reiterate the importance of the SIP program for our industry.

Just a few statistics. We did a survey amongst our members. We sent out a survey and asked them just to complete this, so we produced our own statistics. I wouldn't want this to stand up in front of some statisticians. They would probably pull us to pieces. But roughly, the industry's investment in capital expenditure was about 66 million in 2000 and 2001, about 57 million in 2001 to 2002, and it's estimated to be about 84 million this financial year, 2002 to 2003. Turnover is about 1.7 billion. That's manufacturing turnover.

An interesting statistic is the average turnover per employee, which averages about 250 to 400 thousand dollars of turnover. Our own company is about 335,000. Our sector of the industry earned approximately $200 million a year in exports. As far as R and D expenditure is concerned, it was about 18.6 million in 2000-2001, 20.4 million 2001-2002, and we estimate almost 20 million this financial year.

Regional economic contributions: in Dandenong, Gosford; we've just heard from one of them, Albury in New South Wales; Stawell, Victoria; Southport through in Queensland.

Then just regarding restructuring of the industry, the technical textiles and nonwoven industry has responded positively and has undertaken fundamental structural change by: we have invested over 200 million since the year 2000, we have produced premium speciality products. Just as an interest - it was a document brought up by the strategy shop, which looked towards the cooperation in our TCF, our industry associations, we were mentioned probably as the only key national industry or association that was emerging and showing any growth.

I only say that from the point of view I think it's indicative of our industry as a whole, broadly, and also indicative of the technical textiles and nonwoven. There's a transition into this industry, it's growth, it's vibrant and it tends to be capital intensive rather than sort of labour intensive. I think there are movements by a number of organisations in this area.

I'll speak a little bit more, if I can, just regarding some of the challenges that face us. First of all, it's a small domestic market. I think this is fairly well documented. This is to a large extent - our industry tends to be a solution-driven industry. As other industries and processes change, we need to search for solutions. Barry and the others mentioned things like the paper industry. Technology changes within the paper industry. They're going to have to find solutions within their own products to service that industry and continue to do so. So we tend as an industry or a sector to be fairly solution-driven.

There's increasing import penetration. I would like to draw attention - you haven't heard it mentioned yet but I think everyone is aware of it - as the Australian dollar gets stronger and stronger, competition gets severe and severer. I think that we are certainly feeling the effects of that at the moment. There is a lot of marginal costing. There's a lot of dumping within Australia. This tends to happen certainly within the construction industry during winter. When it's winter in the United States, the factories are slow. What do they do with the product they make? They dump it. It comes pouring into Australia and into Asia during their construction periods.

The other thing I think we need to just bear in mind as far as this dumping is concerned is that if we don't have a strong home base, we aren't strong back at home and you're up to your elbows in crocodiles, we forget to do those good things like innovation, R and D and others because we end up fighting off crocodiles at the time.

Restricted access to overseas markets - I won't go in on that. I think Barry has already highlighted that: that high duties, market access is a problem. Places like Thailand - and I have mentioned this to you verbally before - attract industries from the United States, from Japan, from elsewhere. They set up plants and from there, in their heavily protected home market, they then tend to dump into countries like Australia.

We have competition from emerging overseas producers. They tend - certainly within our industry where we have innovated, we've developed new products, niche areas - they tend to copy these. Therefore we need to continue with our enhancements, we need to continue to innovate, we need to continue to do research and development to stay ahead. Regarding education and workforce skills, this is an ongoing need. I think we're aware of that. As far as the TTNA is concerned, we have run a number of courses in conjunction with RMIT, and another one is to be run in a few days' time.

Key drivers for the industry in the future: investment in research and development. I think that this is where the SIP program has really hit the nail on the head and I think it has been very good for the industry. I think what's often not documented is the link - or there certainly should be a link between R and D and between capital expenditure. Good R and D to try and develop new processes, new pilots, should in some way lead to investment in productive equipment.

The other thing, if I can mention here about support through a program such as SIP for R and D - a lot of the smaller companies, the SMEs, are certainly not going to put investment dollars into R and D if there is no certainty of some return. They probably don't have those dollars just to throw away and with the risk involved, that money is just not going to be spent. So once again we would encourage any future program to have a high component of R and D.

There's continuing productivity and effectively improvements. Multiskilling is important within our industry. I think that this is already happening, and hopefully it will continue to happen. The ability to develop export programs and export markets - well, we've discussed that. Market access - that has been fairly well documented. I won't waste time on that.

But I would like to mention something that I think has come up through some of your documents, and that was through concentration, rationalisation, consolidation, getting people together. In our sector of the industry we're fairly capital intensive, and a lot of the expensive equipment isn't fully utilised. If we could utilise that equipment more, certainly there would be benefits to all. It would be interesting to look at some sort of a program incentive. Companies don't just get together and share their little secrets unless there is an incentive there.

With just getting together and trying to utilise the capacity that each has - there's a lot of imported products. There's an opportunity - and I know that the state governments have done this through the SIOs - to try and replace some of these imports with local capacity. It would be good to see just some sort of incentive for those companies to do so.

Also, as far as shift work is concerned, I think we could look at that; if there was the possibility of encouraging shift work. This is up to 24 hours a day, seven days a week. Again I'm looking here at utilisation of capacities, and also return on investment I think takes time - to get those. Once again, here we point to R and D.

We favour the SIP scheme, with possibly one or two modifications to that. The short-term benefits I think are fairly well documented, but I think we need to look at some of those long-term benefits that there are. I think one of the big benefits that there has been to industry in general is that this R and D culture, this culture of sort of innovation starts building up and people start thinking it. Once they think it and they start doing it, it becomes part of that culture. It becomes a habit and you tend to want to innovate and you tend to want to do more R and D. I think that that's good. I think it has been an enduring benefit to the industry. I think another point there is that what it has tended to do is it has tended to bring the industry together far more than it has in the past. That I think has been another longer-term benefit that we certainly have experienced through from SIP.

One of our recommendations at this particular point is that we would recommend that it be extended for 10 years, rather than eight years - that is, beyond 2005 - and at current annual funding levels. We give a consideration for an increase in expenditure on cap ex from 20 to 35 per cent; a new program to be designed for a seamless transition. We need some degree of certainty. What we mean by seamless - if it's going to end in 2005 there's not much going to be happening, people are going to start pulling back. If R and D is going to lead to cap ex and there's no support for cap ex, your R and D is going to start drying up.

I think what we need is that seamless transition of some program, to give some sort of certainty to allow people to go ahead. We also believe that any of the benefits that have been accrued and been banked pre-2005 should be recognised in any post-2005 program. Again this provides a seamless transition. It provides certainty and it ensures that programs being developed aren't put on hold.

A problem that we understand with some of the rollover of the R and D at the moment - that is the type 3 under the SIP scheme, which is the value added part - we believe that a lot of this expenditure on R and D, the value added portion, can't be rolled over. It's almost as if to say that R and D has no enduring benefit, and I think that that needs addressing, and addressing sooner rather than later; if it's possible, probably even in this current SIP scheme.

As far as defining innovation is concerned, we're generally happy with that, although obviously there are the opportunities to tighten things up there a little bit.

Reducing the expenditure threshold - for our sector of the industry it's not such a bit issue, in that we tend to be fairly capital intensive anyhow. Labour adjustment schemes - I think just about everyone has spoken against those. Let us add our little voice, crying out there and sort of saying we don't see any value. There are safety nets for displaced workers existing elsewhere and I think that those should be utilised. If those need beefing up, so be it. But I don't think that they should be taken out of funds that are given to our industry. It could be used just as an excuse to get out of the industry and sell off certain valuable property. It also seems to me it smacks of, "Why are we going to be picking losers?" I heard the minister say we've got to pick winners, but any scheme like this seems to me to be wanting to pick losers.

Regional issues is quite a big one for us. There are a number of things, I think, that we just need to look at as far as these regional issues are concerned, because there is a cost, there is a cost to industry. First of all, as far as energy is concerned, that is electricity, which is the main one. Well, your cost per kilowatt hour is probably okay, but it's the distribution costs that end up so high, those line charges, all the other things that they do, so your electricity in country areas can become somewhat higher than it can in the sort of larger capital cities. Good infrastructure for electricity in a lot of our regional areas just does not exist. Your travel costs are high. Normally you're travelling backwards and forwards to the main cities. For example, you visited us in Albury and you also visited Kimberly-Clark and others. Did you fly? Did you look at the price of your ticket?

DR ROBERTSON: No.

MR TAYLOR: Good. It wouldn't have frightened you, but it's very, very expensive. You could probably fly, with the discount rates, twice to Sydney and back for once to Albury, so they are relatively high. The cost of communications can be high, simply be being regional areas most of the calls we are making out of there are STD charges. People phoning in to us, it's the same.

We have another big cost and that is freight. A lot of us freight in our raw materials; they're not available in the regional centres, so you've got a cost to freight in. Once you have produced your product you've got the cost to freight out, that is a cost and a penalty if you're in regional areas. One thing I think is not often factored in and that is there's storage component. For example, if you're a manufacturer in a regional area you would normally only be able to transport from there by semi-trailer. Now, you can't deliver to most customers by a semi-trailer, so you've got to have a storage and a redistribution centre where you can unload your semis, redistribute out of that area. That storage and redistribution has a cost factor attached to it. And a place like Albury is very interesting, very interesting, particularly with the competition between New South Wales and Victoria. I notice that Barry was careful not to say that he would like to come through to Victoria if he had another chance to re-invest somewhere, but I'm sure he would like to.

There's some anomalies that happen. If you're going to transport certain dangerous goods, you've got to get two EPA approvals to maybe travel three or four kilometres. You've got to go to the Victorian EPA; you've got to go to the New South Wales EPA. We have things like if someone has a company car and he moves across the river, you've got to pay and transfer the car into the new state. So there are all sorts of little costs that can become involved. We used to have customs services at some of these areas. We don't any more, we've got to do all our customs and clearance in Melbourne. We used to put them on a truck, send them straight up, clear them, in a place like Albury. That was of great benefit and it's a lower cost.

Attracting city people. You know, one of the things is fairly well documented, medical centres and doctors aren't taking any more patients these days because they're pretty well full up. To attract people to come, because of medical services, you then have to maybe - the thought, "In five year's time I'll move back," the housing costs become prohibitive. So there is a penalty, there is a penalty for being in regional areas, but I think that there is also fairly well documented government policy that they would like to decentralise and we would uphold that and we think that it needs some sort of special consideration that we could look at. I know that you had those - in the current SIP program you had 4 and 5, I think which was partly geared towards that. I don't think it was utilised very much at all, but I think that there are opportunities in that area.

DR ROBERTSON: What about the advantages of regional location?

MR TAYLOR: Higher cost is a disadvantage, as I've told you. There are advantages. I think you do have a stabler workforce; I don't there's sort of any doubt. A place like Albury, which is where we are located, I think as you know now, has been fairly well documented that it almost has full employment, so I think that's coming to an end. But certainly on behalf of Geofabrics I can say we have had a relatively stable workforce with not a huge amount of sort of union problems and that has compensated for a lot of the other costs, but those costs are there and I don't think we can encourage people into those areas unless we do something.

MR WEICKHARDT: So are you - unlike Barry, if you had your choice again, you wouldn't relocate to Albury.

MR TAYLOR: I wouldn't go to New South Wales, no.

MR WEICKHARDT: Would you go to Wodonga?

MR TAYLOR: No, we'd probably go there. It's difficult; we export about 20 per cent, so there's a cost factor. A semi-trailer costs us - a container down costs about 850 to 900 dollars, that's one way, so there's a cost.

MR WEICKHARDT: But given all the pluses and minuses, would you relocate to Melbourne?

MR TAYLOR: I probably would locate to the outskirts of one the larger centres, I think, yes. I think there are many benefits attached. You can get fairly good engineering services at some of these places, sometimes you can't. They can be scarce. I don't know, we'd have to do an economic analysis of it, or occasional analysis, but I think we would probably end up on the outskirts of Sydney or on the outskirts of somewhere like Melbourne. That's just a gut feel.

MR WEICKHARDT: My gut feel is we've asked that question of most people in regions and most people have answered the way Barry did.

MR TAYLOR: Yes, interesting.

MR WEICKHARDT: That yes there are pluses and minuses and everyone always wants to have a go at the minuses, but netted out most people sort of grit their teeth and say, "Well, probably I would stay where I am."

MR TAYLOR: Yes, but I think there's a certain amount of subjectivity that may come in there, too, because you live in the country, you like the country, you've been there for a long, long time and you may do so. I'm a city boy.

DR ROBERTSON: It's where you've come from. But the labour problems tend to be larger, for example, in Melbourne than they would be in Albury, would be our experience from looking at - - -

MR TAYLOR: Yes.

DR ROBERTSON: - - - firms in both places and that can be expensive. It depends a bit - and this is why I was pressing Barry on the numbers of his workers - on the number. I mean, we went to the Kimberly-Clark, as I said, and there, you know, it was just half a dozen high-tech characters and that clearly could be anywhere. But if you've got a lot of workers - I mean, Albany have been in Gosford for a long time so they've got an investment in their staff and the staff have an investment in them, because there aren't many alternative employments. But if you move down to Melbourne or move up to Sydney it's a pretty big oyster.

MR TAYLOR: Yes, but Sydney, I think, from a labour point of view is a more desirable area than Victoria.

DR ROBERTSON: Okay.

MR TAYLOR: I think there are differences.

DR ROBERTSON: Sorry, I interrupted you - - -

MR TAYLOR: No, not at all. But on that, you know the labour issues follows us - again I speak for my own company, that's Geofabrics - we aren't as labour intensive. I think when you were there you might have seen. We would process over 3000 tonnes of material with 16 people.

DR ROBERTSON: So you're very like Kimberly-Clark.

MR TAYLOR: Yes.

MR WEICKHARDT: Just on labour, you talked about labour adjustment schemes and the fact that you weren't in favour of these, is that because of your concern that you may have interpreted what we wrote in our position paper suggested that those schemes might siphon some money out of SIP, or are you philosophically opposed to idea of labour adjustment schemes.

MR TAYLOR: No, no, in the context of SIP I believe that they will siphon money out of SIP, yes.

MR WEICKHARDT: I think most people in parts of a sector that are vulnerable to down-scaling, rather than speaking against them have actually spoken very loudly in favour of labour adjustment scheme and I don't think anyone see and I don't think we intended that they be taken away from SIP funding. It was simply that in the position paper we suggested that some central facility that had some expertise in this industry might oversee both types of program. Interestingly enough the union didn't like that idea because they felt that they might have to deal with the same person on both sides of the equation. They would rather, I think, divide and rule from that point of view. But we hadn't intended that this be subtracted from SIP funding.

MR TAYLOR: Well, then we wouldn't have a particular problem with that.

DR ROBERTSON: No, it came out that way a bit, I think, perhaps in the position paper, but that was just a reallocation of the funds rather than it was a belief that maybe SIP was too big. Now, one of the things that we notice from your first submission and the second submission is that you're now saying that SIP should run to 2015, even though the tariff goes down to 5 per cent in 2010 for your output. Is there any particular reason for that?

MR TAYLOR: No. It's not based on tariffs that we're saying this. We just believe that there should be continual innovation and there should be continual R and D within our industry and there should be continual capital expenditure. Now, I know you can argue about how long do you extend it and you know how long is a piece of string. I mean, you know, who can predict three years ahead these days. But what I'm saying is is to give some sort of certainty. There's normally a fairly long period of time between conducting R and D and turning that into capital equipment, productive equipment and starting to actually market those products. This is why we're saying we believe that it should be extended, say, over a 10-year period rather than an eight-year period. I think as Barry also said, I mean, most of us are paying 5 per cent, so we've been without tariffs for some time. We've gone through the pain, we've gone through the suffering in the past, but let me say for our own company, when we put that company up, we had a 20 per cent tariff against imports and without that we probably wouldn't have established our investment.

MR WEICKHARDT: It's just that running the SIP to 2015, which makes it 15 years, I think that's a reason why we had it graduating down after 2009, was by that time the industry should have done a lot of its restructuring and shouldn't need to be supported to that extent and 2015 seems to us quite a long period, especially at the current rate. If it tapers then there would be some incentive to become able to manage without government assistance, which is one of the conditions we're supposed to examine in our report.

MR TAYLOR: Yes, but I think what happens, you know, you take in the five-year period that has already passed and I think when you say on day 1, "We now have a SIP program," a lot of companies are still getting their brains in gear at this particular point. They have to go through this philosophical mind-change, "We've got to do R and D; we've got to restructure; we've got to invest," and you know a lot of companies wouldn't have been thinking about it and it takes them a bit of time to be thinking, "Where are we going? What are we going to do," and by that time there's a few years down the track. So although that five year was valuable from our own company's point of view we were running out of time and I'll be honest - I'll give you some figures and I don't know how much time I've got to do the Geofabrics one, but we have certainly, from Geofabric's point of view, we spent in excess of 700,000 on R and D and we'll probably, as a result of that, invest over 10 million. So it takes time and once that equipment is in place these new product developments that we need to be looking at and trying to do, particularly for export markets, because we have a small market here, and that's going to take time, that doesn't happen overnight, right, but I think we have some fairly good research organisations in Australia that can assist in this area and this is why we're saying I think we should push it through to 10 years.

MR WEICKHARDT: Wes, you've suggested that the export market development program specific to the TCF area be reinstated to continued, can you point to any evidence suggesting that the money that's being spent by taxpayers in that area is actually delivering benefits to Australia at this stage?

MR TAYLOR: I don't have any statistics on that. I know just talking to people that it is an incentive. Again, as far as I'm - - -

MR WEICKHARDT: This is the TCF-specific program?

MR TAYLOR: Yes.

MR WEICKHARDT: And what, that's actually delivered real market access gains that you think wouldn't have been achieved without that program.

MR TAYLOR: I think you're talking about those grants, the export grants.

DR ROBERTSON: I'm not talking about the EMDG grants.

MR TAYLOR: I'm sorry, okay.

DR ROBERTSON: I'm talking about the section in the Department of Foreign Affairs and Trade that deals with market access issues.

MR TAYLOR: Yes. Well, what benefits at this stage - I mean, I'm trying to get a grip of which ones you're actually thinking of. Are you thinking more of the sort of free trade agreements?

DR ROBERTSON: No. I guess I'm asking whether or not the TCF specific program that has been in place to try and help exporters with market access problems has actually, in your experience, delivered real benefits.

MR TAYLOR: Okay. Yes, I think they have and as I was just mentioning earlier, I think one of the biggest things that one has to develop again is a culture within your organisation that you can export. A lot of people don't just get off their butts and go and export. You've got to develop that sort of culture, you know, thinking, "Hey, we can export this product. We are making a good product." That has other benefits and that has benefits on the quality of your product. Psychologically you think, "Gee, you know, we can compete with the world." It's good for the company. It lifts morale and I think that these are very, very important benefits. Okay, they are qualitative rather than quantitative but I just think that they're so important.

DR ROBERTSON: We made a note of your suggestion about the seamless transition in SIP. You mentioned it to us after the position paper came out. So, you know, that we think is an important change to make, so we don't need to talk about that. But one of the things you said was that there's over-capacity in the industry. Now, this sort of conflicts a bit with the idea of having SIP going on, effectively subsidising investment in an industry if you've already got over-capacity.

MR TAYLOR: No, I'm talking about over-capacity in some manufacturers, particularly when you're not working seven days a week, 24 hours a day. I'm was trying to get into the sort of shift work. I think that there is some ability for us to be able to further utilise that capacity, yes.

DR ROBERTSON: Yes, okay.

MR WEICKHARDT: But you went on to say there should be some incentive to encourage this.

MR TAYLOR: It would be good to see those, yes.

MR WEICKHARDT: Apart from stopping Prof Fels or his successor intervening - - -

MR TAYLOR: He has gone now.

MR WEICKHARDT: - - - the normal encouragement is called profit, isn't it, if you get together and actually utilise capacity better? Actually don't you make more money?

MR TAYLOR: Yes, it is. But you don't often go and talk to someone who might be as competitor because he might bet some of your secrets and at the end of the day I think a lot of that isn't as real as what people think it is and, you know, what are we trying to say? There are people that are importing product into this country but I think they can go to some local supplier and say, "Now look, we have this particular thing. Can you make a product of this specification for us at these costs? I don't think it happens. They go and search for a supplier overseas that they can buy from.

DR ROBERTSON: That's an information problem.

MR TAYLOR: What I'm suggesting is that maybe - pardon?

DR ROBERTSON: It's an information problem.

MR TAYLOR: Yes, I think that there's - - -

MR WEICKHARDT: It's normally listed as one of the greatest lies in sort of history, "I'm from the government. I'm here to help you." Are you expecting somebody from government to get the industry together and solve that problem?

MR TAYLOR: No. What I am saying, I think if there was some sort of encouragement through the SIP scheme to do so, I think it certainly would encourage that to happen. I don't say it should happen. I'm saying there would be some encouragement and it would be highlighted once again.

DR ROBERTSON: One of the things that has been raised recently on the non-woven area is that quite a lot of countries established industries like yours and the others, Textor and Co, in developed countries and have now moved to what you might call middle-income countries if you want to be technical. In other words, I think there were plants of non-woven fabrics being made in the UK that have been shifted to Turkey for example. Do you think there's a potential for that here, that these things could go to Thailand, as you've already mentioned, or Malaysia and - you know, how can you prevent that? How can you keep an edge that keeps it here?

MR TAYLOR: Again I think, as I said, it depends on your sort of labour content and in Australia that's fairly high. Bearing in mind a lot of these non-woven plants - now, it's such a diverse industry I'm not quite sure which ones you talk about. But a lot of them, certainly in the medical feminine care area, you can buy off the shop plant. You can go to Reifenhaus and say, "I want an off-the-shelf plant," and they will deliver it and store it for you. Your advantage of going to somewhere like some of these countries again is that you have the local market virtually to yourself because they will protect you with tariffs and other means. You can therefore look quite comfortably to try and export and to cross-marketing.

If you're fighting in your own country it's more difficult to cross-market because you don't have much wherewithal all to do it with. I think from that point of view, yes. Again I think it depends on your sort of labour content and your process. Some of these processes, although their non-wovens can be fairly high labour content simply because of all the slitting into narrow widths - you would have seen some of that. Our particular company doesn't have that problem because of the markets we target. But certainly those are problems.

MR WEICKHARDT: Wes, you suggest in your submission that under SIP the capital expenditure - a claim figure should be increased from 20 to 35. Apart from the fact that 35 is a bigger number than 20 was there any sort of particular logic behind that number? I mean, why not 65 or - - -

MR TAYLOR: What are you asking me questions like that for? You just thought about it suddenly. No, we just believe that 20 per cent is rather a low amount, given that with value added you can end up, say, with 40 per cent and R and D's 90 per cent and the two are related anyhow; they're linked together. I mean, that R and D should relate to sort of capital expenditure and we believe that - and bearing in mind that when you're talking about 40 per cent it's not really 40 per cent because that is treated as other income in the accounts and it's taxed.

MR WEICKHARDT: Sorry, what's treated - - -

MR TAYLOR: That is taxed, that 40 per cent, that grant is taxed.

MR WEICKHARDT: Yes, sure. The fiscal fiend always gets his own back.

MR TAYLOR: Yes - terrible, isn't it, and they expect us to all be top $100 companies and they tax us all the time, ridiculous.

MR WEICKHARDT: Terrible.

MR TAYLOR: Terrible. Can you do something about that?

DR ROBERTSON: We've been asked that question before in Melbourne.

MR WEICKHARDT: I don't know why you leave the easy ones till last, Wes.

DR ROBERTSON: Look, did you want to say anything in particular about Geogfabrics? I mean, we visited you and we've seen the sort of things you do.

MR TAYLOR: Yes. I wanted to say something. I mean, I was going to boast about what we do but seeing you don't want to hear all that, I won't do that.

MR WEICKHARDT: We've only got 10 minutes so - - -

MR TAYLOR: What I will do, if I can, is I'd like to just mention something. I know time is short. I've mentioned at the moment - first of all, if I can just mention the type of people we employ. Basically from a sales point of view, from a textiles and non-wovens producer, most of our salespeople are qualified engineers. They've all got bachelors' degrees, honours degrees, masters' degrees, and we have one with a PhD. So we employ fairly skilled people to do our selling. Within the plant most of them have mechanical aptitudes. They are tested for that and to us that's fairly important. As far as R and D is concerned I've mentioned to you what we had spent. At the end of this year it would be about 720,000 and R and D cap ex would have been about 3 million, and from this another 7 million is going to flow.

The big issue I then wanted to bring up, which we feel fairly strongly about, we are in the construction industry and a lot of the projects generated where our products go into are generated by government. Governments are very, very keen and I think politicians become very, very keen - there's no politicians here, are there? No, good.

DR ROBERTSON: They've got other things on their mind.

MR TAYLOR: They have at the moment, yes. They are very, very keen on talking about how good they are for the environment and they do this and they do the next thing. We, with Visy, got a grant from Echo Victoria and we developed a process to take PET bottles and turn them into a polymer that we can use. Now, Visy's estimate of what we're using is something like 900 million bottles. Those 900 million bottles would go in our tip sites. Most bottles, if you recycle them, go into, you know, the back shop and then they recycle them. They go round and round in this chain and they deteriorate all the time. We have good people. We take them, we make a product; it becomes a permanent part of a structure afterwards. We take them totally out of the chain.

They're all very keen on us to do it. They say, "Yes, that is great. We want you to do it. You should be doing it." We can turn these bottles into fibre. But there's a hitch cost. The cost difference at the moment between, say, a recycled chip that you would buy, locally collected bottles, and virgin imported material would be about $150 a tonne. So if you're going to process 3000 tonne that's a million dollars. That's a big penalty. Yet there's absolutely no advantage to give it except this, "Yes, we really like it, use it," right, and I really think - and we have spoken to a number of the bureaucrats, civil servants, in various states and the thing is, "Yes, use it.   Why don't you blokes try and twist the pollies' arms?" Well, it's not so easy. But I just wonder it isn't an opportunity for us to have a look at something in this area, to say is there an advantage, some pecuniary benefit, to be able to take these bottles and various other things, recycle them into textile products, and redistribute them as sort of finished products?

There are other costs involved. Number 1, we can't get the same strength. We actually sell kiloNewtons per metre, we sell strength. So if you're going to have more fibre in it to get your strength, which you have to, it costs you more. That also has an effect on your capacity. They clog your filters more. There's more down-time. We actually require more energy to actually produce them. So there are costs involved and it's sort of reaching the stage now where, you know, we're saying, "Look, this is really not sustainable. We're far better going offshore and importing virgin." I mean, the costs are just becoming - you know, no-one does anything. We chat, we talk to various people, but nothing is done. I would really love you two gentlemen to have green fingers and you can use green pens and write in there and maybe - - -

DR ROBERTSON: I think you're talking to the wrong commissioner. We've got one of those. If you want to hear a problem we have, as you probably know, an investigation into native forests which is just starting and the way in which the state government environmental nuts have used legislation to prevent farmers doing things with their land - and it's a sheer penalty. In your case you'd like some support and I think that's a wonderful idea. Ever since I talked to you about this I've been talking about it over dinner tables, saying what a wonderful idea these characters in Albury have got. So I don't know whether we can help you but I wish you luck with that, because I think that is a really positive thing. Wes, thanks very much, as usual a great pleasure and I’ve learned something again.

MR TAYLOR: Thanks for your time.

DR ROBERTSON: Thank you.

DR ROBERTSON: I think you know the procedures. No? Sorry, Geoff does. Geoff has been sitting here and understands the rules. Basically we want to keep it informal, and you've seen that. We take a transcript, so when you start to speak would you announce who you are so that they can track it down. We would like you to have your say on the basis of your two submissions, pick out the key points because we have read them, and indeed put any questions to us you may wish, and we'll do the same to you as things progress. So over to you, thanks.

MR MOORE: Paul Moore, CEO, Pacific Brands. We're Australia's largest TCF enterprise. We've got overall sales of about 1.6 billion and overall employment of about 700,000. Not all those activities are covered by the inquiry. We have a large home comfort business, house business, and they fall outside your inquiry's coverage. But if you look at our business in general, we've got approximately $1 billion in sales and two and a half thousand manufacturing people in this industry.

We've been in the industry a long, long time and our business structure has proven to be very flexible, very viable and fairly forward thinking, so we'll be able to accommodate and have accommodated whatever government policies have evolved over the years. In my 25 years in the industry I've seen all of them. I've been on the receiving end of most of them and I've had to make the adjustment, which I've often found is an economist's word for putting people off, a lot of the time. We think that we'll continue to grow and thrive after the 2005 period because we are flexible and adjustable.

We think the SIP scheme is okay in concept - we're supporters of it - but we think the mechanics need to be tweaked a little bit so that it looks at clothing in a more positive light, as clothing is the biggest part of the industry. We have a responsibility to all of our stakeholders, shareholders, employees and customers, as well - we're very close to our customers - to develop the best possible policy in the light of our interaction with all of those people, and we think we have a responsibility to work with the government with the best interests of all the stakeholders in mind.

We've put a lot of thought, and Geoff in particular has put a lot of work, into our position, because we recognise that this will probably be the last adjustment made in this industry and therefore, as long-serving people within the industry, we want to maintain its viability going forward. So Geoff is going to go into the specifics of our proposal, but I'd just like to make one comment that is not in our proposal. We've made some tough recommendations, we believe, in terms of altering the structure of the SIP program. In a perfect world we share the same views as the TFIA and the union movement. We would prefer tariffs to be held or slowed down. However, being business people, we are pragmatic enough to accept that governments don't want it, I don't believe the commission wants that view, and therefore we have to work within the best confines of what we think is a pragmatic solution to the problem.

So we've tried to focus our submission on getting a more effective adjustment assistance scheme and less on the probably politically unattractive view of holding tariffs. If we can hold tariffs, we would hold tariffs, but we don't believe it's worth wasting a lot of our time on. So we think that a well-designed and SIP-style assistance program will be able to achieve both what the government want and what the industry's objectives are, if handled carefully. So I'd like Geoff to go through our submission in some sort of detail.

DR ROBERTSON: Thank you. Can I just ask one question to make it clear. Are you suggesting that you would rather keep tariffs the way they are and have no SIP?

MR MOORE: No. We believe they should be adjusted down but we think at the endpoint they should be higher. However, we've not put that in our submission.

DR ROBERTSON: But you said that your preference would have been to keep tariffs where they are.

MR MOORE: I'm sorry, in the - - -

DR ROBERTSON: I see, okay. So you're talking about a downward trend?

MR MOORE: Yes.

DR ROBERTSON: That's fine, thank you.

MR BURFURD: We've provided you with a written brief and so - - -

MR WEICKHARDT: Yes, and assume we've read it.

MR BURFURD: Assume you've read it, okay. Can we ask you questions or - - -

MR WEICKHARDT: Yes, you can, as long as I can ask you ones.

MR BURFURD: I think you will. I'd feel happier if I could just sort of speed through a few of the points, just so we can get our mind rolling on it. Basically the way it breaks out is restating our original position that we put to the commission, responding to various things that come out of the position paper and then putting forward our preferred policy.

On the restate area, there were three things that we emphasised in our original submission prior to the position paper, firstly that clothing is the key policy issue. We see that as being something that's just got to be put on the table up-front.

Clothing is the bulk of the industry. It's greater than 50 per cent of the employment. If you throw in outworkers you get a much bigger number, but on sheer size alone clothing is the core question. Clothing is even - that position is increased if you look at upstream issues in terms of the textile-supplying industry, and I quoted somewhere in there from your last commission report about the linkages. I think it came up to an 80 per cent linkage between other textile areas and clothing.

Clothing is the most at risk to low-cost MFA style imports, particularly from China. We quoted the numbers there. If you look at clothing, the imports are 70 per cent from China. If you look at textiles, they're 21 per cent imports from China. If you look at carpets, I don't know, but they would pretty low. There is clearly a world recognition just in the MFA alone that clothing is the issue. If you look at quotas going to America, it's about clothing. It's not about bulky, heavy goods; it's about clothing.

The final thing about clothing being the key issue - I hope I don't go this long because this is just restating what we've said before - is that the largest cuts are in clothing. If it's about pressure from tariff cuts, the maximum pressure is going to be on clothing, and that is not just the current ones. If you go back - and I heard someone say before they had 20 per cent tariff before - we used to have like 200 per cent tariff. So the context of where clothing has come from and where it's going to end up is the dramatic scenario.

The second point that we made in our original submission was that we think that the SIP program is the way to go, and if the SIP programmed is refocused it can meet the challenges of the clothing industry. So it's not a doomsay scenario. We think that there's an opportunity to make outcome in an effectively no duty scenario work for clothing; if not, work better than a bad policy. We're on about trying to get a good policy that's going give the best possible outcome for Pacific Brands employees and as a microcosm of the clothing industry, the TCF in total. So that's the second point. The third one was that the mechanics and design of this program are the critical issue.

That took longer than actually reading the original, so sorry about that. The second point was responding to the position paper, and it's a pleasure to say that we support many of the things in the position paper. I'd just like to quickly run through a few of those, if that's all right.

DR ROBERTSON: Yes, sure.

MR BURFURD: The general approach: I think most people would say, in contrast to earlier reports that industries had, this general approach has been pretty well welcomed by people as being a practical and well-balanced assessment. In particular we support the commission's conclusions of the tariff timetable of option 4. As Paul said, that's not what our preferred position is, but in a pragmatic world that's what we are prepared to accept and support. We think that the current SIP scheme is appropriate and it's appropriate for the current environment; that a further SIP scheme post-2005 would be appropriate. We support that. We support that administrative changes to the SIP post-2005 are required. We're not asking for a simple rollover. We think that it needs to be changed, and in particular changed so that it works for the core problem.

We support that the effects of tariff cuts are greatest in the clothing and knitted goods area. That's part of your modelling analysis. It's clear that this is where the pain is. We support a 10-year time frame as appropriate for post-2005. We support that an assistance endpoint is required. We're not about going on forever. We want an endpoint, finished, clean, done, no more, and we support the commission's view that adequate funding is required.

On the negative front, responding to the position paper, we're critical of some administrative detail, and I won't labour it but, as Paul has said before, our preference for the clothing endpoint would have been 10 per cent, and that was in our original submission, but in the light of the position paper we've adjusted our position to the preferred option that you put forward to cut away a lot of the argument.

The second issue in terms of tariff detail is about some of the other tariff claims that have been made in the hearings. We do not support separation of tariff adjustment from provision of transitional adjustment assistance. We see them both going together. That's what adjustment assistance is about, and we believe moves to avoid responsibility of increased tariff pressure should preclude those parties from access to transitional assistance. You can't have both. If you're going to get transitional assistance SIP style, you've got to wear the tariff pain. That's how we see it and I think it is difficult to break that logic. But it has been put, and we don't support that.

I believe the footwear manufacturers are going to put a position of supporting a reduced tariff in footwear parts, and we'd support that. That seems like a logical thing to do, given the fact that the footwear industry is now so diminished. This is a way of recognising that and supporting the end to the value chain that can be maintained in the current environment. We're also aware of the position put by the furniture industry. That seemed to be a reasonable concern. We're not advocating that they be included in SIP, but we thought that that was a reasonable proposition in terms of the tariffs on textiles having implications for the furniture industry. We're suppliers into the furniture industry in foams, and that is an industry that's suffering from imports and those sorts of flow-ons have got to be considered.

Turning away from the tariff detail to go to the SIP-style adjustment assistance detail - in terms of the detail, we believe, as I said before, that we need an effective mechanism for clothing adjustment. Just in terms of something that was just abbreviating what we put in our notes to you, put simply, the SIP approach is correct but the delivery mechanisms are not orientated to clothing industry circumstances and as such both the trade-off and the outcome is sectorally skewed away from encouraging adjustment in the biggest and most at-risk sector.

That's our mantra. For the life of me I can't see where the problem is getting the least attention. So that's an issue in terms of the core question in terms of SIP-style adjustment, which we support, but we think it's got to be directed to where it's required and where it has the most impact.

Other issues re the approach: we struggled with the discounting of the time frame. We make a link between tariff adjustment and SIP adjustment. Tariff adjustment is 10 years. We can't see why SIP adjustment is discounted from 10 to eight. It might be good for Kmart but I don't see the point in the logic. The second point is that in the second half of a 10-year period, five plus five, the second five-year period has got a half-strength SIP program. Once again I can't see the logic, and the only question there is that if there's a concern for funding, our position would be that the funding should relate to those areas that are still in adjustment in that period. If the tariff adjustment of other sectors has reached its endpoint, there needs to be a question as to whether there is a need for a transitional assistance in those areas.

Our preference would be for a 10-year arrangement for everyone, but if there is a funding question and the amount of funds is to be reduced, it shouldn't be reduced across the board for those areas that are in adjustment or not. It should relate directly to those areas that are still going through an adjustment period and hence requiring transitional assistance. It's not rocket science. It's just simple logic.

So moving from there in terms of the question of responding to the commission's position paper, there were some specific questions that you asked in the position paper about approaches to SIP and the options A, B and C. In that area, we've made note in our notes to you firstly that Pacific Brands supports option A as the preferred approach, provided certain key administrative issues are addressed, along the lines we've just been talking about.

Secondly, Pacific Brands does not support option B, because it firstly relates only to one driver, and one size fits all is just beyond imagining in this complex area; and it's based on incremental concept, which is neat for measurement but inappropriate for the circumstances, the circumstances being that this is an industry which has got enormous contraction potential and to view incremental as based on an historical base is just not appropriate. The theoretical incremental would be comparison with not what was but what would be, and that defies administration.

The third option was option C. We see some potential in option C but not in the context of the experience that has been gained in living through something for five years. We don't believe that that's a good investment - to write off the learning curve that has been endured by the industry - and we think that investment should be built upon, rather than discarded.

So that's the response part of our submission. The third part is, what is our policy position. Like the commission, we support the approach of building up a basis for a position. We've followed the same sequence - that there needs to be a design criteria to assess whether the policy is appropriate or not. I know that you've asked for comment on that design criteria but I think our approach would be, rather than debate every line of that, it's better to put forward what we think are the priorities.

We've listed six things in there, which we would rate as the six priorities for developing a good policy. The first one is relevance to the largest elements making up the TCF sector. I can't see why policy should be deemed to be good if it's not relevant. It might be comforting to have some wins in the wings but if it's not playing for the main game then I think that that's not good policy. Secondly, it has got to be relevant to the core subsectors most under threat. It's an issue about what are you trying to adjust for and where does that fall. Once again, the cost disabilities in tariff cuts vary widely across sectors within the TCF but most heavily in clothing.

The third thing is relevance to firms' behaviour. This is really a restatement of one of the design criterias that you've made mention of, and it must have some significance to the decision-makers and sufficient level to support making a difference to firm behaviour. The fourth one is relevance and currency to day-to-day decision-making - is that in this respect we believe that policy should be forward looking, rather than retrospective and after the event. There should be enough certainty in there so that decision-makers can impact on forward-looking decisions, rather than receiving encouragement after the decisions have been made.

Fifthly, we support administrative simplicity. It's the way of getting some certainty into the program, and the simpler it is, the better it is. Sixthly, along a similar theme is we think that the policy should promote certainty and transparency. So they're the design criteria that we'd like to emphasise. Flowing from that, there is the question about what are the drivers for change and how do we apply those drivers in the context of that design criteria. We believe the drivers for stronger, more internationally competitive clothing industry are the central problem. We could have drivers that work for clothing. We've got drivers at the moment, but do they work for clothing? That's the real question.

The drivers that we've focused on to try and make an impact on clothing, and our assessment as to what will make a stronger, more viable long-term no-duty surviving clothing industry, are firstly value added - is a driver to increase the value added. In these areas, rather than rely upon our own views, we've looked at quotes from recent assessments of the industry, and in particular TCF action agenda. Each one of these points is supported by a reference to the action agenda. Rather than go through all the quotes there, I just note with regard to value added they say on page 42:

> Most successful manufacturers in developed countries have directed their efforts to high added value products.

This is a strategy for survival. The second one is brand equity. Local production of even basic commodity style products can be long-term viable if linked to strong brand equity. From the action agenda:

> All TCF companies will have to place a large emphasis on marketing to differentiate their products from cheap imported products.

The third one is product development. It's a long quote there but essentially it boils down to referring to a Werner analysis of the industry, and Werner says that corporate culture in Australia has to be adapted in order to make design a core competence of the textile and clothing industries. So there's an issue about product development as it relates to clothing. Process improvement - again the action agenda:

> If Australian companies want to compete internationally they must consider improving their operations by considering the advantage of a best practice approach -

and emphasise that best practice approach. Fifthly, investment - quote from the action agenda:

> Technical progress by investment in the latest machinery can be significant. Attention needs to turn increasingly to administrative effectiveness and logistics, the objectives being increased flexibility and shorter lead times.

There is an issue in there in terms of SIP administration but we haven't highlighted that, in terms of administration versus manufacturing. The sixth one is industry rationalisation. We find it difficult to find a counter-argument to the fact that increasing scale and concentration and the synergies that flow from that are desirable for a stronger long-term viable industry.

So drawing upon those design criterias and drawing upon those drivers, we have come up with a series of matching proposals that draws upon those things. The first one is that we believe that type 3, the value added element, should be de-linked from type 1 and type 2. The current arrangements are that it's tied to these two narrow areas and hence is limited to only those activities compatible with capital intensive drivers or those activities favoured by the non-visual innovation test. So we have value added in the product but it only applies if you meet those two requirements. Our contention is that they are not the only - or possibly not even the most significant - drivers for clothing.

The second proposal we would put is to encourage brand equity, which flows from the driver mentioned before. We put in there a targeting of this dimension could come from assessing media spend by brand, with an overall cap that the total audited locally based brand spend investment claimed per firm could not exceed 5 per cent of local sales. There's a recurring theme through this - is that our view is that for the design criteria of simplicity, certainty, currency, relevance, that we need to rely more upon known caps and less upon vague definitional controls. So we're strongly in favour of focusing on caps and using them to achieve the ends that we put forward - the drivers.

The third one is to encourage clothing product development. Currently product development encourage is confined to technical innovation. This has particular problems for clothing, particularly as it is specifically confined to non-visual issues, which is quite clearly a negative environment for clothing to operate in. Either innovation has to be redefined to recognise the visual nature of fashion, or product development per se has to be encouraged, with a definitional restriction of innovation replaced by a cap on the claimable expense level allowed. It's the same thing - is either you make innovation relevant to clothing or you dilute it or remove it.

The fourth proposal flowing from what we've said in terms of drivers and design criteria is to encourage broad process improvement. Currently any process improvement requires approval as being innovative to the industry before it can be claimed under the scheme. Best practice process improvements, which was referred to before in the action agenda as a goal, are not in themselves innovative, just by simple logic, being application of known best practice, and under a strict interpretation do not qualify.

We contend that best practice in process improvements new to the firm are desirable drivers for post-2005 adjustment in TCF industries, and seek clarification to this effect in the delivery of any future adjustment assistance for TCF process improvement. It started off being new to the firm; found to be difficult; moved to new to the industry. Once again this is an issue where you have subjectivity. The design criterias mentioned before - this is an anathema to that. We want clarity, simplicity, less assessment, less subjectivity, less judgment, more certainty, both in terms of the participant, the applicant, and in terms of dealing with the government assessor.

The fifth point is develop industry relevant innovation definitions. As noted, the current definition is limited - I'm not saying it doesn't apply to clothing - but it's extremely limited in terms of its application to clothing. As noted in the attachment, it's not surprising of the outcome in terms of how the current funding is skewed away from clothing. The structure of the scheme doesn't suit clothing as much as it suits other areas so rather than just be critical we put up a proposition in terms of a definition of innovation which once again we would see applying in the context of caps, so that there is control, but taking less pressure off this one concept that is the filter that determines the allocation of funding.

The definition of innovation should be simplified to, "Innovative means a new, improved or different product, process or characteristic that involves an appreciable element of novelty." It's not new. It's the R and D definition from the Tax Act. If it can work for the R and D Tax Act, why can't it work for this scheme? At least they've got a long history of precedent as well. We've got two years. Everyone is trying to find their way through it. At the same time any future reference to section 18(2) post-2005 should be changed to, "However, an activity is not an eligible product design activity if it is directed at incorporating only cosmetic change to an existing product." There seems to be a fear that there will be rooms full of people moving dots from one arm to the other arm. It's beyond belief that given the amount of time it takes to make a cosmetic change, but if that is a serious concern for the government then insert a clause like that.

The way the scheme is based, it's based on expenditure and it's just not possible to have people working for hours, for days, for years on cosmetic issues. That's not how product development works. Finally, any future reference to innovative process improvement should be in the context of innovation to the firm. So that's a contribution to that definitional issue and then the last one is - our last proposal is in terms of encouraging industry rationalisation by a delinking of the type 4 and 5 restructuring encouragements from their current restriction and into regional areas. As well as looking at what we believe our design criteria and our drivers lead us to in terms of what our position is, it also leads us to what we don't want and this mightn't make us very popular amongst certain sections but I think that there is a logical chain to that and we have heard some various propositions put forward and they - I even heard some more today, that there's a never-ending list - and so I can't refer to them at the moment but I think our chain of logic will enable you to see where we stand on them.

Firstly, in type 1 suggestion, that increasing the rate of assistance to type 1 from 20 per cent to 30 per cent of claimed investment; we don't support that. We're not - the old mantra: it's about clothing. It's not capital intensive. Why keep throwing more money away from the problem? In type 3 suggestions there was a suggestion to increase in the rate of type 3 payments from 5 per cent to 10 per cent. We don't support that. It is that likewise, the removal of the cap on type 3 payments, was put forward and we don't support that. Our view regarding SIP design and management is that the role of definitions and interpretations of terms like innovation should be diluted or removed with increased reliance on caps, rather than the other way around.

That leads us to the final thing, fortunately, and that is the Pac Brands policy position, which is really just a summation of what we said before, is that we support the - we accept the tariff reduction proposals of option 4 with some reservation on the end point for clothing but we accept it, at 5 per cent, and concurrent adjustment systems proposals for a continuation of current SIP style program, recognising the key role of the predominant clothing industry and directed at achieving a significant sector in the minimal tariff environment post-2015. A 10-year time frame of adjustment assistance, funded and rated at no less than the current for a 10-year period; no reduction in funding rate in the second five-year period as it relates to those sectors still in transition to the 5 per cent tariff end point and improvement of the current SIP administration by better use of capping rules than the definitional restrictions: delinking type 3 from its current arrangements, only when receiving type 1 and 2, recognised brand investment in type 1, redefine innovative product development for clothing or replace innovation definition constraint by a cap on product development expenses per firms locally made sales, redefine innovative process improvement in terms of "new to the firm" or remove the innovation constraint on process improvement and lastly, recognition of the strategic importance of increasing industry rationalisation by delinking types 4 and 5 from their current "regional only" circumstances.

DR ROBERTSON: Okay, Geoff, thank you. That's probably the most thorough review of SIP that we've seen and it's very useful for us as we approach the end. Phillip, you have some questions?

MR WEICKHARDT: Yes, can I also applaud you on some provocative and well thought through issues you've raised. You would be surprised though, I don't necessarily agree with all of them but let's start with the issue, the sort of fundamental premise that clothing is the engine upon which - the foundation, if you like, upon which the whole industry is built and if clothing doesn't survive, you know, sort of everything else sort of crumbles. You quoted I think a figure in here of 60 per cent or something of the industry is sort of built on this foundation.

MR BURFURD: Of the related textile - that's not my figure. That's your figure. That's the industry commission figure from 99.

MR WEICKHARDT: I guess I don't know whether it's really still relevant and I was interested in the number because we've heard a number of companies - Bruck this morning, for example, were making the point that because of the very concerns you articulate that clothing is vulnerable, there's an upstream supplier who said, "Well, I don't want to rely on clothing any more so I'm going to move my business so I'm not dependent on clothing" and I think he quoted figures where 37 per cent of their textiles did go into the ladies' apparel area, now 3 per cent goes there. We've also had this morning submissions from the technical textiles people who don't rely on apparel very much at all. But it's clearly an important issue and I guess the second part of the issue is can some of it be saved.

I mean, let's for example suggest that 100 per cent of the SIP money was directed towards the clothing industry, I think if you averaged that out as a percentage of sales that would be about 3 per cent of sales to the clothing industry. My impression is that the hurdle that the clothing industry has to survive is much, much greater than that. Your sort of redirection or reorientation of SIP to sort of rely on caps as opposed to sort of tight definitions I understand, and I can sort of get my mind around the fact that administratively that would be simple but it seems to me that would probably end up with most firms in the clothing sector finding clever ways to edge themselves up to being able to claim almost the full 5 per cent of sales, which would inevitably then mean modulation because, you know, there's not enough money in the total SIP to go around all that. I guess my question is would it make a difference?

You have sort of said, is throwing all this money at the upstream area worthwhile if the downstream area collapses. I understand that sort of concept but the question is, is throwing all the money at clothing going to actually help? Is it going to save it?

MR BURFURD: Well, you know, I think the thing I disagree on is that you say that it's - the clothing industry is the foundation of the industry.

MR WEICKHARDT: I think that was your point.

MR BURFURD: No, my point is that the clothing industry is the foundation of the problem. We have a sectoral policy because of the problem. For me, if you look at the MFA, if you look at the world trade and the cost disabilities that are involved in this sectoral program, they're about clothing. They're not about technical textiles. They're not about leather. They're not about - you can go on and I'm not trying to pick on people. It's about clothing because it is a well-traded good at below costs levels from low-cost countries like China, that you have a need for a sectoral program. If you don't want to address that problem you've got a question about what are you addressing?

MR WEICKHARDT: The question is really, is the budgetary assistance, what might be clearly called palliative care? Is it just allowing people to sort of die painlessly or is it actually creating some sustainable business as an outcome?

MR MOORE: Isn't that the objective of your policies, to actually develop a sustainable outcome?

MR WEICKHARDT: Correct.

MR MOORE: In our opinion the clothing industry can survive. It has survived governments, policies, exchange rate movements up and down. It has moved position all over the place and it's still functioning and it's still the largest part of this industry. If you take a couple of points that Geoff made in the presentation we have a factory out of Wollongong, and I don't know how to say this to our New South Wales colleagues - I think it's Unanderra - it's got 220 people in it. It makes three things. It makes singlets, it makes T-shirts, it makes women's Bonds Cottontails. It's expensive in relation to imports. If you put product for product with no brand on it you would find that that product was probably uncompetitive. You marry a brand to it, you marry the efficiency and the product development and the innovation that we've put to that product and you allow us to adjust, as we have adjusted, over that period then that factory will survive. There are many others like it in the industry that will survive. We have a plant at Coolaroo that makes women's pantihose. It makes 35 million pairs of pantihose a year. That part of the industry will survive.

MR WEICKHARDT: I'm loath to stop you because there's a lot more coming, I know, that I'm interested in, but just let me probe that particular issue because it's an important one. You made this comment about brand support and I totally understand the concept you're getting at but to me it would have appeared that brand support ought to be totally separated from the issue of where a product is manufactured. No argument that, you know, strong brands will protect the market position of your product but if I took devil's advocate sort of side to what I think you've just said it would suggest that by - if SIP were modified to allow brand support and if that then allows you to say, "Okay, I've got a factory in Australia that makes products, that's not competitive, but because of this brand support premium I've got it allows me to tolerate that, if you like, inefficiency." There would be an argument that taxpayers' money is effectively going into allowing a less productive operation in Australia - maybe higher labour costs or poorer productivity or something, than might otherwise be the case. I think that's a real question, as to whether or not that's appropriate.

There are lots of companies that would say, "Yes, I support a brand heavily and then I decide where's the lowest-cost place I can manufacture that product with the right quality, efficiency, et cetera, et cetera. Nike and others - your company indeed - has got examples of that. So I guess a troublesome issue I tripped over in your - you've just reminded me of in your submission, was this issue that by allowing brand support under SIP you might actually support an operation that's less efficient in Australia. If your argument is that eventually it can become as efficient then it just needs time and ultimately you cane make Bonds Cottontails every bit as efficiently in Australia as you can in China, then, okay, I'm at peace but if it's always - - -

MR MOORE: You should be at peace when you can. We just can't compete with the labour cost. Our minute rate in Australia is far - our number of minutes in a garment is far lower than the number of minutes in China but the point I was making about was that that factory can survive because it will adjust itself to what the consumer wants. If you want to take first cost as being the only relevant thing in a product, it's actually end-to-end cost.

MR WEICKHARDT: Sure, yes.

MR MOORE: It's how it gets to the shelf to the consumer.

MR WEICKHARDT: I accept all that.

MR MOORE: In our view the market in Australia is changing so that - and if you listen to every one of the major retailers, they all talk about supply chain end-to-end development, and in our view if we marry branding, innovation and our supply chain practices to quick response, local factories can survive. I have never believed that business is boxes. I think business is just one big package and there are lots of things that make up the package. Who can decide whether a machine is more important than a brand. What adds more value, okay?

MR WEICKHARDT: Yes. I mean, I accept the point you've got to look at end-to-end cost, but if you're saying, "Well, okay, given best practice and all that sort of stuff, I can get end-to-end costs in the Australian factory to equal end-to-end cost import from China. Then surely the issue of whether or not the government should help support the brand is irrelevant, isn't it? The brand support is done because it's in your self-interest to secure your market position. But the point about it is it allows the adjustment period where you get to the point where we all want to get to.

MR BURFURD: The other thing too, and Paul has sort of touched on it, is investment in brand should be seen no different to investment in machinery. The very arguments you put forward - - -

DR ROBERTSON: From an enterprise point of view, that's right.

MR BURFURD: - - - a machine wears out. A brand wears out slower than a machine does. So if you're trying to find protection for a local activity investment in brand is better than investment in machinery.

MR WEICKHARDT: Yes. Well, Coca Cola wouldn't argue with that but they don't put their hand out for government's money.

MR BURFURD: No, but the thing is that that is essentially the problem; is that we are talking about the problem with the clothing industry. We're not talking about Coca Cola. They don't have a problem but clothing worldwide does.

MR MOORE: And we're asking for a sensible adjustment period for the clothing industry because we are taking the biggest hit. We're going from 25 per cent to 5 and we're accepting that as a company and we're accepting that we have to adjust to it and we are saying there are a whole lot of packages of - not just brand - innovation, product development, all the other things that Geoff talked about that will allow companies in this industry to adjust to a point where the end game is - they can survive.

MR WEICKHARDT: Okay.

MR BURFURD: Can I go back on just two things because you're going to go on and leave them. One is on this brand support as you call it. We call it brand equity. Because there is brand support in this current program but it's only if you happen to qualify in the narrow base that it currently applies. You ask the question, why do brands deliver protection to local? Because you're saying you shouldn't look at - you should source where it - - -

MR WEICKHARDT: I was asking why you should link the two.

MR BURFURD: The linkage is, as we said before from our experience, is that if you have brand protection that gives you sufficient gross margin to operate from a local source then our experience is that you will not move offshore. Your premise is goods are cheaper, therefore you get even greater gross margin, therefore you move offshore. In brands like - if you've got a good brand like Razzamatazz or Chesty, all these things that are - Explorer socks - the margin is sufficient, we don't move them offshore. We don't tamper with the delicate balance that exists in terms of customer service, in terms of perception, in terms of quality and so on. It's only when the gross margin disappears that that pressure is changed and that's our argument; is that brand protection can protect local production.

MR WEICKHARDT: Yes. I have no difference with you there. What I was testing is should it do so in a permanent manner or is Paul saying - is it just a matter of time?

MR MOORE: It's an adjustment period. I mean, we've got 2500 employees in Australia. I could buy all of the products that those 2500 people make offshore today far cheaper than I buy them here.

MR WEICKHARDT: In total and when cost?

MR MOORE: In first cost. But business is not just about first cost.

MR WEICKHARDT: No, no, it's not.

MR MOORE: It's about how you get the product to the consumer in the best possible light and it's about - we have things - it's about stock control, it's about margin protection, it's about quality, a whole lot of things all rolled up into one thing and we find that - we've been running backwards. I've been in this industry for 20-odd years and I've been running backwards for 25 years. You get sick of it after a while. One of the things that we believe is that if we can invest more in our brands and we know a certain end point is coming for their business, and we've got a package of things that allow us to adjust, we'll walk away from the adjustment quite comfortably because we'll have a business that's left and we think the policies that we're putting forward allow businesses to adjust.

MR WEICKHARDT: But what I'm concerned about, I suppose, and I should then shut up and give my fellow commissioner a chance, that there are lots of questions your submission raised. What I guess I'm sort of testing is you're saying there are parts of your operation, your factory in Ulladulla or wherever it was - - -

MR MOORE: Yes, that's about as bad a pronunciation as I was - - -

MR WEICKHARDT: Yes, sorry. Your factory in New South Wales that can survive, given time, because when you look at end-to-end costs it eventually can be competitive.

MR MOORE: Yes.

MR WEICKHARDT: The question is will all parts of the clothing industry be able to make that transition if they're similarly motivated or if not is your suggestion of the way SIP might be altered going to accurately discriminate and ensure that the money is spent on the bits that will survive versus the bits that won't?

MR BURFURD: I think the answer to that is yes.

MR WEICKHARDT: Yes.

MR BURFURD: Because we're not just looking at - to develop our position we looked at the scenarios in terms of how they impacted on the 2500 employees. We looked at the various scenarios that were currently on the table and it just boils down to a difference between good policy and bad policy. The same amount of money going out and in terms of our clothing activities, in terms of our TCF employment, we could, if a reasonable well within the 5 per cent to firm ratio, we could maintain our employment if the policy is correctly directed in a manner that is linked to the drivers that we talked about. That's it in a nutshell. The drivers are the key to it all.

I just cannot see why the logical link hasn't been put before; is that the issue, the problem, the world problem, is clothing. That is the trader good that has the high labour cost problem.

It has the cost disabilities between China and the rest of the world which everyone is trying to grapple with, and it is the area where the great bulk of the employment is. And that is the area that needs to be addressed and it needs drivers that address that issue. What we're saying is from our experience the things that make a difference in terms of giving a good outcome for clothing is brand equity, because it can protect the local manufacturing. It's product development that's relevant to clothing. Product development is good but we have a scheme that doesn't relate to - it's non-visual. It's specifically - you might as well say, "Clothing not welcome."

MR WEICKHARDT: Okay.

DR ROBERTSON: I still have many of the problems, I think, that Philip is going through. One of them is if this is a viable way of doing it and, you know, I understand that Pacific Brands has got a lot of experience and you have a leading edge in a sense because a lot of people know who you are and what your brands are, but one of the things that has changed is that retailers are now getting their supplies direct.

MR MOORE: Yes.

DR ROBERTSON: I know there's the question of shortfalls and local people filling the gap and so forth, but aren't those retailers going to catch on to the branding side too and run their own brands?

MR MOORE: Look, it differs from industry and sector to sector but in my 25 years I have not seen an increase in the amount of business we sell to retailers direct under house brands or the amount of business that we deliver as brands. So there's a minor adjustment one way or the other all the time, but basically we have found that our - what we call house brand business - is the same today as it was 20 years ago in percentage to total sales. I think retailers accept that there is a great deal of risk in doing their own developments because they own them. They have the problems associated with clearing them themselves. If they have a partnership with a supplier in any shape or form - - -

DR ROBERTSON: When you say "total sales" do you mean your total sales?

MR MOORE: I can only talk about my sales. I can't talk about other industries. I'm not an expert in other industries. I'm only talking about my own. So we haven't noticed any movement or any increase in house brands or any decrease either in

20-odd years.

DR ROBERTSON: But what about the overall share, your share in the total market that may have been decreasing?

MR MOORE: No, I think our shares a pretty solid.

DR ROBERTSON: They're two together.

MR MOORE: They're pretty solid, yes.

DR ROBERTSON: Really?

MR MOORE: I mean, you have good years and bad years. Like, this is an industry where you're very reliant on peoples' eyes but you have good years and bad years but basically our market shares today - probably footwear excepting - where the industry has gone through a major change, we've dropped a bit of market share, but in clothing our market shares are pretty solid and have grown a bit.

MR WEICKHARDT: And in total, if you go back sort of 10 years ago, what percentage of that total sales was locally manufactured? What percentage is now? What do you reckon it will be in 2015? How is that - - -

MR MOORE: I can only talk - Geoff is much better at industry stuff than I can, but I can only talk about our business. At the moment - - -

MR WEICKHARDT: That's what I was asking.

MR MOORE: We're doing - 60 per cent of our business is done as imports and 40 per cent business of our business is done as local - - -

MR WEICKHARDT: That's in clothing?

MR MOORE: That's in clothing. It's a bigger number of imports if you go outside. In some area it's a smaller number such as our bedding business or fibre business where we have almost all local. As you heard Geoff say, with an adjustment policy we think we can save what we've got left. I would say - - -

MR WEICKHARDT: So you think it will stays 60:40?

MR MOORE: No, I don't. I think we'll grow. I think we'll grow in the industry and it will probably - the employment will stay the same but I think that employment might be a smaller share. What that makes might be a smaller share of our total sales.

MR BURFURD: Depending what's on the policy.

MR MOORE: Yes.

MR WEICKHARDT: Well, give me your view with your policy.

MR BURFURD: We think if it's targeted to the right drivers it will maintain the employment.

MR MOORE: We maintain the employment.

MR WEICKHARDT: But what percentage?

MR MOORE: If we're talking clothing, if it's 40 per cent import - 40 per cent local now, it might be 30 to 40 per cent.

MR BURFURD: It will drop but we can hold the employment, I think.

MR WEICKHARDT: Under the recommendation of the policy paper?

MR MOORE: When we worked it through we would halve our employment.

MR WEICKHARDT: The ratio would drop too?

MR MOORE: That goes to 20 per cent.

MR WEICKHARDT: Thanks.

DR ROBERTSON: The big problem I have, and I understand your logic and the way you develop the argument, and as I said, it's the most original approach to SIP.

MR MOORE: Probably the most unpopular.

DR ROBERTSON: No, I don't think it's unpopular but it is going to - it's a bureaucrat's nightmare to try and establish the standards. It's easy to say, "What did you spend on that piece of capital equipment is whatever percentage we're going to give you," but all these things about innovation and brand strength and so forth are highly qualitative rather than quantitative and that's always a problem. I mean, I think we'll have to think very hard about this because - - -

MR WEICKHARDT: I assume that's why you put the caps on them.

MR MOORE: We put them on for you.

MR BURFURD: It's far more qualitative than what currently provides.

MR WEICKHARDT: Yes, but because of what David said, inevitably people will just push them to the cap.

MR BURFURD: It's a mix of the quantitative and qualitative. As now you have to establish your expenditures on product development, establish your expenditures on processing improvement. The only difference with what we're proposing is that the filter is not the word "innovation". The filter is you spend it, you identify it and you can't go over this level. To me, that is a quantitative improvement.

MR MOORE: Could I also make the comment on - with all due respect, it's not my job or Geoff's job to make the bureaucrat's life any easier. It's their job to come up with a policy that comes up with a viable industry at the end. We believe that what we're putting forward is a forward-thinking policy, because it actually goes forward and actually drives business behaviour.

If you look at the current scheme, it's retrospective. You don't really count on it until it turns up, because you're not sure you're going to get it. So if you do fluke - and I do accept your assertion that it's going to be difficult - but if you do get it right, you've got an industry that looks forward and says, "Well, I can count on that, that and that, and I can make those adjustments and go forward." If you take a machine all the benefits, it's a proving job behind. So we just think that's a better way of working. It's easier to work forward in a business than it is to look backwards.

MR BURFURD: We're trying to because quantitative. If you think through the way the SIP scheme works, it has to be assessed after the event. It has to be assessed, and it's assessed on words like "innovative".

DR ROBERTSON: That one is the one that's causing a lot of trouble of course, but there are other definitions that are easier to administer.

MR BURFURD: It's assessed on words like "innovative to who" - to the firm, to the industry, to the world?

DR ROBERTSON: "Innovation" is a word that of course means many things to many people, and especially across an industry that's as diverse as TCF.

MR BURFURD: Yes, and that makes it a bad filter.

MR MOORE: And we also work in an industry - with all due respect to the man before with the plastic bottles - we work in an industry, in clothing, that is not rocket science, that does work on small process improvements, small modifications, small innovations. But we make products for people that perform a function, particularly in our business, with underwear, where they perform a very viable function - some days more important than others. But it's all about small innovations.

MR WEICKHARDT: From that point of view I suppose one of the concerns - I'm surmising - of the people who put this scheme in place may have related to the sustainability of the innovation that was developed. You know, is the government helping to buy or encourage innovation that leads to a sustainable competitive advantage. I suspect that in clothing the visual sorts of improvements that you're talking about are so readily copied by somebody else that the competitive advantage one gains is fairly ephemeral. Is that a fair point? I mean, I accept the fact that it has to happen continuously, and probably the life cycle of innovation is sort of months in clothing, rather than being years in a technical product where you've got a pattern that might last for years.

MR MOORE: Absolutely. In an industry that does between four and six ranges a year, innovation is going to be small and it's going to be ever-changing and it's going to be quicker to copy. However, the businesses that are surviving and are best at it are the most innovative, because they're the first. If you look at this business, in any part of it, you'll find that those guys with first mover advantage are those guys that are most successful. Copying in this industry is the greatest form of endorsement of an innovation, because you know it works.

DR ROBERTSON: Some of the clothing that I saw that had been copied didn't seem terribly attractive to me.

MR MOORE: It depends on where you're looking at it.

DR ROBERTSON: I'm not going to tell you where it was.

MR WEICKHARDT: Your suggestion was that brand support investment should only apply - I think - to products that are locally manufactured.

MR MOORE: Yes.

MR WEICKHARDT: Coming from where you're coming from, I sort of understand that. But it would be a very common phenomena in Australia's history that companies that started off importing products, establishing a market position and eventually building a market position up to such a level that they had justified some local manufacture - and if you look at it from that end of the telescope it's rather perverse that a company doing that wouldn't get any support until they started locally manufacturing.

MR MOORE: I'd probably have to say, Philip, I can't recall in my time any company that started as an importer and was silly enough to become a manufacturer.

MR WEICKHARDT: You might have to look back a bit but I'm sure - - -

MR MOORE: Not in our industry.

MR WEICKHARDT: I'm sure there must have been a time.

MR BURFURD: That sort of goes back to our design criteria - is that it has got to have relevance. If you can find some cases of that - but it is not the mainstream. If you want to look at firms like Billabong and Rip Curl and that, that's the mainstream. They start off as local manufacturers and they become importers. The point that we made about brand support, in brand equity - we're only interested in brand equity to the extent that it maintains local manufacturing. There's no point giving money to Pacific Brands to promote brands to import.

MR MOORE: We're not asking for that.

MR BURFURD: That's not what it's about.

DR ROBERTSON: Yes, but supposing the French invent a new form of underpants, I mean, your - - -

MR MOORE: With three legs, yes.

MR BURFURD: I shudder to think.

DR ROBERTSON: Perhaps that was not a wise thing for me to say.

MR MOORE: We shouldn't go there.

MR WEICKHARDT: Your recommendation of dropping the tariff on footwear intermediates almost immediately - I understand the Footwear Association are also recommending that. Is it your understanding that there would be any local manufacturers who would be affected by that - adversely affected, I mean?

MR BURFURD: We are just supporting a position we believe is going to be put forward because it seems to be a logical position, because the footwear industry, of which Pacific Brands would probably be the bigger supplier of footwear to the Australian market with probably close on 30 per cent of the Australian shoes sold in the Australian market, all of which are imported - so that's the only reason we make observation on that, is that in terms of finding a relatively costless solution to help local manufacturers that are still there - the industry has contracted so much that it's 90 per cent import now anyway - that a sensible approach is to give an advantage to those local suppliers who are only performing the last step in the value chain.

MR WEICKHARDT: Yes, I guess I was trying to understand, are there any component suppliers who would be wiped out in that process?

MR BURFURD: Well, the thing is the industry has contracted so much that I think the component suppliers are wiped out anyway.

MR MOORE: There would be very few component suppliers left in Australia, I would have thought.

DR ROBERTSON: Yes, that was the experience we had with some of the - - -

MR MOORE: In fact that move early - we've just closed our last manufacturing plant - that move early caused a lot of factories to close, because eventually the infrastructure was not there to support them.

MR WEICKHARDT: The Sporting Footwear Association have also made a recommendation that the - they've approached this in any number of combinations - but basically they want sporting shoes and sporting footwear to be either tariff-free or get a tariff concession or have the tariff lowered immediately. The Footwear Association oppose that view. Do you have a point of view on that?

MR BURFURD: Can we take the fifth amendment on that?

MR MOORE: We've lived dangerously so far. Have another go.

MR BURFURD: There are no sporting shoes made in Australia. So if that was quarantineable then you would support the Sporting Shoes Association position. But the experience is that it's very difficult to quarantine it. No matter how well you try and define it, something that was intended for sports shoes ends up as rock climbing shoes and then becomes sort of lug boots for walking, and before you know it, it is very, very difficult to administer your way through that exercise. But the logic is probably right, because there are no - Dunlop Volley was probably the last sporting shoe made in Australia. So there are no sporting shoes, to my knowledge, made in Australia.

But there's precedent in this area which the footwear manufacturers I'm sure will give you, in terms of spike footwear and golf shoes and so on, and the difficulties that were faced in those areas and the cleverness that was applied to get round the rules.

MR MOORE: Actually, I would have thought it - and this is just from my point of view - if you're looking for innovation then you should see what will happen to shoes if you take the tariff off straightaway on sporting shoes. What is classified as a sporting shoe - you'll have ladies' fashion shoes coming in as sporting shoes. But the point is, if you take them off there, you should take them off the whole lot, and I don't think that's viable at the moment in relation to the other parts of the industry.

MR WEICKHARDT: Okay, thank you.

MR BURFURD: And we don't support definitional things. We're trying to get away from this definitional judgment.

DR ROBERTSON: Well, we've kept you well past your lunchtime, and ours. Can we thank you both - sorry, he wants another shot.

MR WEICKHARDT: Sorry, one last question. Value added - you suggested you don't like our option B because you are concerned about value added.

MR BURFURD: Yes.

MR WEICKHARDT: But you then turn back to SIP and say you want to de-link type 3 away from type 1 and 2.

MR BURFURD: Yes.

MR WEICKHARDT: But type 3 relies on value added.

MR BURFURD: Yes.

MR WEICKHARDT: So if there were no capital investment and there were no innovation then you're left back with value added.

MR BURFURD: Yes.

MR WEICKHARDT: I guess I'm questioning whether (a) that's consistent and (b) is value added really the right driver. Given the fact that value added has got labour content in it and you're trying to get the industry to adjust to a lower labour content, is value added, as defined, actually driving the industry to a more sustainable position?

MR BURFURD: I'll deal with that in two parts of it. The first part was about - - -

MR WEICKHARDT: Your change to SIP - - -

MR BURFURD: Yes. Option B in your proposals is a singular focus on value added.

MR WEICKHARDT: Yes.

MR BURFURD: We're trying to find the main drivers, not the main driver.

MR WEICKHARDT: Right.

MR BURFURD: We're not saying that value added is the one size fits all.

MR WEICKHARDT: So you're comfortable for it to be a driver but not the singular driver.

MR BURFURD: But not a singular driver, because it denies a proposition that things like innovation - well, product development and process improvement and brand equity and those other things that we've put forward as an investment or ways to develop a viable, stronger industry. So we don't want singular reliance upon that. So we're not putting that forward. The second part of the question was?

MR WEICKHARDT: Yes, is value added, as defined at the moment - because it has labour cost effectively motivating the industry - I mean, you could increase value added by employing another person, paying a person some more money. That's not actually promoting productivity and efficiency.

MR BURFURD: No, but the value added - that concept is based on competitiveness being purely based on cost - the reason why Werner and those other people have said that in developed countries the solution for high labour cost activities is to move away from commodity product to high value added product.

MR WEICKHARDT: But aren't they talking about premium products, you know, expensive products effectively?

MR BURFURD: Well, not necessarily, but differentiated product - you know, like what is a premium underpant? You know, like - it is about - - -

MR WEICKHARDT: Probably in your definition, one that somebody pays a lot of money for.

MR BURFURD: In these cases, that needs brand to achieve it.

MR WEICKHARDT: Yes, sure.

MR BURFURD: But in other areas - and in particular, the fashion industry - because not all the fashion industry has brand. That's why you need a series of drivers to be targetted. But in the fashion industry, the areas that are best positioned to be maintained in a no-tarriff environment are the areas that are furthest away from the standard basic commodity product - with product developments that involve some complexity.

MR WEICKHARDT: I guess I could ask my question another way. Would the industry be better motivated to move in the direction that you're suggesting it needs to if the definition of value-added removed labour conflict?

MR BURFURD: It jumps back to - it's like - once again: clothing not welcome. Is this about trying to develop the capital part of the industry which doesn't have anywhere near the problem from a tariff perspective.

MR WEICKHARDT: I understand the difficulty.

DR ROBERTSON: Thank you both. We will now take a break for about an hour.

(Luncheon adjournment)

DR ROBERTSON: Well, welcome, Peter, Phillip and Geoff. But you know the procedure, I take it, it's pretty informal. I mean, you make a presentation of whatever you wish. Might I remind you that we have read all except the last version of your submissions and the main reason is for your to raise points with us or us to raise points with you and because we're taking a transcript each time - not each time you speak, but when you speak for the first time would you say who you are so you can be identified. So, I don't know who is going to lead off.

MR EAMES: My name is Peter Eames, I'm the executive director for the Footwear Manufacturers Association. For today we felt we had a few ideas that we wanted to elaborate to the commission, but our concept today, just so you're aware of our plan, is we were going to briefly just go through a little bit of background on the FMAA; what we saw are the challenges for the footwear industry. Phillip Butt, who is vice president for the association and also the MD for J. Robins and Sons, was just going to go through some background on the complexities of shoes, challenges, some of the rewards we've got out of SIP. Geoffrey O'Loghlen does pretty much all the SIP claims on behalf of the footwear industry, so we've asked Geoff to come along to give you some insight into the difficulties, the rewards that the companies have gained from using SIP and things we think we could adjust to make it work a lot better. Apart from that, obviously - we have given you a document, unfortunately not as early ahead as it should have been and obviously happy to take questions on notice and we'll try and answer them today as fit.

DR ROBERTSON: Okay, thank you.

MR EAMES: So just as a background, the Footwear Manufacturers Association of Australia is a national industry association which represents the collective interests of the local Australian footwear industry of Australia. Members include manufacturers of footwear, manufacturers of components and manufacturers of associated products, such as leather, leather-care products.

The Australian industry accounts for $515 million worth of annual manufacturing turnover and this equates to approximately $1.2 billion in sales of retail. We have approximately three and a half thousand direct employees still in the industry. The manufacturing industry is predominantly import replacement. There is some niche marketing, some exports, but if you want an overall, predominant view of it it's mainly an import replacement industry. Footwear operations are in metropolitan areas in many of the regions. We have operations in Ballarat, Geelong, Goulburn, Hobart, Perth and Adelaide, so we're fairly well spread around the country.

Just as the reason for why we're here, the association represents around 75 per cent of the industry's output manufactured in Australia. The industry, we believe, has responded to the needs of the community and has undertaken fundamental structural change. Since 1988 tariffs have reduced from 50 per cent plus a $10.50 per pair estimated nominal rate of 63 per cent compared to the manufacturing average of 10 per cent. Industry consolidation continues and we have achieved significant productivity gains over the 1990s. As an example, value added per employee has increased by 93 per cent. Import share of the market has almost tripled to 70 per cent of the market. The share of total output exported has increased to 15 per cent. The increase in efficiency and competitiveness has resulted from increasing specialisation in specific sectors, such as work-wear, mid-range women's fashion and specialty footwear. Most of the low dollar sectors of the market have basically been left by local manufacturers; they are all now imports.

The challenges we see for the industry in the future come under what we call the key drivers for a sustainable industry. We believe we need a continual rebalancing of the sourcing between locally manufactured product and imported product; the development of new and the expansion of existing export markets; effective research and development, including new products and process design; uptake of the latest technology to ensure continuation of the current productivity; ongoing search for best practice protocols. The challenge for the industry is ongoing; the Australian market is comparatively small. Local manufacturers only produce 12 per cent of the footwear purchased in Australia.

Footwear imports are continually taking a larger share of the home market. As part of the continual adjusting process, local manufacturers control 28 per cent of the footwear imported into Australia. It is our view that intermittent dumping occurs. In order to develop a competitive industry, the development of market control and intellectual influence is crucial. China's emergence as a major footwear manufacturer has been gaining strength for the last decade and is now the biggest supplier to Australia. 40 per cent of the Australian market is controlled by manufacturers/importers. However, the same people that control that 40 per cent carry out 90 per cent of all design in Australia.

That's a very brief by way of a background. What we'd like to do, with your indulgence, is I'd like to pass over to Phil Butt who will take us through a more practical position of where footwear is, with this experience, if that's okay - - -

DR ROBERTSON: Yes, sure.

MR EAMES: - - - and then we'll move on.

MR BUTT: My name is Phil Butt; I'm managing director of J. Robins and Sons and also vice president of the Footwear Manufacturers Association of Australia. What I'd like to probably start off is to look at the perceived value of Australian footwear. I think if we go back into the 80s the value the consumer saw in Australian footwear was undoubtedly very poor. I think the typical scenario was that overseas travellers, they'd head off shore - Australian overseas travellers, they'd head off shore. On the way back in they'd buy their bottle of scotch, their carton of cigarettes, a pair of Reeboks and maybe throw in a pair of Levi jeans as well.

That was in the 80s and certainly with the changes in the protection regime that is undoubtedly not the case as it is today. We have people who travel three, four, sometimes five times a year, particularly to the US and into Europe, mainly researching fashion trends, because as a fashion manufacturer - and it was good obviously to have the commission visit our factory, so I think you sort of know the sort of products that we put together and really now, I suppose, we're certainly the largest remaining fashion - or women's manufacturer left in the country, undoubtedly, so you see the sort of products that we are looking at and our people, as I said, travel overseas regularly. They're not only travelling to look at the direction in fashion, what's happening the general market from a world perspective, but they're also looking at the relative values.

I suppose we have - certainly from the late 90s and certainly over the last couple of years - we would believe that the sort of value that the domestic industry is giving the Australian consumer has improved dramatically. Just as a point - and if you indulge me this for a second - we've done some comparisons both in the US and in the UK and - I don't know whether you want to touch them, feel them, as a shoemaker I like to do that - but that's a shoe bought in Los Angeles within the last six months. It's a brand that is very similar to ours, it's a nationally recognised brand. It's retailed in a very similar department store style set-up as we would use within Australia, for example, a Myers-Grace Brothers or a David Jones style of outlet, that shoe in Australia dollars is retailing at 107. Our comparable shoe - not exactly the same, but similar construction, similar fashionability, again same market penetration as far as the brand is concerned, is retailing now for $89; so 107 versus 89. I don't want to bore you with fashion, but - - -

DR ROBERTSON: They wouldn't fit me.

MR BUTT: No, they wouldn't but - - -

DR ROBERTSON: "We could arrange for some that will."

MR BUTT: We do size 13s and 14s. Similar situation, that shoe was purchased in San Diego, retailing at $170. Again, a very similar brand, Nine West, would be seen as a comparable brand in - to Sandler within the Australian market - $170; our comparable shoe, $109, at retail. And out of the UK - I have to admit we did knock the style off - but out of the UK that little boot was bought in London, again, that was about two months ago, retailing for 145. Our comparable boot, probably a little bit more leather, maybe a little bit more value, 129. So I suppose while I'm wanting to make it clear that at a realistic level the sort of value that we're offering is very good by world standards and it's certainly very good in comparison to the countries of similar living standards.

The current industry set-up here at the moment is that it's between 11 and 12 per cent of footwear is domestically produced. Import penetration into the US now is close to 97 per cent, a little over 97 per cent. The UK is all but 100 per cent of import penetration. I still haven't got to the bottom of the disparity in retail prices between the typical US stores, department stores, and the comparable Australian stores. We suspect maybe there is some difference in retail mark-ups and margins. We still find, looking at the structure of retail between those three countries, doesn't seem to make a lot of sense, that there would be. We suspect that there is some subtle dumping taking place within Australia, of particularly Chinese and possibly Brazilian imports. That's difficult to prove, but considering the seasonal nature of the fashion market we suspect that end-of-runs, particularly out of China, that were possibly destined for the US market, tend to be shuffled back into Australia.

So I'm - which sort of really leads me to the next point about the whole issue of a domestic manufacturer, in that my belief is and the experience that I've seen, particularly with our discussion with retailers, is that a domestic competition, in a sense, leads to lower import prices. Without a domestic base we believe the import prices, over a period of time, will be exploited and will move into an area very similar to the US and the UK experience. So in a sense we see that the domestic base and the protection that we do receive currently, does minimise the impact of a tariff and a protection.

We really have a growing problem because of the shrinking of the industry, particularly over the last two years, in that we're now down to - or very close and I would see the factories that I'm aware and I have reasonably close contact through the FMAA - that we will certainly be below 10 per cent domestically produced within the next six to 12 months, I don't think there's any doubt about that. And I'm extremely concerned that the size of the industry that's remaining will inevitably lead to a crumbling of any of the, I suppose, supporting industries that support the major footwear manufacturers, whether that's component manufacturers, supply lines. It becomes increasingly unviable for those companies to find a business that's worthwhile, certainly within the footwear industry. And the footwear industry is still a very specific - or has very specific needs. I'm finding a situation now where - and both of you have seen our factory and our competitive advantage that we've been relying on, certainly over the last 10 years, is to be a quick-response supplier to the Australian market and as such we've taken a strategic, a definite strategic direction in becoming as vertically integrated in our production processes as possible.

Now, within the footwear industry that's an unusual approach. Footwear manufacturers, in the past, have generally specialised, but we're in, I suppose, an enviable position in that we're not as reliant on those outside component suppliers as the vast majority of the industry. I'm now finding - certainly since the demise of a couple of companies in the last two to three months - that the smaller manufacturers are now approaching me because I have the capacity to produce those components, so they're approaching me to say, "Well, can you sell me heels, can you sell me soles, can you sell me insoles?" I suppose it's an issue that I've got to come to terms with; will I do that? Will I sacrifice the efficiencies of longer runs that our brands have to supply a smaller factory that might be making 100 pairs day or will I say simply no. Maybe I can certainly price the product accordingly, depending on the size of the runs, and I might end up supporting them. What happens further down the track, I'm not really sure, but it's an area of major concern.

I suppose what we're looking for is some certainty, that if I decide, well, I do have to buy a particular machine that will produce a component at a reasonable price that is a little different to the high capacity machines I currently have in place, to support some of those local smaller manufacturers, then I need some certainty that there is going to be a reasonable SIP scheme or there is going to be a reasonable level of tariffs that will allow me to make that decision to purchase that piece of equipment. So that's the thing I'm really looking for.

The other area I just wanted to touch on quickly also, and it leads me into a discussion about the SIP scheme, was about the complexity of footwear manufacturing. This is no slight on the apparel guys but making a pair of shoes is extremely different to making a T-shirt. We're not only talking about cutting and sewing but we're talking about numerous operations. To sort of stress my point we're talking about a number of different processes, a number of different design conditions. You saw lasts when you came into our factory and it's the basis of all shoe making. The development of lasts is in itself certainly a craft, bordering on an art. At the moment there's one last maker left in Australia with - and I know that company is right on the edge of saying, "It's no longer viable for us to remain in Australia," but the technology that we've certainly developed to build those lasts and design those lasts and then for other things like sole units and models to produce moulds and dies, things like heels, has been certainly for us in the last 10 years - because we have had to pursue this vertical integration - has been absolutely massive.

I suppose one of the difficult things that we've found certainly with the SIP scheme is the issue of SIP and of innovation. If we're making a style like that, where the coming season all we want to do is change the size of the buckle or we want to put another few straps in there or we're going to change the colour, our design areas find that sort of thing very simple. It's quick, it's easy and it probably consumes maybe about 10 per cent of our design expenditure, but if we want to design a new heel and we need to figure out how we're going to mould that, how the tooling is going to be designed, whether it's going to be extractable from a heel die; "Is the top piece on the top of that heel going to stay in wear?" then there is a lot of problem-solving that needs to go into it. A heel is a relatively simple thing. When we get into things like the orthopaedic nature of the shoe, the comfort, the fit, it becomes a very complex process.

I suppose in the future consideration of things like SIP we need to consider those issues. Probably 90 per cent of our design expenditure really is in technical problem-solving and it's something that we can never give up on, particularly where it comes to issues like public liability. I've got a - currently I've got a - received a writ this morning. A woman is suing us for $700,000 because she walked down the front stairs of her house, the heel broke and she's got a major back injury. So it's the sort of thing - it's not the sort of thing we can throw together. We've got heavy research into particularly new technologies that we're using to build our components. Be that as it may we would still say that the SIP scheme, the broad principle of it, has been very good. There is no doubt that it's allowed me to invest in new technology and innovative practices that under any other circumstances it would have been extremely difficult for me to convince our shareholders to invest in, undoubtedly.

If I look at it from our point of view, the major areas that we've had big successes with the SIP grants, particularly in our polyurethane moulding area. That's been an enormous benefit to us. The sort of plant that we've been able to invest in: I'm now exporting soles to other countries. Our strategic approach of quick response to the marketplace has been enhanced with the purchase of our computer aided - or an extended computer aided design system. We've been able to invest heavily into some new computerised - well, it's a Japanese computerised system of stitching, which has meant now that we're able to produce styles that in the past we never would have attempted because of the high labour content. Generally, it's allowed us to improve the flow of work through our factories and the capitalising I suppose on our shortened lead times that it's been our objective to make.

All of that has been very, very good. It has certainly contributed to our long-term future. The big criticism I would have though is that it has been a massive administrative burden to us. We have around 20 people in our design area and each of those people, considering the complexity of the tasks that they are undertaking every day, would be spending anywhere from 10 to possibly 20, 25 minutes a day documenting what they are doing. We haven't been able to find a simple but accurate way of reporting the activities that they've undertaken to legitimately claim particularly the type 2 expenditure. Type 1, relatively easy to document. Type 2 has been incredibly difficult. It's been under continual review how that's being done. I would certainly spend personally, prior to - on a one-off basis prior to our claim being submitted - in the area of three or four weeks, personally. That's on top of the amount of time that our staff would be filling out diaries. So that has been a big issue to us - when you compare it to something like the import credit scheme and the sort of hours - around 1500 hours a year is what our sort of current estimate is, and that's probably quite conservative, again, in comparison to the import credit scheme which was relatively simple.

I think they were the major issues that I wanted to raise. I think quickly in summary, please don't undervalue what the local industry does. It can't reduce. If we get much smaller then we are really going to become - fall into an area where we just can't justify continuing in our local manufacturing. SIP has been good but we do certainly need some changes. I'll hand you over to Geoff.

MR O'LOGHLEN: Thanks, Phillip. Geoffrey O'Loghlen, adviser to the FMAA on SIP. The footwear SIP network services the bulk of the Australian footwear industry and we've also expanded into other areas, most notably leather, textiles and apparel, in order to try and learn whatever lessons we can from those areas as well. In the first year of the scheme we've lodged a number of claims with the department of which five ultimately found their way into the AAT process. The issues of concern in the AAT process covered the full gamut of claims under types 1, 2 and 3 for example. Under type 1, there were discussions and queries as to what constitutes plant and equipment, what constitutes warehousing and distribution activities. There were even discussions and queries as to what constitutes new equipment. In regard to type 2, and there are a number of areas of type 2, in regard to product development, some of the major issues were what constitutes innovation? Was it new and different outputs? Was it new and different methodologies of developing those outputs, or was it some degree of technical challenge in developing those outputs?

There were also questions as to whether or not the product development and the innovation was new to the firm or new to the industry and what, if any, significance this had. In regard to process improvement, again those queries and questions as to the difference between output orientation, input orientation or degree of difficulty arose. There was also an interesting distinction between what makes for a normal process improvement as distinct from an innovative process improvement. In regard to the other areas, the type 2 supports the brand support, the scheme as it was originally required new brand names for new products. This was somewhat strange as it basically required existing brand names which had been built up over many years to be fragmented, basically thrown away, if we were to get the advantages of developing a new product, marketing it strongly and the brand support. This has been subsequently relaxed in the second year of the program.

In regard to market research the scheme provided for non-routine market testing, market development and sales promotion prior to production. Nobody seems to know precisely what this is. Some market studies were rejected, all the most similar market studies constructed in the same way by other companies were accepted. In regard to intellectual property rights, the scheme provided support for acquiring IPRs relevant to new applications, not the maintenance of existing property rights. In effect this was only of minor relevance to companies in the network. In short, type 2 has been subject to unpredictability, subjectivity, and has been extremely resource intensive. In regard to type 3, few issues have arisen but there are a number of queries around. Interestingly enough there's a query at the moment as to, is type 3 dependent upon type 1 and 2 or does it go the other way around?

To give some flavour of the complexity that arises out of these things there is now a process going through to determine how you appeal something to the department when AusIndustry doesn't recognise that they've rejected something. So that I hope sort of gives a flavour of some of the internal contradictions that's come into the scheme. Our experience with type 4 and 5 grants is quite limited. The experience that we had was in regard to a potential rationalisation of the components industry. Ultimately it couldn't proceed because the reconfigured - the ultimate reconfigured plant was going to be located in Melbourne. It was going to reconfigure a component plant in Geelong and Melbourne. As I said, it couldn't proceed because the most logical place to place it was in Melbourne. The end result of that was that the Geelong facility closed; 25 jobs were completely lost. The other company is still struggling.

In the second year there have been no appeals to the AAT as yet. This I think reflects the greater flexibility in the type 2 assessments. It reflects a significantly lower level of T1 amongst our network. What differences are now evident are basically attributable to or are being discussed as to what constitutes an independent cost centre for factories. There seems to be a distinction between stand-alone laboratories versus, you know, in most factories what we have are integrated development and manufacturing facilities. The effect of this this year has been to cut down the level of type 2 support by about 25 per cent. There has been some more flexibility but a cutting down of the quantum. Again, the same queries as to what is - is innovation dependent upon the output, the input or the degree of difficulty? On the basis of this experience and in line with the association's objectives to encourage and develop a world-class footwear industry based on intellectual development, efficient and effective sourcing supply and management and global remittances, we would suggest a number of minor changes to the scheme.

For type 1 we'd like to see the inclusion of second-hand equipment. This would facilitate restructuring and the amalgamating facilities. It would also facilitate access for emerging small firms to lowest cost, state of the art technologies, rather than requiring them to incur the higher cost, brand new equipment.

In regard to type 2 we would like to expand eligibility to cover expenditures that are more attuned to company development, that are less subjective and are likely to bring about company improvements, as suggested by the commission in its report. In regard to type 3, as capital increasingly replaces labour in the production process and in the product markets in which we work, selling prices are normally constant or going down. As a result of that, the level of value added as measured by the SIP scheme reduces. Our experience is that value added in sophisticated manufacturing plants can range from about 20 to 85 per cent. This problem we think is best dealt with by increasing the cap of the amount of value added able to be claimed under SIP.

For type 4 and 5 we'd like to see that simplified and one suggestion would be to replace it with the revised type 1 including this second-hand equipment and to introduce a regional uplift factor. We would like to reduce the 200,000 entry hurdle, the claims, to say 50,000. The current arrangements basically delay getting any money for up to five years, which penalises the firm with no benefit either to the economy or the industry. If we can introduce a more streamlined objective SIP scheme it would facilitate streamlined processing by AusIndustry as there would be less subjective judgments than is currently required in type 1 and 2.

We would like to suggest that the maximum claim should be for up to 5 per cent for up to $300 million of turnover. Basically if you are a big company with turnover beyond that, SIP is unlikely to fundamentally affect your strategic direction. It's more likely to be cream then so, as I said, we'd suggest the maximum claim should be for groups of up to $300 million - and I should emphasise it should be for groups, not individual companies.

We'd like to see a system of quarterly payments as in auto introduced. This would facilitate cash flows and would be the result of improving the scheme's level of predictability and certainty. In regard to modulation we know that it has basically already been effectively modulated with the final year now being the balancing item and that sort of approach should be continued.

In regard to the regional uplift we would like to introduce a factor to directly target regional disadvantages rather than intertwining the answer in other issues ie such as the current arrangement of type 4 and 5 where regional and reconfiguration are interleaved. The reconfiguration that is often trying to be brought about then is, we think, often strategically questionable. People are trying to fit themselves into fit the requirements of the scheme - doesn't make sense. In regard to the footwear parts tariff we'd like to see that reduced to zero immediately. This is consistent with the industry strategy that has been adopted by the industry for nigh on a decade. It's consistent with government statements for the last 10 years and why it has been overlooked for the last 10 years is beyond us.

We would like to see the tax concession for corporate apparel extended to cover footwear. This would provide an equitable level of taxation treatment for footwear along with apparel. We would like to see a ministerial allocation of up to $20 million a year provided to fund whatever other good ideas are generated out of the industry, basically from paradigms and sources outside the realm of the SIP scheme. This would basically be a facility to help firms, which I understand you've been talking to in the last week, such as Harolds, Bilbys and a number of other firms that we are aware of, who have good ideas and facilities but are unable to access anything under the current SIP.

In regard to restructuring and retraining, on equity grounds we don't consider that employees should be left to bear the full brunt of the changing environment. On efficiency grounds we're also keen to accelerate the restructuring in the industry. Therefore what we've found is that small companies can often regard themselves as being locked into the industry. Basically they can't get out because they can't afford to make the redundancy payments. Moreover in footwear we've found that the people involved don't want to leave their employees, who often have periods of service of up to 30 years, in the lurch by going into administration.

As such, we would suggest alleviating this burden on small companies that are looking to get out through facilitating the adjustment process by employees. In particular we would be looking for a separate TCF labour adjustment fund to provide funding to employees to provide income support for a predetermined training period such as three months. The company would therefore not incur their redundancy costs, therefore saving themselves a significant cost. The company would forgo the more flexible SIP that we're proposing or that we'd like to see. The industry and the economy would get a more rationalised and less fragmented industry. The employees would get income support while they trained for, hopefully, new jobs elsewhere and the structure would be improved.

A similar but lower level of support for companies could be instituted for employees of bigger companies. These are generally more substantive firms with the resources and the capacity to meet their obligations. In regard to dumping, the footwear industry's focus groups have revealed that Australian companies are often wary of reprisals from their customers if they lodge dumping claims, which are often the major retailers. They're also pessimistic of success in the Australian environment and they're reluctant to incur the cost basically without any prospect of recouping that in the future.

We understand the US market is a very different experience for, we think, a number of reasons. First up, the US market is less concentrated at the retail level. The Bird amendment gives prospects of cost recovery and finally the chances of success are much greater. We note that in Australia of all the claims lodged about 50 per cent of them have an affirmative preliminary finding of which 30 per cent are ultimately finally confirmed. In the US in comparison nearly 80 per cent of claims have an affirmative preliminary finding, of which 75 per cent are ultimately confirmed.

In other words, the chances of a dumping claim being successful in the US is almost three times more likely than it is in Australia. We can see a number of systemic reasons in the US approach to it compared to Australia and we think that Australia should be looking very seriously at similar sorts of measures, and that's really all the suggestions that we had.

MR EAMES: So just in conclusion, because I assume you've got a couple of questions out of that short little bit, the footwear position is such that we recommend another program for a further 10 years, key points being that we accept the duty reduction to 10 per cent in 2005. We believe it should be then frozen at that level until a review takes place at a future date, that review taking account of changes by our trading partners which reflect a similar level of duty to what we're setting out ourselves. As I think you will have gathered, in the presentation we've given you we have commented on your suggestions and options. But of the three options I think you've probably figured out that clearly we would like to see SIP continue but with some minor modifications.

Our comments on the other options are within the document but we can obviously going through that if you'd like us to. So in summary we're looking at 10 per cent through until 2015. We're looking for a continuation of what we call SIP with some minor modifications to make it reflect more how the industry currently runs and we would like to see that funded to a similar level, as is current through for that period. We believe we do need some active support from the federal government on improved market access. I know it's a difficult area and it's always one where it's very hard to prove what's working and what's not, whether it's our own fault or whether it's systemic of the system. But we believe it still needs to be re-evaluated and looked at in some more depth. Zero duty on footwear components would obviously assist a sector of our industry very dramatically and that's, in large, our industrial footwear markets.

Finally, we really believe some sort of true restructuring that assists in the labour adjustment would be of great benefit, short term and longer term, to not only the industry but the economy. So apart from that, commissioners, we would like to thank you for this opportunity to present our position to you.

DR ROBERTSON: Thank you. We've spoken to quite a number of people in the footwear industry recently and certainly there's clearly a big problem with parts. A number of quite well-known names are having difficulty finding parts. So you might have a whole business there. But I do appreciate that you would have to look carefully at just continuities in different kinds of soles and what have you that would be needed. The first thought I have is that clearly the industry is going through very severe rationalisation. I wonder if in a few years it won't settle down a bit with you playing a key role, in which case you would be quite nicely set.

You know, it seems that there are so many changes going on in the industry that it will rationalise I think. It will obviously be smaller than it was but it will rationalise. One of the problems is really, as I see it, how you market your product - and I'm not poking my nose into what strategies you use but clearly those shoe prices indicate that the "rational" consumer would tend to buy Australian shoes at those prices since they're so comparable. So is it something to do with the marketing of the product, is my question.

MR BUTT: Our feeling would be I think our marketing could always be improved. I think though that the major problem if I was a retailer still is the issue of the sort of margins that I can receive from a Chinese or a Brazilian pair of shoes as opposed to an Australian shoe, and for us to be - the problem is a retailer placing value on the fact that his stocks can be replenished within a week, that we can supply the right colours, the right styles extremely quickly, and unfortunately I suppose the pressure that retailers have had and anyone in the TCF industry that markets their product to either a small or a large retailer will tell you, the predominant strategic issue that is in a retailer's mind right now is the margins that they receive. That is the thing that they want. They will sacrifice quality, they'll sacrifice product. Margin is the critical thing.

But there is an issue of marketing in that. To answer the previous statement or issue that you raised about at some future point that rationalising, slowing down, the concern I've got is that at the moment there is so much excess capacity in the major shoe making countries around the world with the Chinas, the Brazils, the Indonesians, that what they could do, the effect of that on the domestic manufacturing is frightening. It's incredibly scary. Where 12 months ago - and again our brand, we import some shoes; it's a balance. But I was speaking to - one of our guys is currently in Brazil looking at factories. They've halved their lead times and where in the past some of those factories would be talking minimum 20,000 pair orders, they will now take 1000 and 2000 pairs. There is that much capacity, particularly in the larger countries it's frightening, absolutely frightening, and that's the concern I've got, is that can we all hang in there for the next two, three, four years.

MR WEICKHARDT: I mean, given the situation, Phil, and the trend you remarked upon in the UK and the USA, which aren't always reflected here but quite often are, you talked about giving the industry time to adjust to its new vision. But is there genuinely going to be a new vision? Are we going to have it in industry here? It sounds very unlikely to me.

MR BUTT: Yes, it's a tough question. We've always tended to try and take a positive view on that and I suppose we've always looked to our larger retailers to provide the sort of support and to do their numbers and say, "Well, I know I domestically produced product I don't need to sort of lay my entire range down on. I could buy a quarter of my seasonal requirements." Placing a value on that versus having to place their orders on China six months in advance and paying up-front and not knowing whether boots are going to be big this season or red's going to be big or whatever, that balancing that I suppose we've looked at and we thought that they will make a logical and rational judgment about buying domestic or having a balance between their domestic and their imported product hasn't, in a sense, gone the way that we thought and I would say there will always be a shoe making industry, but I think import penetration - it will be similar experience to the US and the UK. There'll be, you know, one or two per cent of the market will be supplied locally, and it will be either very expensive footwear or it will be orthopaedic - I know you've heard from Bilby Shoes - and the sort of product they supply. It will be that sort of thing and it will be very expensive and it won't be that good, either. It will be a bit average, but people won't have any choice.

MR WEICKHARDT: Is removing the tariff on parts (a) going to affect - I mean, you said that it's now very difficult for anyone to get parts. I guess it sounds to me like removing the tariff on parts might help some guys who are buying parts, but at the same time, wipe out whatever parts and components business is left in Australia. I don't know what is left.

MR BUTT: That's the issue; that there is - from a parts point of view - when we talk parts, we've traditionally talked - the major value is in the shoe upper, so it's the cutting and the stitching where there is a reasonable amount of labour, and that's where some of the parts of - or have been of a big advantage, particularly to the safety boot market, where the fashionability of the upper is not a critical thing like it is in fashion. The styling isn't as great but the technical specifications that the safety boot people need to put together is still very demanding. But a lot of those specifications are in the construction of the boot - not so much in how the upper pieces go together, but it all comes down to things like the toecaps, the soleing materials, the lathes that they use. Those are the critical things, and they're the things that they're saying they need to be able to do that sort of stuff locally. But they can get an upper in from an overseas company.

MR EAMES: I think if I could just add to that if we had a perfect world we'd only be asking for a zero duty rate on footwear uppers, but currently the harmonised tariff covers both together, so it's all footwear components are in one category. Ideally, perfect world, we'd be sitting here saying, "Give us a zero duty rate on footwear uppers and leave a, say, 5 per cent duty rate or a 10 per cent duty rate on footwear components, being bottom stock." Bottom stock is what we're talking about here, of heels, soles, insoles, that sort of thing. We haven't asked you that only because there's no such category.

MR WEICKHARDT: Can I change the subject slightly? We're about to hear a submission from the Sporting Footwear Shoes Association, that no doubt you are familiar with. You probably read their original submission. Can we have your reaction to that, please?

MR EAMES: I can give you a rough one. We've had a couple of discussions over the phone; I haven't actually read their submission. In my view it's a little bit naive. It's a request, as I understand it, they're talking about if it's sporting footwear and therefore not make in Australia it should have duty-free entry. The current situation is that there is an allowance from the excluded goods schedule that says if an item is sporting footwear and it comes into the country with some protrusions from the soles, being sprigs, stops, cleats, basically things that can interpret you couldn't comfortably walk down the stairs here and out the front door without hurting yourself, there is a provision there and they apply for a TCO and 95 per cent of the time they will receive a TCO, based on that. To me it's being a bit mischievous to sort of go from that to saying, "If I call something sporting footwear I should be allowed to bring it into the country duty-free and it doesn't necessarily" - or they're not even, as I understand from Denis Gilmour it doesn't have to have a question of substitutability of, "Could it be used as a casual, could it be walked down the street?" And that's, to me, just not fair, it just sort of defeats the whole purpose of why we have a specialist sporting footwear section and we have a section that talks about non-sporting footwear, being excluded footwear, which is under tariff rates.

MR WEICKHARDT: Who of your members would be injured by such a change?

MR EAMES: Well, everybody.

MR BUTT: Can I make a comment there? I think the issue about sporting footwear - and if you look at some of the fashion trends, we now have Gucci making $1200 supposedly sporting shoes and there's a current trend in the market at the moment to move for those high-end fashion manufacturers to be making sporting shoes. They are not sporting shoes; they look like sporting shoes, they smell like sporting shoes, but they are really a fashion item and I suppose I would be concerned, even in our marketplace. We make casual shoes, so we don't only make shoes with heels and, you know, high lasts, but we make casual walking shoes. The substitutability between a casual walking shoe that has some fashion content to it and a pair of Nikes or Reeboks or Adidas that have a very similar functional performance, they're interchangeable, they are interchangeable, I have no doubt about that. They would hurt us.

MR EAMES: I just don't know how you can separate them.

DR ROBERTSON: Okay. Thanks for the comments on the SIP, Geoff. I mean, there are so many comments that we've had that it's going to take us a long time to sort our way through that. One of the things you say in the submission is that - and you accept what's going to happen in 2005 and you want 10 years for the SIP instead of the eight we had in the position paper - but I notice you call for a review before any further changes are made. Now, one of the problems that we have is that the current scheme was meant to be the last and we feel it incumbent on us to make ours the very last and the prospect of providing certainty over a decade and then having it reviewed after five, six, seven, eight years before the next stage is making it a continuous process and that's why we haven't thought about putting in another review. Now, I think that's safe because I'm sure if something catastrophic did happen between now and 2015 any government would say, "We need to review this." So I'm interested why you think it needs to have it written in to our recommendations that there should be another review.

MR O'LOGHLEN: I suppose the thing that we're looking at here is that we said the review should basically look at to see whether or not significant progress had been made in improving market access around the world and we suggested that the measure of that should be whether or not a certain proportion of trade was at a tariff level equivalent to what applies in Australia, ie, if 85 per cent of world trade in footwear incurs a tariff of 10 per cent, then we'd say everybody is pretty much on a level playing field and we could countenance some further tariff reduction. It basically sort of puts up as a bargaining chit with the rest of the world, "You come down to our levels of tariffs and we will go further," rather than going first, saying, "We're going to bring it down regardless of what you do." Strategically we'd rather see that position, with most of the world at around 10 or zero, than us being at zero and five and the bulk of the world being at 10, 20 plus.

DR ROBERTSON: Yes, but there is a link between tariffs and SIP and the reason the adjustment package is there is because the objective is to reduce tariffs to the manufacturing average which currently is about five. So, I mean, any attempt to sort of hold up tariffs would seem to me to be a reason to reduce SIP.

MR O'LOGHLEN: I suppose there's probably a couple of things there. If there was a link between tariff and SIP the question of, "Well, how much money is sort of incurred through the tariff," you know - "Should that therefore fund SIP?" - which would, I think, be a much greater number than what SIP currently pays out - should logically, I think, come into play. Secondly, the fact that there's a link between tariffs and trying to encourage desirable behaviour amongst the rest of our trading partners to give the industry more chance of being able to succeed internationally.

DR ROBERTSON: Do you think they listen to us?

MR O'LOGHLEN: Well, the fact that that's what they ask for when they come here to talk to us as to what they want out of trade negotiations, suggests to us that at least they're paying attention to what we do. As we see it, the negotiators for other countries, whether it's in bilateral talks or whether it's in multilateral talks and they say, "We'd like to talk about Australian footwear levels," they are representing the interests of our competitors overseas and they're effectively asking us to reduce our tariff levels without any commitment from them. Now, the fact that our competitors are asking us to make us incur a cost voluntarily, without necessarily any payback or recompense to us, makes imminent commercial sense from their side and we'd probably do exactly the same. But it doesn't make imminent commercial sense for us to say, "Yes, we'll do that. Here's a gift, you please give us a gift in five years."

DR ROBERTSON: Yes, but in order to keep - well, I shouldn't go on with this.

MR O'LOGHLEN: Come back for a beer at 6 o'clock and we can have a long discussion.

DR ROBERTSON: All right. I'm now bowing, I'm backing off. Okay, well, look thanks very much. I think that's all, Philip.

MR O'LOGHLEN: Thank you.

DR ROBERTSON: Dennis, you know the procedure.

MR GILMOUR: Yes.

DR ROBERTSON: Just an informal presentation and we'll then chat about the points you raise. Just announce who you are for the record.

MR GILMOUR: My name is Dennis Michael Gilmour of Dennis M. Gilmour and Associates, tariff and trade consultants, of Mugga Way, Canberra, ACT. This evidence has been presented on behalf of the Sporting Footwear Importers Group. I did make four requests. I'm somewhat concerned that the FMAA saw fit not to read my previous submission to see what it was all about, even thought it was on the Internet so it's difficult for me not to read what I'm seeking because it's for their benefit. I'm seeking the implementation of duty free rates of duty and the customs tariff on sports footwear which is currently duty free under tariff concessions. The implementation of duty free admission of sporting footwear, which is currently dutiable at 15 per cent ad valorem of which there are no Australian manufacturers, and I might add that there is no disagreement here. Pacific Brands agreed that's the position and I think the FMAA would also agree.

I sought the removal of TCF products from the excluded goods schedule, and if the commission saw fit not to grant AMB at my request, that sports footwear and sporting footwear be dutiable at 5 per cent ad valorem in line with protection accorded other manufacturing industries. I believe that what I'm seeking is within the scope of the commission's terms of reference and I hope that what I'm seeking will be seriously considered in that regard. You have asked me to pick the eyes out of this submission because time is running away and I'll endeavour to do that. On the question of parts for footwear the FMAA represent parts manufacturers as well as footwear manufacturers. I've got no objection to the duties coming off parts but I do see a problem in deciding how it can be done. Again, if the FMAA is seeking this course of action it certainly puts what I'm requesting right in line with that direction.

You asked for comments on dismantling the EGS scheme. I just want to say there has been an EGS scheme in operation for over 50 years. It's only in recent years has the government saw fit to tie this down to the Customs Act. It's very much the same as it has always been in existence and the Customs Department administered it very well. I believe we could do away with the EGS system altogether and it wouldn't impact on customs; anybody applying for such action or Australian producers. It has outlived its usefulness in my opinion. I do say that the pursuit of tariff concessions is of less significance now because the maximum duties are 5 per cent ad valorem except in TCFs and motor vehicles and parts. It's not the urgency any more to seek tariff concessions because all it means is a reduction of 5 per cent duty to 3 per cent as you are well aware.

There are many cases where local manufacturers pay this 3 per cent on their imports such as motors et cetera and are forced to compete on equal terms with fully assembled goods which are duty free in their own right so it is iniquitous to have that 3 per cent duty and I hope that is part of your final recommendation. Getting down to the call of our argument, a tariff concession will be granted provided substitutable goods are not produced in Australia in the ordinary course of business. Now, they're simple words but they're capable of having a very powerful meaning. Substitutable is defined as "goods that are put up or capable of being used to a use that corresponds with a case to which the goods are subject of the application or the TCF can be put."

Now, "correspondence" in terms of the Oxford Dictionary means "equal to or similar". Now, certainly there is nothing produced in Australia that can be regarded as substitutable. We've seen J. Robinson which is, in my opinion, one of the leading and best known and more professional footwear manufacturers we have in Australia. It disturbs me that they're having hard times but, whilst I agree with most of what they say, I can find it hard to come to grips with ladies' fashion shoes being substitutable for sporting footwear. Whilst it doesn't correspond what we import and what the local industry produces, not substitutable, there is a section of the act which says it's irrelevant whether or not the goods compete in any market and that's the problem that we've got.

I did ask the association would it have any objections to the ordinary rubber thong that you wear down to the beach to stop the balls of your feet from being burnt on the hot tar and it said it would object because a shoe is a shoe. I think that's 20th Century thinking and I can't go along with their attitude. I'm not being frivolous or tongue in cheek when I apply for these things as it was inferred but I do feel a bit sleighted that nobody has taken the opportunity to read my evidence. In my evidence I said at great lengths that tariff concessions are in place on various commodities where - and I picked grass shears as being just simply one and screwdrivers and pliers and you will notice that there are several pages of tariff concessions applying to those goods where one must ask oneself, "Isn't a plier a plier? Isn't a screwdriver a screwdriver? Aren't they substitutable? Why are those tariff concessions in place?"

I'm reading this with one ear. I've got to say that the city brands too went halfway towards agreeing with me on one half.

MR WEICKHARDT: You heard the answer to the question?

MR GILMOUR: I heard the answer to the question but I don't think the question that was asked of it was deep enough because it's my belief that Pacific Brand's - one of the problems when you talk about sporting footwear, there is so much imitation sporting footwear imported. When I talk about imitation sporting footwear it's the sort of footwear that you buy at K Mart and Woolworths that retail for around $20 a pair. Now, that's comfort footwear. It's not sporting footwear. You don't use that for cross-country running or basketball or playing tennis and things like that. I understand that Pacific Brands has a foot in both camps but what nobody has picked up or used the definition that we have of "sporting footwear". Now, that definition does specifically tie down what we mean by "sporting footwear".

It's all very well for Phil to say that people will adapt their footwear to fit the criteria to make a sporting footwear but I say to you that they wouldn't, and they can't, and I have a sample here of what is sporting footwear and that's the mid sole and look at the construction that has gone into that, and the sole, the technology there, and the trampoline heel that bounces when you run et cetera. So no manufacturer of $20 footwear could ever introduce changes to his footwear economically to meet the definition.

MR WEICKHARDT: Dennis, can I ask a question? On page 6 of your submission, your latest submission - - -

MR GILMOUR: That's why I say "the end".

MR WEICKHARDT: "I ask myself why should sporting footwear importers bear the brunt of 15 per cent duty plus 10 per cent GST when there's no local industry to protect?" Is that your major concern, that sporting footwear importers are bearing this brunt?

MR GILMOUR: Well, indirectly it's the consumers that bear it because it's a very competitive industry and if the 15 per cent was removed the consumer, by nature of the beast, would be the beneficiaries. As a matter of fact - - -

MR WEICKHARDT: You're confident that that would be passed on, are you?

MR GILMOUR: I'm more than confident because probably what it would do is to - they all compete with each other and it is a price and a quality. They try to outdo each other in terms of new features, yes, new innovations and things like that. I think that the - this is why we're here together as a group, to seek the removal of duties, and in doing so we don't hurt anyone.

DR ROBERTSON: I think the position is this, of course. We're only making recommendations and what we're asked to do is provide options for the government and this really falls - I know you think it falls within our terms of reference but all we can do is draw it to the attention of the customs because they're the people that deal with this. It would be wrong of us to go trampling across their territory and say, "You should do this," but we can bring it to their attention that there may be an anomaly here.

MR GILMOUR: I don't think it's a customs matter. They only administer the tariff. They're not the policy makers.

DR ROBERTSON: Yes, but nor are we.

MR GILMOUR: Well, your recommendations go to the government and they carry a lot of weight.

DR ROBERTSON: Yes. This one is very difficult though for us to deal with. It's a very technical matter.

MR GILMOUR: How would you attack the FMAA's request on removing duties on parts?

MR WEICKHARDT: Look, Dennis, I think all we can say about the whole thing is it's complex. We'll get to the end of all these submissions. We note them all and we'll take them into consideration.

MR GILMOUR: Okay, right. You're suggesting 5 per cent on footwear post-2010, isn't it?

MR WEICKHARDT: Yes.

MR GILMOUR: I'm asking that you bring that forward, particularly for footwear where there's no local manufacture.

MR WEICKHARDT: Okay. We understand what you're asking, you've made it very clear, and we'll take it into consideration.

MR GILMOUR: Okay. Then there isn't anything else that I would like to add except I would like to make the point that the question of substitutability is very important to the whole case and if any injured manufacturer is being hurt because of imports, he has got three courses of action available to him. He can ask for tariff increases which he has got no chance of getting. He can ask for subsidies or some other financial assistance, and unless he's at Kodak he has got no chance at getting. He can ask for dumping action which, as the previous witness said, that's very difficult to get. And no injured party would get their foot in the door unless the product that he's talking about is substitutable to the one that is being imported, to get the end market, and this is what - we're talking substitutable products.

MR WEICKHARDT: Yes, sure.

DR ROBERTSON: Thank you very much. Thanks, Dennis.

DR ROBERTSON: Can I say a few words before you start?

MS BURROW: Of course.

DR ROBERTSON: Since there's a lot of people come into the room, let me just say that we run these hearings in an informal manner. In other words, you and I can have exchanges.

MS BURROW: Absolutely.

DR ROBERTSON: We don't like comments from the audience because they don't go onto the transcript. So any calling out is pointless, it's not on the public record, whereas what passes between us does go on the public record. If anybody wants to stay till the end of the afternoon to speak, I will offer an opportunity for them to come up and do so, but otherwise the discussion is between us. Now, Sharan, I know you're aware of this, you've done it before. Would you like to make a few key points and maybe raise issues with us?

MS BURROW: I would actually, because this is a critical industry for us. The workers at the back are actually people from major and some smaller TCFUA industries. In fact, if I just pick up on the conversation I had about Pacific Brands, we've got a number of delegates from Pacific Brands. You will find that these workers are really loyal to those companies, and we want to retain those companies in Australia. Of course, despite the fact that we might have the odd industrial dispute with them, these are vital industry pieces for, we think, a sustainable future.

So I want to make a few comments, because I have to say that I think there is a fundamental difference in our perspective. We think that the TCF sector has a viable future and if the political will was there, there would be no doubt about that. We're worried that the Productivity Commission has written off a future for Australian based TCFUA industry here. I don't say that lightly, but when you look at this draft recommendation on tariffs, there's no doubt in our mind that it will undermine the maintenance and growth of the industry, and an industry where, despite our discussions in a parallel industry, the car industry, we would argue there is not an equivalent plan. There is no sense of commitment - broadly, politically - the TCFUA industries. You can sit down however with government, with industry, around the car industry and there's a commitment to the plan, while we might argue about levels of subsidy and tariffs and the like.

It seems to us that the issue that we've got to recognise - that the TCF sector is not only of crucial importance to retaining the skills of this industry in Australia, as we're rapidly exporting not just the jobs but the skills base, but it's also of critical importance to regional and rural Australia. We will see communities decimated in very serious ways if we can't arrest this trend.

We actually think that the proposals here, if they were implemented - including some changed circumstances around the current legislated changes for 2005 - will simply accelerate the export of jobs. We're not sure that the gains - in fact we don't believe that the gains in lower prices, as we've just heard and so forth - well, of course we're not opposed to import where there's no product being made in Australia. Nevertheless, we think the benefits both to the consumer and to the economy generally are overstated.

So I suppose I want to make a few positions. I think that for us the paper has actually failed to make a cogent case. It hasn't produced evidence that would support further reductions in tariffs and it doesn't take account of the current situation in our own region, which has changed dramatically since the legislation went through parliament that would see the 2005 changes. If you - and I'm sure you do - but if you visited some of the Asia Pacific nations, just to name two for me in the last two weeks, Indonesia and Malaysia, you talk to the equivalent sectors there, there is a huge concern, having not reduced tariffs themselves, they're still seeing China suck in the manufacturing base in the region. While there's not much we can do about the size and the growth in China, we can actually acknowledge that the industries are even more fragile than they were at the time of that debate in our parliaments, and previous reports of course from this commission.

I want to particularly pick up some of the costs. The modelling done, we think, is very shallow. I understand how difficult it is and I don't mean to be offensive. It's not about competence. It's actually about the research depth that's there. But even if we accepted it, then we're talking about a benefit of one and a half cents per Australian per week, 75 cents a year, as opposed to a trade-off of virtually all of the industry base we know as the TCFUA sector.

So without even going to the fact that in at least one instance the initial modelling results showed a net loss in wealth arising from the simulation, even if you accepted the benefit that's supposed to accrue, then you would have to have a debate in Australia that went like this. If you actually asked Australians if they were prepared to give up one and a half cents or 75 cents per Australian per year to save jobs in this sector and to retain the skills base in this sector, then I've got no doubt that the referendum would be on the positive side. So we just think when allowance is made in the modelling for terms of trade effects, the possibility of reductions in community welfare cannot be eliminated.

Your model incorporates the assumption of labour market clearing, which is to say full employment. In these models, workers displaced from TCF industries find alternative employment in other callings immediately or within a few years. It's actually at odds with the longitudinal studies as we understand them. Independent studies find that one in three displaced TCF workers never finds another job and one in three only ever attains part-time or casual employment. The social cost of that, again for 75 cents per Australian per year, seems to us to simply be too high.

I think it that the report goes to inordinate lengths to support its prior view - and it is a prior view - that TCF tariffs should be cut. I think if we actually had taken a slice of the economic context in the region in particular and had another look at the fragility of the industries here in Australia then you would have got a different approach. But again it comes back to the fact that we've really got to have somebody with the courage to recommend the political will that should exist if we're to make this sector sustainable.

I suppose the context in summary for that is that Australia's tariff rates are already relatively low, even at 15 per cent. They're well below the rates applicable in the USA and of course particularly that country where non-tariff barriers applying to TCF goods are not even identified in this report. We think that's another shortcoming of the report. We know all too well that the reduction in tariffs in a lot of industries is all too often accompanied - and I know you're frustrated by this as well - but it's accompanied by an increase in subsidy to those industries or non-tariff barriers. Of course, from our perspective, on behalf of cost-effectiveness of labour, all that does is transfer the cost to taxpayers, whether it's in our country or internationally.

So we actually think that if we're assuming that - well, we don't think, we know - if we're assuming that other countries would respond to a decision by Australia to hold tariffs at the present level by failing to reduce their own tariffs, well, the truth of the matter is the case is in. There has not been significant change in our trading partners in regard to this matter, and we think that's a major omission from the report as it currently sits. I've already talked to you about the competition that's emerging from China, and you've got industries much closer to China than ours in geographic terms with low cost labour sources who are still finding the export of jobs a trend they can't control.

We actually think in effect Australia policy simply allows us to become hostage to what other countries do, rather than driving a plan for the industry by a sense of what's in the national interest. We do think there's an ambiguity in the report, as far as Australia's domestic market considerations are concerned. If you think about application of a cautionary principle in this context then it would have to weigh heavily against further tariffs cuts at this time. A unilateral decision by Australia to reduce TCF tariffs, such as recommended by the Productivity Commission, we think will simply cancel our stake and deal us out of negotiations on TCF measures with other countries, especially, as I've said, those in our own region.

It would appear to us that the report does rest on underwhelming quantity of support for recommendations that don't tell the whole story. We think with the quantity of projections so finely balanced, that benefits and costs not encompassed in that modelling become the key consideration. The report only cites benefits that are not captured in the modelling to the extent that it talks about competitive pressures to improve productivity, quality and financial delivery, with performance to innovate and to look for new markets.

You do list costs which are not captured in the model, including closure of regional infrastructure, reduction in property values, the loss of self-esteem and family dislocation. But we don't actually think that's translated into the recommendations, which are about saying why it would be important to look at how you maintain these industries, rather than simply acknowledging that that's a consequence.

I just want to say a couple of things about TCF restructuring, particularly the SIP program and so forth. You argue that further restructuring is inevitable. We actually agree with that. We just don't simply happen to agree with the way in which the restructuring is proposed.

You talk about it needs restructuring - the labour intensive parts of the Australian TCF sector. Well, it might actually be that if we had a better plan for the industry and we looked at technology upgrades and skilling, then you could maintain jobs by driving growth. We just don't think that's happening. A lot of the companies in this industry are too small to invest in technology upgrades and skilling that gives us a competitive edge. We would argue, as we've done in the manufacturing sector, that if we're going to drive innovation and therefore spin-off, in terms of skills and growth potential, that we have to look at a plan where technology upgrades are shared, where skills development is seen to be part of the plan and where we can support niche or innovative company initiatives.

So the question is not whether structural change would continue. We think it will, irrespective of whether Australian tariffs remain at the current levels. The question is rather about the survival of a critical mass of productive capacity. I don't have to argue with the Productivity Commission, who knows all too well that if you don't have a critical mass of productive base in an industry then you may as well write it off in terms of any significant influence in either jobs or in communities in regard to growth, and of course GDP over time.

We think that SIP has proved necessary and crucial since 2000. We think it's vital that a similar scheme continues to provide restructuring support. But we would certainly like to see it more closely targeted with a plan for the industry, and we would like to see the industry come together much more closely with government and unions in order to make that possible. I know from my own work that this industry does not get the concentrated effort and attention that in fact you get with the equivalent area of the manufacturing or the automotive sector.

We think that the operation of the scheme should be reviewed and revamped for the post-2005 period. We would like to support those issues outlined in regard to this in the TCFUA submission. There should be a direct link between SIP assistance and employment. We should not be using that funding to simply facilitate job cuts. We think that companies receiving SIP funding should be required to behave in an appropriate ethical and legal manner. The current bias in the scheme is in favour of large enterprises and against smaller business concerns. We think that should be redressed by reducing the $200,000 threshold. Compliance costs to access the scheme should also be addressed and there should be greater flexibility in the definition of innovation. We reject absolutely the draft recommendation that this should be reduced and can't understand why it would be there, given that everybody understands the volatility of the sector generally. If there's an argument for better targeting, let's have a look at that. If it's seen to be more viable in terms of sustainable futures that we target it more specifically then that's a different argument but we would like to sit down and talk about those details.

I have to say, we do find it repugnant that this industry development scheme should be provided in part to help companies close their operations and move offshore. We just can't understand why you would have a development scheme that actually is supposed to look at assistance to restructure but in large part it's been increasingly used to help companies move, as I've said, jobs offshore. In other words, if we're going to look at labour adjustment programs then let's keep it separate. Let's be focussed about what it's for and let's not confuse the two. I suppose in terms of labour adjustment programs we believe that targeted assistance is more effective than general assistance. It's vital to the success of the programs that workers be assessed prior to leaving the workplace so that we can increase the chance of sustainable employment. There must be some trust between the workers concerned and those delivering the program and clearly paid training is critical to displaced workers who have no other income.

We urge you to look at ways in which you could get the industry generally to be more receptive and more responsible in this regard. Most companies know that they're going to have a period of operation during which they should be planning to support workers. There are alternate programs available of course and we think the worker-assisted programs run by the Victorian and Queensland government are a good starting base. Finally, can I simply say a word about accrued entitlements. This sector would break your heart really when you hear the stories of workers - as it does for our union members and their - our union officers and their members every other day. It is absolutely critical that for predominantly low-wage jobs that entitlements are guaranteed; that they're seen to be secured and that people are supported to move onto other employment where that's necessary.

The issue of accrued entitlements won't go away. We need a systematic solution which protects workers to the full extent of their potential loss and we would ask the industry to start taking some steps in regard to education of employers in that sector about their legal responsibilities. The only final comment, I'm sorry, is really about outworkers and we just think that your estimate of the full-time equivalent outworkers grossly understates the head count in this part of the sector. Australia - whatever Australia maintains are minimum standards approach to this and doesn't pick up the international standards in the Home Work Convention, doesn't look at the sort of general legislation developed and being implemented in New South Wales, that the undercutting of those standards will continue despite the fact that it's contrary to the spirit and often the letter of the law.

We think it's just reprehensible that a government agency, where we meet from taxpayer's funds, the costs of this operation, cites as desirable flexibility the section - and I'll just quote:

> A means of avoiding payroll tax that would be payable in a factory setting and effectively transferring costs such as superannuation, workers compensation premiums and some machinery costs to outworkers.

I know you're actually stating what happens but it's not followed up with the kind of recommendations that would make it clear that something needs to be done to prevent this from continuing to be a way in which you flaunt legal standards in this country. I would argue moral standards in regard to the way in which working people who still help to make the profits for this industry are treated. It is not about flexibility. This is about rorting and that's the difference, from our perspective. We think it's socially obnoxious. It's a practice that barely is within the bounds of a moral framework, let alone a legal one, and is in the same league as tax evasion and should be outrightly condemned by the Productivity Commission.

The Home Workers Code has been in existence since 1996. There has been plenty of time for self regulation to work. It hasn't worked. It won't work. We know from international as well as national experience that this is just really about providing a deregulated environment where it is families in this country, working families, who are the victims of a practice that's about driving greater productivity and profit. So we would ask you, if you can't bring yourselves to recommend new regulatory measures then at least let's see some recommendations about better enforcement of existing awards and industrial relations legislation. I suppose we're really pleading with you to take some moral responsibility for an area that is about the decency of our country. It exists; there's a legal framework. We should make sure in all of our institutions that it's recognised and reinforced.

So there's no secret. We don't think that given the changes in the current regional environment that tariffs should remain - we think that they should remain unchanged pending a further review in 2012 and we think the SIPs program, subject to review, should continue to be funded at least to current levels, but please with a more targeted approach in regard to looking at how we grow the industries, how we up-skill and implement technology to see that national and international contracts are not lost. Further to that can we ask that you do really give serious consideration to separating the labour adjustment programs which of course are required to facilitate restructuring and minimise distress but they should be separated from an industry subsidy that is about driving, we would hope, sustainable futures and not simply falling into the trap that we think the government certainly believes and that is that there's no real future for TCF industries.

DR ROBERTSON: Okay, thank you. There's a lot of ammunition there. The first thing is, I thought you might have given us a pat on the back for putting those modelling figures in because they didn't do us any good so in terms of honestly we deserve some credit.

MS BURROW: Yes, I'd buy that. That's fair enough, David. In fact, at least it does provide a debating point but we would urge that they be picked up, I suppose, in the context of the economic nonsense that they make of some of these recommendations.

DR ROBERTSON: Yes, the trouble is, as you are well aware I'm sure, models are not anything like reality and the results of that modelling arose because in order to close the model they had to have a particular level for export demand elasticities and I've been fighting against this ever since I saw it. But anyway, that's merely by the by. I mean, the numbers - you chose to use the weekly rates. Michele O'Neil chose to use the annual rate, none of which make any sense to anybody so, you know, the model is a difficult area. I did talk with Michele twice, both in Geelong and in Melbourne, about having another look at the system perhaps for labour adjustment.

MS BURROW: That would be terrific.

DR ROBERTSON: What I said there was that we read very the TCFUA's submission, as we did all the others, and the Life After Bradmill approach was clearly much better than the labour adjustment programs and we're going to have a look at those again to see if we can't make that better. On outworkers, well, we realise it's a very sensitive issue. We can't ignore it. We tried not to ignore it. What we had there was full-time equivalent of 25,000 which is like 75, 80,000 people actually doing it. So that's perhaps not such an unrealistic figure. Nobody knows really.

MS BURROW: Well, we think the child labour that's hidden in this sector is enormous and we can't get a handle on that.

MR WEICKHARDT: We have sort of, I guess, made explicit the way we derived those numbers. If you've got another, sort of quantitative method of trying to get a handle on that, we'd be delighted to see it because we've made our best shot at trying to estimate what full-time equivalents are. If there's some other methodology that you believe in we'd be delighted to have a look at that.

DR ROBERTSON: Absolutely. On entitlements, well, as you saw, I mean, we think it's too big an issue for us to handle, along with everything else, and we will recommend that there should be a salary review of entitlements across the board, not just in this sector alone.

MS BURROW: Even an educative recommendation, David, around the responsibilities of directors. I mean, I know this is a really difficult area but, you know, company owners, company directors where there are boards of management, our increasing frustration is that people take on these jobs, particularly in these more vulnerable sectors where by and large, apart from a few of the major companies the profits aren't significant, they're managing if not a family business then a slightly extended family business, and the lack of knowledge around director responsibility we just think is enormous. We've got to do something about it in the interests of their legal protection, but of course from our perspective the entitlements of our workers.

MR WEICKHARDT: Sure. I mean, we totally understand, given the case histories that were quoted, that your members have every right to be concerned about that. But it's an unhelpful situation I think for everyone that the consequence is some of the larger employers who I think have acted responsibly, would say as a consequence of that they're the people that take the bruising and the debate, rather than in an industry that's vulnerable where, really, every ounce of everyone's energies ought to be directed towards, how can we make this better and survive in the future so that we can pay sensible salaries, so we can up-skill people and so we can have a competitive industry - where you desire every ounce of everyone's energies directed that way - instead, at some of those larger companies, there's a fight about entitlements. We just wanted to see if - - -

MS BURROW: Well, you know our views about that. I mean, industry can't have it two ways. They can either pay some sort of levy which is shared right across the industrial framework, not just in this sector, which is a relatively small amount of money as - I don't mean insurance literally but metaphorically speaking insurance, or we need to make sure that this money is put aside on a payroll basis. That means a fortnightly basis, a quarterly basis at worst.

MR WEICKHARDT: Well, we just wanted to see a circuit-breaker here because we just felt that at the moment there's unhelpful diversion of energy.

MS BURROW: Look, I accept that and I think that even if we could get a debate about options we would be a step ahead. It's not our will to break the industry. We actually understand that profitable industry means jobs and it means investment and it means growth. We're in this together but we cannot stand back and watch, you know, industry just abdicate its responsibility for this and we say to them let's find the cheapest possible means for you to guarantee these most vulnerable workers their entitlements and we'll stand with you.

MR WEICKHARDT: Sharon, you mentioned during your address and in the conclusion also that your desire to work with the industry on better targeting of SIP money, and I think we'd all say, well, hallelujah because that's what we're all struggling with. There's not a lot of SIP money in total. I think if you spread it across the whole industry it amounts to something like 1.5 per cent of sales and that's just not going to make any difference at all. So the question is, how can you spend that dollar of taxpayers' money to get a really beneficial and lasting effect to the industry? If you've got some ideas about how it could be better targeted to get a better end effect then we would love to hear it.

MS BURROW: Well, I'd like to sit down with that. You know that I'm far more sort of knowledgeable about the automotive sector than I am about this industry but it seems to me that if you compare the two and look at the way in which we've had serious commitment from all players to retaining a car industry in this country and a car component sector, vis-a-vis this industry where I genuinely believe that apart from a few of the bigger players in the industry themselves there's no - I say political but I mean community will across the parties to actually find a way through and yet when you look at some of the sophistication of the skills base there's no reason why we shouldn't be confident about, at least in certain sectors, growth in the industry. So it isn't enough money in my view but at least if you can recommend that we at the very least retain it, it could well be mixed with other sources of funding such as, you know, R and D technological capacity for the vet sector to look at where we can share technology and invest in skills development jointly, so I don't pretend we've got the answers, but we're certainly willing to sit down and be part of the mix.

DR ROBERTSON: I don't want you to think we do think the industry is in its death throes.

MR WEICKHARDT: In fact, there's some terrific stories.

DR ROBERTSON: Yes.

MS BURROW: There are some good stories and it's good that you say that, David, because you wouldn't even, reading this report, overall you would not get a sense that it isn't really about saying, there's a trend towards, you know, sort of reduction in the industry down to a point where you'd have to ask, is it viable? But I can tell you from talking to politicians, there's almost no champion for this industry and I find that quite distressing and I suppose that's one of the reasons why I asked to come separately, because I think it is a responsibility for the ACTU to get more involved with the unions in seeing what we can do.

DR ROBERTSON: No, we think that certainly there are some sectors that are doomed, you know, they're badly managed and they're not in the right business and they don't show any signs of changing. But there are some that are real goers and there are others that with this assistance we anticipate will be able to straighten themselves out. And I don't think you can get rid of TCF. Every country has got its rag trade and that's going to continue anyway, there will always be small firms in the big cities like Melbourne and Sydney, where it's fashion goods of filling gaps in markets and so forth. That's not the problem. What we have to do is to try and ensure it's the healthy ones that survive and that they're the ones that get a chance. Sure we have to do something for the ones that will fall by the wayside and we admit that too. The question is devising schemes that really do work and the last program in the 90s, the labour adjustment program, didn't work and of course it had one of the most stupid clauses in it which said, "These people that are retrained can't go back into TCF." You know, I mean, you can make terrible mistakes like that.

MS BURROW: That's right, exactly.

DR ROBERTSON: So we certainly are not setting out to destroy the industry. What we do know is that there has been a lot of change in manufacturing in the last decade and on the whole it's been very beneficial and we've been around the regions and they aren't nearly as bad as people are saying. In Wangaratta and Geelong, you know, those economies are booming and the textile firms, on the whole, are doing quite well. So we're trying to help and we appreciate your comments. I don't know whether there's anything else you want to say.

MS BURROW: No, I appreciate that. Can I just ask, I suppose, bluntly, why is it that there isn't a recognition that none of our trading partners have moved to do anything effective in this area and yet given the changing circumstances, even over the last three to five years, certainly since 1997, there's no recognition that maybe we just should stand still, take another, take it a little slower, it's not a lot of money, you know, and see whether we can't provide a sustainability plan. There still does seem to me an inevitability that no-one is courageous enough to say, "Just stop and take a look at this."

DR ROBERTSON: Well, I think we have hesitated, we've had a pause, from 1998 to 2005 and in 2005 there will be some tariff reductions and we're proposing that the SIP should continue and there's time, another five years. In the end the TCF sector will get a generation to adjust, when you go to 2015, it's 25 years. So it's really a question of bringing TCF up to the rest of manufacturing and if you look at value added per worker the rate in TCF is something like half the next lowest major sector. You know, the TCF sector is not a healthy one and does need a lot of work done. I just don't think that tariff is the way to do it.

MS BURROW: But why is the orthodoxy there when - I mean, you know, you've got to admit that the drive to bring down tariffs to 5 per cent or less is just an orthodoxy and there aren't any rules, we're not above the WTO framework by any stretch of the imagination, no other trading partner has moved to do this. In fact, most of our trading partners are investing in growth in these industries, or at least sustainability, and yet Australia seems to have this mad notion that we've got to be out there, you know, transferring as I have indicated, the revenue base that we might get from tariffs, small as it is, into actually adjusting the sector and that I would buy.

If we said for 15 years we're going to take the revenue base generated by the tariff and plough it back into the industry in terms of development of skills, technological infrastructure, you know, regional development and niche markets and try to grow small enterprises into medium, even dare I say it, large enterprises would be nice, that would be fantastic. But instead you've got to ask yourselves, because you two are very powerful, why it is that you're driving the orthodoxy just as everybody else is, when it's just - it doesn't seem to us to be even logical that we would want to simply write off opportunities to reinvent an industry.

MR WEICKHARDT: Let me have a bit of a crack at that - and it's a reasonable challenge. Let me say that I don't come from a background which could be described as having subscribed to that orthodoxy. In fact, I probably sat on the other side of this table in the past and argued that this was - - -

MS BURROW: That you've now drank the waters - - -

MR WEICKHARDT: - - - this lunacy.

DR ROBERTSON: It's why he always tells me to shut up when I go to answer that question.

MR WEICKHARDT: It would be stupid to pretend that the sort of changes that a lot of Australian industry has been through have not caused a lot of pain to individuals, which I am very mindful of and I think the organisation, PC, is mindful of and indeed framed a lot of the debate behind the recommendations we came up with in terms of trying to provide time and balance. I have to say, having sort of lived through the period of time of saying, "No, we should not do anything," I've seen in a number of industries that over time there is the ability to refocus in the sort of areas you talked about to identify where we've genuinely got competitive advantage and unlike a lot of Australians who sort of say, "We're all ruined. If these tariffs are lowered we're not going to survive," I've been through that. I've actually seen that some things are a hell of a lot more competitive than we ever thought, that we're a lot cleverer and smarter and more innovative.

We've seen in the car companies people suddenly realise, "Not only am I now competitive in Australia, but I can export and I can export damn well." So we lived through a period in the 90s where the car industry just seemed to be going backwards and backwards and backwards, employment went down and down and down; exports were non-existent and suddenly, you know, sort of around the year 2000 we seemed to have hit the bottom and we're now starting to grow out again and I genuinely believe that that sort of phenomena can occur in parts of this industry. I'm not optimistic about the entire industry, because I think competing in the labour-intensive, standardised area is really just going to inevitably put pressure on employees that's unfair. I mean, a lot of the pressure on out-workers is because people are trying to compete where, you know, a labour cost in China is 50 cents an hour and in Australia we don't want to pay people 50 cents an hour. I don't want my children working for 50 cents an hour.

But where we've got people focused on industries where innovation, skills, creativity, delivers real benefits to the customer, people can afford to be paid sensible amounts of money, they can be treated well and we can start to export and we can start to grow. So I don't want to pretend there's not going to be individual hurt and pain to people, but from an Australian point of view in the long run I genuinely believe - perhaps I have drunk the water - but I genuinely believe that this can deliver benefits if it's done thoughtfully and caringly over time. To sort of crash these changes through would be wrong, but I'm not as pessimistic as some people are and I'm certainly not of the view that this is a sunset industry. I think there are some sunrise parts of it.

MS BURROW: I agree and let me try and put some cordial in the water, because I actually think that if you're talking about an aggressive, targeted strategy where we can make a difference, let's go for it. No-one will argue against genuine productivity improvements where they're not driven by exploitation; no-one on my team will go there, because we know that's not about sustainability. But if what you're saying is some of the industry is not going to survive then let it, you know, atrophy of its own accord, let's not push it. But let's then look at how you target a serious plan for survival and let's be honest with the employer, sit around a table and say which sectors of the industry have got a chance. Let's target our assistance program to making that viable, but let's not pretend that just by taking the tariffs away at this point will we drive a crash-through approach, because I don't think we will and I - Philip, I know that I'm not as expert in this area, but I do not believe from the reading that I've attempted to do and the conversations I've had, that we're even at the same benchmark as the car industry, even despite the dark days of the kind of initial job losses. For starters, I just don't think there's a consciousness about innovation and design, let alone export strategy that is there - - -

MR WEICKHARDT: There is in parts of the industry.

MS BURROW: No - but that is there in a collective consciousness. I'm not demeaning those industry players who are out there having a go, they are fantastic. But I just think if we just took a little bit more time with this, if we're a little bit more patient, the only other thing I'll say and I promise I'll get out of your hair, is that we would, if we weighted out a level playing field or a slightly more level playing field - it would be foolish to think it would ever be level - then I think we're going to see a change again.

You know, in Indonesia, two weeks ago, they're losing Nike; where, to China. Why are they losing them? Not for cheap labour reasons because outside of Jakarta, frankly, the labour sources are still as cheap as you could get, but they're losing them to China because of so-called political instability. Now, China is a very volatile environment, whether it's SARS; whether it's the political differences between provinces where it's a kind of question mark, but what I do know is we are training about 50 Chinese union officials a month in two of our universities in Australia. That's going on right around the developed world because, guess what, they're learning to bargain with multinational companies just as we've done over the years and the 50 cents will come up. There's no question about that. But it might take 10 years or 15 years or 20 years. Let's make sure we've got a textile base when we get there that actually allows us to be part of the future and not having written it off the point where we'll never re-invent it.

So if we don't want to waste money on sectors of the industry - provided we honest about that - that are not going to survive, then let's be open and tough about that. But if we're going to sit tight and perhaps structure the industry more fully, then we can only say to you, "Have another look at the tariffs." Whether they go now or they go in 15 years, it's a small amount of money. But that money, if it was driven back into the industry in a targeted way, particularly if it was generated towards a sustainable technological infrastructure, with associated skills, I reckon we've got real potential and I'm in total accord with that, so let's keep talking. But in the meantime I think if you give politicians some courage to say, "You don't quite have to go this route yet with this sector of the economy," then I think they will listen. So it's a challenge for you two, really, a big responsibility. And thank you very much.

DR ROBERTSON: We're in agreement. Thanks for your challenge.

MR WEICKHARDT: Thank you.

DR ROBERTSON: You weren't here earlier today, were you?

MR LOCK: No, I wasn't.

DR ROBERTSON: So I've got to tell you what the form is because I saw you come in, in which case you haven't said anything else.

MR LOCK: No.

DR ROBERTSON: What we'd like is for you to - in fact you haven't made a submission, have you?

MR LOCK: Sorry, no.

DR ROBERTSON: So we would like you to just make a few points and if you've read the position paper comment on those, on the questions and the points we've made there and then we'll just have a pretty informal discussion. That's the way we try and do it. So if you would just announce yourself so that you're on transcript and we'll listen to you first.

MR LOCK: Great, fantastic. I'm Simon Lock and I'm the CEO of Australian Fashion Innovators which is the Australian-owned company which produces and markets Mercedes Australian Fashion Week and I guess what I wanted to be able to do today is to give you some insight into how our event is working with a certain sector of the TCF industry, the achievements we've been able to gain to date over the last eight or nine years of trying to develop both the domestic and export markets for various sections of the industry, and also to give some commentary on what sort of support we believe would be of benefit to the sector of the industry that we work with. So if I could take about 10 or 15 minutes to give you an overview, is that appropriate?

DR ROBERTSON: Yes, that's fine.

MR LOCK: First of all, I guess I just wanted to give you a little bit of an understanding of what our event is and who in fact actually participates in it. Mercedes Australian Fashion Week was established in 1996, focusing on the spring-summer collections of the Australian ready-to-wear designers. The International Fashion Week circuit has been going for about 45, 50 years which includes the major fashion capitals in the world including London, Paris, Milan and New York and there was a number of people within the Australian fashion industry that felt if we were able to create a fifth stop on International Fashion Week circuit it would create an opportunity to grow export markets for Australian ready-to-wear designers and also grow a greater profile for them here in Australia, particularly in a climate where tariff protection is falling and they need to be strong in a home market as well as being able to develop exports.

There is about on average over the years 350 Australian TCF companies that participate regularly in Mercedes Australian Fashion Week. The vast majority of them would be classified as ready-to-wear designers. It's the sector in the industry that's looking to generate a premium at retail for their products, given recognition of their brand profile, and many in the industry believe that this is the sector that has the opportunity to actually to be able to support Australian labour content within the price because at retail there is a premium price being received for these garments and therefore can afford a labour manufacturing content.

Of the 350 or so companies that participate regularly in the event, they're employing about 3000 people directly. They're made up of designers, pattern makers and production managers, sales and marketing people, and the majority of their manufacture is outsourced. About 85 per cent of that manufacturing occurs in fact within Australia. The very nature of the ready-to-wear market is in fact quite quick delivery to market and sometimes doesn't allow for the longer lead times of manufacturing offshore, and also is looking for high quality, low rates or low volume and there's many manufacturers in Australia that can support this sort of activity.

While the majority of these companies are sort of independently owned, many of them also do have their own retail structure. A classic example might be a designer like Bettina Liano or Scanlon Theodore that have a vertical retail operation themselves but also the vast majority of their business is driven by wholesale. We have seen, I guess, the European model start to take effect into this part of the Australian marketplace, that being that we're starting to see companies now like the Oroton group, publicly listed Australian companies, who are investing in these Australian ready-to-wear designer brands. So far they've bought Morrissey and Marks and there's a number of companies who are brand managers and managing a portfolio of brands, who see investment potential in growing these Australian designers.

So we - and when I say "we" I guess I'm talking about the Australian ready-to-wear designers. Back in the early 90s there was talk of tariffs being dropped and there was also a perception in the Australian public marketplace that Australian designers weren't as highly desired as some of the European and North American imports, the Donna Karan's or the Giorgio Armanis of the world. Also it was extremely difficult for Australian ready-to-wear designers to get international market access. Basically they had to put their collections in a suitcase and try and go and compete in an international stage.

Now, they were competing with something like 300 designers that show each year in Paris on a catwalk and for them to be able to mount a collection show in a new marketplace and get noticed like that was extremely difficult. So that was the catalyst for the creation of Mercedes Australian Fashion Week. The concept or the original idea, which I sort of became the champion of back in about 1992 was put to the industry, that with support by banding together we could actually generate a momentum and attract interest from the key buyers and the key media to come from all around the world to see the latest sprint-summer collections of the Australian ready-to-wear designers.

Initially the proposition internationally was seen as sort of ludicrous to a certain extent because the department stores of Paris or New York or London or anywhere else thought that they were being well serviced by the other international fashion weeks. But the very nature of the ready-to-wear industry is one of new and different and always searching for the next best thing. So there was in fact an opportunity to establish a fifth stop on the circuit. We're very fortunate because we do have a great amount of design talent here in Australia and when we were able to get the first spring-summer collections off the ground in 1996 we were able to attract the interest of some of the leading department stores and key fashion media around the world. They did come and they did like what they saw, and subsequently the event has been able to gather momentum.

It's a very, very interesting marketplace the way that the ready-to-wear designer marketplace is driven around the world and there's a couple of foundations that make it actually from a marketing perspective quite easy to sort of penetrate. There's probably only about 350 individual buyers that really make the difference: the people who are the general merchandising managers of the big department stores, the womens and mens ready-to-wear buyers, who actually are buying for the top seven North American department stores, the Saks, the Bendells etcetera, or the Selfridges or the Galle Lafayettes or the Lane Crawfords around the world. So they're quite a targeted group and they're quite defined as a target market so you're able to actually communicate with them. They're also looking for providing their own boutiques or the department stores with a competitive advantage, an exclusive product offering within a particular marketplace. There had been some evidence from Belgium as a country that was able to make an impact internationally and it sort of fared well for a new group of designers to come on stream with the Australians.

The media of course, the international media, are always looking for the next best thing and of course part of our industry is very fortunate because it's able to build brands on the back of editorial publicity, free publicity, that's given out by the fashion media, be it on television or in the magazines - unlike the mass market section of the industry where to create a brand profile you really need to spend many millions of dollars in advertising. You can actually generate an internationally successful fashion brand off the back of publicity driven from a catwalk. So strategically it's a very clever way to market a brand and had been happening internationally for many decades but our industry wasn't a part of it. So that was the catalyst for Australian Fashion Week.

We now find ourselves eight years on. We've had eight successful spring-summer collections based here in Sydney. The event had gathered enough momentum and demand from buyers that they now wanted to start buying the autumn-winter collections of the Australian designers in the same format, coming to a centralised week. Last year we announced - or a number of years ago we announced to the industry the establishment of the autumn-winter collections. When we did that the Victorian government put up their hand, as they're apt to wanting to try and get major events that were going to be in Sydney, and subsequently - - -

DR ROBERTSON: They did that with the Grand Prix.

MR LOCK: So we were able to form a very successful partnership with the Victorian government to provide us with support to establish the autumn-winter collections in a much more significant way than we ever would have been able to in Sydney. So we're now in a very fortunate position where Mercedes Australian Fashion Week has its spring-summer collections in Sydney, it's autumn-winter collections in Melbourne. We're the only international fashion week that has dual host cities, and being able to market ourselves being in two cities provides us a point of difference on the schedule.

To give you a bit of a feeling for some of the outcomes we've been able to achieve as an industry coming together - and I think that's one of the important points here, is that as industry not one individual could have been able to generate this momentum or this interest in Australian fashion. It really has been a coming together that has really made the difference. The event itself has a four-day schedule. It usually consists of an exhibition that represents some 200 companies and a collections schedules of which there's normally 80 or 90 or so companies involved. Some of the outcomes, last year, the year of 2000, here in Australia we generated something like about $22.5 million worth of media coverage for the industry. Now, that directly translates into consumer demand for Australian designer product and great evidence of this is David Jones.

David Jones will quote figures that their Australian designer sales are up over the last few years by about 35 per cent, that they are investing in Australian designer brands, that their designer floor is now full of Australian designers where 10 years ago it wasn't. Another great evidence of that is their recent advertising campaign which you may or may not have seen which focused entirely on the Australian designers that they're promoting within their merchandising range. It has been a very successful story because while a lot of the media coverage and activity around Australian Fashion Week is talking about the export phenomenon it has been, the actual fact is it has given us the ability to sell more clothes in Australia because it has built the profile of brands like Sass and Bide or Morrissey or Akira or whoever it might be, so it has in fact been able to increase that domestic market share for

Australian designers. Now these designers are being recognised along with their international peers. As tariffs continue to fall and Donna Karan becomes cheaper we need to be able to compete on more than just price, that the Australian consumers still see or want, because they've bought into a particular designer brand that's Australian based.

We have also been able to generate an incredible amount of international media coverage through things like CNN and fashion television, all the big trade magazines and publications around the world, the Internet sites. It has driven a genuine interest in getting other retailers and media to come and attend our events regularly which is great. To give you a bit of an idea of directly how many wholesale orders the event was responsible for last year, we wrote about $60 million worth of wholesale orders in and around just those two weeks. So this doesn't actually encompass the flow-on effect as a result of - you know, that we are introduced to that retail and backup orders - so specifically written out of Mercedes Australian Fashion Week. These figures are well documented, quantified by Media Monitors. The wholesale orders are usually - there's an audit that's done in conjunction with the New South Wales policy division of State and Regional Development so they're really quite qualified.

To give you a bit of an idea of how we market this event - and I guess this is something that we'd like to get across to you today: that the industry has got together, the industry has invested in this event. Because we've come together we've been able to generate quite a bit of corporate sponsorship because as a vehicle once we've all come together others that see the fashion industry as something aspirational to create an association with, as Mercedes have done for example, we've been able to really get to a point where the industry with our corporate sponsorship and the support that we've had from state governments has really enabled us to stand on our own two feet. In the early years the New South Wales government was supportive in giving us, at the time, very much appreciated but very modest funding. Over the course of three or four years with the New South Wales state government we received about half a million dollars' worth of funding. The funding package with the Victorian government is spread over a five-year package. It's significantly more than that, but it's really underwriting the infrastructure costs of the event.

Our big thing now is, I guess, the opportunity cost of promoting this event and the industry further to attract more exports international and to attract more attention here in Australia. Our marketing activities internationally focus around regular market visits to all the major markets around the world, retail markets. To date we've been quite effective in being able to go into Singapore, Malaysia, Hong Kong. We've just scratched the surface in China, Tokyo, London, Paris, Milan, LA, New York, Toronto. These are our major markets where we're starting to do business now, but at great cost.

Our organisation on behalf of the industry has probably now got the most developed database of media and international buyers, probably of any organisation around the world, because interestingly enough we're the only ones of the international fashion week which actually markets themselves. Paris and Milan, for example, have a wonderful arrogance of the fact that, "We put it on and they come," you know, out of the reputation of their designers, which is great because it gives us a competitive advantage to be in there at Galleries Lafayette saying, "Ah, yes, but we've got great designers. Why don't you come?" and stealing some of their budget to come and spend here in Australia.

So our market visits have been very effective, our international database activities. We work in conjunction with Austrade as much as we can in markets around the world. But this has been a frustrating relationship for us because Austrade really have no market intelligence for information they can really provide us. Without sounding too arrogant Australian Fashion Innovators knows much more about export development into international market places than Austrade. It hasn't been a sector they've focused in obviously and while we've tried to use their services in some of the markets it has mainly been for needing introductions and translation services rather than intellectual property.

We've worked with Australian embassies all around the world and they have been great in hosting functions for us, in introducing us and making venues available, which has been fantastic. We work in conjunction with ATC on their visiting journalist program to try and encourage journalists to come at this time of the year to cover Australia as a fashion destination, which has been very successful. We were fortunate to secure from the TCF market development grant program through the Department of Industry Tourism Resources last year some funding that enabled us to do the first of a number of international showcases.

This is a strategy that we want to be able to keep funding going for whereby we take a snapshot of our industry, we go into a marketplace where we realise there's great retail potential, Tokyo for example, where we've only really been able to attract maybe a handful of key buyers to come to Australian Fashion Week. We go there with a showcase of maybe 10 or 12 Australian ready-to-wear designers and basically say, "Look, this is a taste of what you could see at Mercedes Australian Fashion Week. Why don't you come?"

Now, we've done those in Tokyo funded by the TCF market development grant. The Victorian government on heralding the arrival of the autumn-winter collections gave us funding to do it also in London, in New York and also Beijing, and these international showcases have proved to be a great investment because we can go into a marketplace, get to a lot of these buyers and media who we haven't been able to in previous one-on-one market business and really entice them to come to the event. While those funding have been great, as you would be well aware, that TFC market development grant is no longer and we were really looking to that to try and keep the momentum of these international showcases going and that's disappointing for us.

One thing that has been extremely disappointing for our organisation over the last decade is our inability to be able to qualify for the export market development grant scheme. It's sacrilege, is all I can say; it's terrible. I mean, we've lobbied every which way until I've given up now, trying to qualify. We've spent millions and millions of dollars over the last decade on behalf of the Australian fashion industry promoting this event and we haven't been able to access any rebates at all through that scheme. Because as an event we're not an exporter ourselves we don't qualify as a joint venture and we don't qualify in any of the other categories.

Interestingly enough, back in the dim, dark ages of 92 when I first took this concept to the federal government, to Senator McMullan then, who was the trade minister. He said to me in one of our first meetings, "We've set this export grant up just for activities like yours," and that actually gave me the confidence to feel, "Okay, we'll get some momentums and rebates here," and some 11 years later we still haven't been able to access that, which is frustrating because we've been able to prove that we have a competitive advantage on the other fashion weeks because of our aggressive marketing approach. But it's backed up by when we get these people here they buy. Now, we also have an international support program for a number of the buyers which is strategically very successful and could be driven a lot further if we had some additional funding.

What we do is - and Selfridges in London is a classic example - we go to Selfridges, we introduce ourselves, we meet with all the key players and we convince their executives that they should take a week out of their time and come and attend Mercedes Australian Fashion Week on a buying trip. We say to them, "We'll foot the bill for your airfares and your accommodation," and in the past we had Qantas as a sponsor. Now Qantas aren't sponsoring anything at the moment because they don't have to, or they're not able to, and in those days that was great because we were able to get some of these airfares on contra.

But what we do is, we say to a big department store like Selfridges, "We'll fund your travel." They come out and it's important to remember that funding their travel is the least of their worries, quite frankly. What's more important to them is their executive time. You know, these are very important people to their organisation. But what happens is, with that enticement we get them to come. They come here and they go, "This is great," and they start buying. The next season they usually go, "Look, you know, we'd like to bring two or three buyers to the next spring-summer," and we go, "Oh, well, couldn't afford to do that. Perhaps we'll go one and a half this time," and so we sort of wean them onto the Australian designers.

Then they start buying and they've had some great successes, Selfridges, with the Australian designers and of course their volume starts to go up. Then in our mind they're starting to make profits out of their commercial decision to come, so we start to back off with the support. Selfridges last year wrote about $5 million worth of orders in the one week that they arrived, which is quite significant, and this year we didn't support any buyers at all from Selfridges. It might have been one but I think we had five coming, quite incredible. So that's the sort of structure that we've used and what we try and do is that if a big department store or a boutique is not building a commercial volume of business after they've had two or three years' support we cut them out of the program.

But the ones that have continued on like the C.K. Tangs and the Lane Crawfords and Kasha Myers out of Asia, then they just fund themselves to come here. But we introduced them, got them hooked and away they go. So it has been a very successful program. Our operation also runs a number of other aligned programs that support the industry. One is called the Start-Up Program. This is a state-based program that each year provides an opportunity for 20 or 30 young designers to each state to submit their collection to be considered for free entry into Mercedes Australian Fashion Week and it has been how we've been finding all our new great talent, and it has been a very, very successful program. It has been running for two years now. It operates in every state of Australia except the Northern Territory and it has been going really well.

We also have established a non-profit organisation called the Australian Fashion Foundation and the Australian Fashion Foundation asks those people in the industry that are well funded or large to provide donations into a fund which is overseen by a number of key mentors in the industry and from time to time it hands out grants to young upcoming designers for specific projects. It may be to travel to New York to see if they can get an agent. It may be to travel to Premier Vision to source fabric, to try and encourage growth, and we've had some great success stories out of the Australian Fashion Foundation.

So that's a bit of an overview of what, as an organisation, we've been trying to do. What we would like to see happen is that on behalf of - it's interesting for me to say on behalf of the part of the industry that we represent - we're not an industry body, we're a proprietary limited company. However, this is the part of the industry that hasn't had a representative body and so by default we sort of have become it and, you know, we've had discussions with the TCIA about how we can actually create a more powerful industry representative body by bringing the fashion element to the manufacturing section and there has been various discussions held like it over the years.

But what we would like to see happen on behalf of the industry that is participating in the event and looking for growth and development in these Australian ready-to-wear designers is definitely some additional support for export market development and this could come in a number of ways. I truly believe that directly funding air fares and accommodation for key buyers in media to come and attend at Mercedes Australian Fashion Week is a clever investment. We can nearly prove that a dollar investment in that returns 10 or 20 fold in terms of the wholesale order they write for the industry and the support is not required ad infinitum. It's only required for a number of years till they get enough of a commercial sort of stake in a particular designer to keep going.

We would like to be able to seek some federal funding for the promotion of the continuation of these international showcases. We want to open up some new markets. South America and South Africa are going to be long-term potential markets for us and there's other areas in middle Europe. We're starting go do very, very well in the Middle East at the moment, especially in Kuwait, and there's a big department store there that's purchasing about 14 Australian designers, and to be able to do a showcase in some of these new, emerging markets would be very instrumental and again it's about taking a sample to the industry there and getting them more into coming back for Australian Fashion Week.

We would love to be able to gain access to the Export Development Scheme. You know, it's going to require legislative change for our organisation to be eligible. But I think it is something that should be looked at. We would also like to see a support program - and perhaps already it's there because many of the designers themselves do access the Export Development Grant Scheme - in trying to encourage more Australian designers to attend Premier Vision. Premier Vision is the starting point of design. Premier Vision happens twice a year in March and in September. It's where all the big fabric companies around the world release their new season's fabrics. It's the starting point along with other design elements for the creation of collections.

We have a huge international advantage. The designers that attend PV in March for the release of the new spring-summer collections airfreight those samples to Australia and they get their pattern-making done ready for their sample collections which they show in May at our spring-summer collections. Our spring-summer collections are the first collections on the calendar. That's the first time that any of the international buyers and media see those new season's fabrications. It's a huge, big competitive advantage for us, also that our designers are able to deliver prior to Christmas into the northern hemisphere and this is at a time when many of the big retailers are looking to do drops in what they call cruise resort wear prior to Christmas.

The Europeans and the North Americans find it very difficult to deliver at that time and this cycle is repeated again with the autumn-winter, with PV for autumn-winter being in September and our collection shows being at the end of October, November. So if we can encourage and create a support program we've had discussions with the wool market, the Wool Secretariat, the Wool Corporation, in all their various guises over the years in trying to work with them to get groups of designers to go to PV, because it's allowing this section of the industry to be more internationally competitive.

Australian Fashion Week services the industry in a number of ways. Sometimes designers travel through us on to other fashion weeks and other markets. It's how they get their start and we see many of the designers who have previously shown with us now showing regularly in New York and Paris, which is fantastic. It's how they got their start. They're generally designers who are more interested in exports than a domestic marketplace. But these designers still always have their base here in Australia. We see other designers, the Morrisseys and the Wayne Coopers of life, who will always show at Mercedes Australian Fashion Week because of their important domestic market they need to service as well.

To add to the international competitiveness of the event we've also invited designers from other parts of the Asia-Pacific region - New Zealand, Singapore, Hong Kong - to come and show with us, and this is helping to make the event internationally more competitive in attracting more buyers to see more Australian designs. I was a built long in the opening gamut, I think, but hopefully that gave you a bit of an overview of what we're all about.

DR ROBERTSON: No, it's interesting because we were looking for people from the fashion industry and didn't find any.

MR LOCK: Well, here we are, and it's interesting: the reason why is that none of them know about this.

DR ROBERTSON: We did contact some directly.

MR LOCK: Okay, but the vast majority don't know about this process.

DR ROBERTSON: Yes, but you're all too busy making money. Why would you come to talk to us? We don't pay you.

MR LOCK: I think it's not that they don't care.

DR ROBERTSON: No, I don't mean that either.

MR LOCK: Yes. It's interesting because just on the way here I passed Clare Dixon Smith, who's the designer from Third Millennium, who's just done very well with her exports. I was telling her that I'm coming here to talk about - and these sorts of processes with government just don't enter their psyche, and it's so important for them to have a connection and understanding. It's something I'd like to work towards to get that greater communication through to them.

MR WEICKHARDT: Can you help me understand this. It sounds a fantastic story and I'm delighted to have heard it. First of all I guess I'd like to understand how much money is involved in these exercises. I mean, you talked about getting some money from the TCF ex market development grant and the Victorian government. To do what you're suggesting, how much money is involved?

MR LOCK: The event in a production sense over both spring-summer and autumn-winter: our entire budget to produce the event, to market the event is about $5 million annually.

MR WEICKHARDT: You were sort of suggesting that you wanted help from the government for some very specific things - to send people to these PV sessions and to send a showcase around et cetera. In the areas where you're, if you like, putting your hand out and saying, "Gee, I'd like to be able to access EMDG or something," how much money are you talking about?

MR LOCK: Okay. To do a showcase successfully - and the Tokyo showcase is probably a good example, where we had to match 50:50. The industry was able to raise $200,000 and the government put in 198, so you're talking around about a 400, 500 thousand dollar exercise to do these showcases properly. They need to be done properly, because we're competing with some of the best designers in the world and you can't go on and put on a Mickey Mouse show. It's got to be of a high quality, and it's a costly exercise to be able to do that, particularly in a foreign market.

MR WEICKHARDT: If the return is sort of 20:1, as you suggested , why isn't the private sector rushing in? I'd be prepared to invest some of my money in a 20:1-type return.

MR LOCK: Yes. The corporate sector is. The corporate sector sees involvement in these sorts of activities as worth while in building their own brand through sponsorship. The designers, the larger ones, do see merit, and they are putting in funding towards these sort of activities.

DR ROBERTSON: What about David Jones?

MR LOCK: Well, no. They have no vested interest in this area because we are trying to work with the designers to develop export markets, which they don't share in at all. So the Australian retail sector is not. To give you an idea of the range and size of some of these Australian ready-to-wear designers, they're from a million-dollar turnover who are a two or three-man operation and turning over - and that's manufacturing - through a company like Morrissey and the Lisa Hos of life that are probably somewhere between 20 to 30 million dollars. Obviously the larger ones are more interested in back themselves into these sorts of showcase ideas as well and developing the market.

MR WEICKHARDT: Who are the shareholders in your proprietary limited company?

MR LOCK: I am the major shareholder and I have four other business partners who are also shareholders. Australian Fashion Innovations is owned by a company called the Lock Group. We also own what I like to think is one of Australia's leading youth and fashion advertising agencies, a company called Spin. We also own another large film festival called Trompfest that you might be familiar with in Sydney. We own a film and television production company which specialises in style and fashion television programs as well.

MR WEICKHARDT: It's a great story. I guess the question that presumably somebody in government needs to ask themselves is: is this the sort of thing, because it has already in an embryonic sense sort of got up, going to sort of continue and can it continue without government putting taxpayers' money up or has it got to be kick-started still?

MR LOCK: Yes. The structure of the event as it is at the moment - I think the industry and ourselves and our partners can feel proud that we've got it to stand on its own two feet. We've established spring-summer, we've established autumn-winter. We have certain marketing funds and we'll continue our natural momentum. I think we're probably classified in adolesce at the moment. I don't know whether we're going to quite always grow up, but as far as our growth and development is concerned, I think over the next three or four years we're going to start to reach a market level maturity. We are a certain size market, we are a certain size resource, the market internationally and domestically is a certain size, and we'll find our way there.

I guess what we see as the opportunity is for the federal government to be able to invest in specific projects that wouldn't be able to happen given the industry support and the budgets that we have, which are going to have a multiple effect in terms of returning investment back to the industry. If we can generate some funding towards bringing out more buyers, those buyers will buy more and therefore that will flow into the manufacturing sector as well at a ratio that would seem to be a good investment for taxpayers. That's the premise.

MR WEICKHARDT: Yes, well, it's a good story.

DR ROBERTSON: Okay, thank you very much for introducing us to that side of the industry.

MR LOCK: It's a pleasure, absolutely.

DR ROBERTSON: Thank you, Simon.

MR WEICKHARDT: I regret one of our visits wasn't to Mercedes Fashion Week.

MR LOCK: Yes, it would have been great.

MR WEICKHARDT: Next time.

DR ROBERTSON: This is the point in the afternoon when I have to say is there anybody else who would like to speak? Good. Then I declare this session of the public hearings closed. We meet again tomorrow morning at 8.30. Thank you.

AT 4.57 PM THE INQUIRY WAS ADJOURNED UNTIL
FRIDAY, 13 JUNE 2003

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