



**TRANSCRIPT
OF PROCEEDINGS**

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PRODUCTIVITY COMMISSION

INQUIRY INTO TEXTILE, CLOTHING AND FOOTWEAR

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

TRANSCRIPT OF PROCEEDINGS

AT SYDNEY ON FRIDAY, 13 JUNE 2003, AT 8.38 AM

Continued from 12/6/03

DR ROBERTSON: Welcome, Neil and Paul. We always try and do these things informally. In your case it definitely is informal. What we try and do is give participants a chance to have their say and pick holes in us if they want to or tell us where we've gone wrong and then we all have a few exchanges and sort out a few things, I hope. It's all on the record, so just for that when you do speak can you start by the first time announcing who you are so you can be identified on the tapes. Other than that, I don't think there's anything else I need to tell you really. Over to you.

MR ORTON: All right, yes. Paul Orton, general manager of policy, Australian Business Ltd. I thought I might start with just a brief overview on the issues we thought we'd like to raise with you and Neil was going to address a couple of those, I guess, based on direct industry experience. I guess the first thing we should state is that we certainly support the commission's view as outlined in the position paper that a structural adjustment program is required. I think we'll be able to demonstrate that in its short life it has produced results. We think it is required because the pace and the extent of restructuring that will be required to cope with the 2005 legislative tariff reductions, let alone those that the inquiry is looking at, will require it.

We certainly see more scrutiny needed and understanding of the market access barriers. We understand that a report has recently been completed for the TCF and L forum. We haven't seen the content of that report yet but I guess we'll be pretty keen to make sure that the findings of the report are taken into account by the commission and the government in determining the way forward for the industry. We acknowledge that further tariff reductions are inevitable. I guess we would prefer a stepped variation of option 4 as outlined in the position paper, not unlike that proposed by the - in fact, the same as that proposed by the TFIA in its submissions to the commission.

MR WEICKHARDT: Sorry, Paul, can I just clarify that. You're saying a stepped version of option 4.

MR ORTON: Yes, to arrive at the same end result in 2015 but with a - - -

DR ROBERTSON: Annual changes?

MR ORTON: Not annual changes but those that were outlined in the TFIA submission which would see apparel coming down to 14 per cent in 2010 and footwear and carpets to 7.5 in 2010, with the 10 and the 5 rates being reached in 2015.

DR ROBERTSON: Okay.

MR ORTON: We think that the level of adjustment that's going to be required and

the level of preparedness for certainly parts of the industry require that approach, and we might have a bit more to say about the potential impact of the LDC proposal from 1 July as we move on. Perhaps we might start with I guess some observations on the SIP program and some of the options that were outlined in the paper. I guess our first point is that a continued structural adjustment program is needed. Effectively it has only been in operation for two years and we've yet to see the full benefits, I guess, of the scheme as it currently operates. We believe it has created additionally and perhaps Neil in a minute might outline, I guess from his own experience and perhaps more broadly, how that has happened.

We also think that as the commission outlines in the report that we need to do better at making SME access easier. We appreciate that there are potentially problems about the size of grants that might eventuate but, frankly, given the number of active participants currently there's certainly scope for a greater SME involvement. We'll speak to, I guess, why we think greater SME engagement is needed. In our submission we outlined some measures that we think might make it easier in an administrative and an eligibility sense for small businesses to gain access and we'll also talk a little bit more, indeed as the commission's paper does, on redefining innovation in a way that is relevant to TCF companies and smaller businesses in particular and indeed perhaps the rationale for that might be to better outline the objective of the SIP scheme. I guess we see that as being to increase the competitiveness of Australian firms. Our starting point in looking at these sorts of schemes is that the best judge of how to do that are the firms themselves and to that extent more recognition within the scheme for firms evaluating how best to improve their own competitiveness is essential.

Finally, in our I guess piece on the SIP we've got some ideas for a program we're calling a globalisation outreach scheme which is basically aimed at improving the level of knowledge of smaller businesses about market developments within the sector and improving their capacity to I guess hold up a mirror to themselves and their operations and determine how they might best fit into things that are happening within global markets both I suppose within and outside the terms of the commission's remit. In other words, I think as the commission itself has said, there are things happening out there beyond what we might be looking at in terms of Australian tariffs. So, Neil, would you like to say a few words about how the SIP scheme has impacted on your business?

MR COUPER: Sure. Neil Couper, managing director, Calcoup Knitwear. Thank you for the opportunity to be able to address the commission. I suppose what my part today is is to try and bring to the commission more of a coalface-type approach to what actually happens out there with the SIP scheme and the assistance in tariffs. I don't profess to be an expert but I'll try and give you some ideas. Basically, I think the program has been a success so far. The companies that I touch in our industry have all benefited from the scheme and have in general increased their business and

their competitiveness. I will use my company more as an example; I think that's about the best way that I can do it. For instance, since the introduction of the scheme we in actual fact because of the scheme increased our capital expenditure by 75 per cent over that of what we would have done.

It has meant to us that we have been in a more competitive position and we have been able to increase our turnover in that time by 40 per cent and we've increased the number of employees by 17 and a half per cent. So if there's a criteria which says, "Has it been successful?" I think they're some pretty interesting figures, and I do know of other companies that have had similar increases and have participated in being able to more competitive as I have said. I suppose that I see the survival - the SIP scheme helping the small to medium enterprise companies which are in the majority of in ABL, so I'm wearing two hats. In the majority of ABL are the small to medium enterprise companies. Why? Because we tend to be flexible, we're capable of doing the smaller runs, the smaller orders, we are more risk takers, I suppose, the small to medium enterprise people, and we tend to be more entrepreneurial - in other words, we look for those niche sort of areas. The assistance that comes via the SIP scheme obviously assists in us being able to do that.

I've no doubt that you've already had people put in submissions in regard to employment so I won't dwell too much on that, but we do obviously employ a lot of non-English speaking people in a low socio-economic area, a lot of unskilled labour. In our factory we employ 11 different nationalities and, believe it or not, they all get on equally as well with each other which in some ways - I think in the world today that's not too bad. The areas that SIP that I suppose that I have difficulties in the way the current structure is as far as the SMEs are concerned is the cap that is on, the 5 per cent cap on turnover and we've got some suggestions that we'd like to talk to about that; the qualifying area of the \$200,000 in expenditure we would like to see that reduced for SMEs; and we would also like to see some other areas introduced into the scheme which are outside of the nine dots right now.

I suppose one of the areas that we all understand is type 1, type 2-3, type 4 and 5. If we look at them as individuals, I mean, type 1 is pretty easy to sort of understand; it's, you know, you go and buy a piece of equipment and away you go. For an SME it's obviously more difficult to - we pay the same price for a piece of equipment as what a large company does that has a large turnover so therefore it can be - but if you look at the ratio of the expenditure compared to the large company it becomes obviously a lot more difficult for an SME versus a large company to be able to fund and it takes a lot more of their capital out of their business. So therefore the SIP scheme obviously helps in that area, being able to support the fact that the SMEs can at least get in there and be able to be competitive against the bigger companies.

To that tune we would like to see that level be reduced from \$200,000 to \$100,000. We would also like to see that the lag in the payments be - because we

what we have to do is obviously for small companies or medium size companies we have to outlay that capital for a period of at least 12 months before we actually get our payments back. In some cases that obviously stretches cash flow and causes problems. We would like to see that that be more almost instantaneous if we could get to that level of payment back. We can understand that there's administrative problems et cetera as far as the commission is concerned. Maybe what has to be done, there has to be different levels established within the way that the \$100,000 operates and the way that the payments are made.

Back on the 5 per cent cap, part of the wish list would be that maybe the 5 per cent cap could be operated over the period of the scheme, so in other words if you turned over \$10 million a year and over the period of the scheme it means you'd turn over \$50 million if it's a five-year scheme and you are able to get a contract or you're able to get some new equipment which is obviously going to see you well outside the cap in that first year, then you should be allowed to spend the total amount that you would be able to spend over the five years, maybe in year 1, and then built into the scheme is some way that if you don't hit the turnover target then there's call back and you've got to pay back. That way it would allow the smaller companies to be able to really equip themselves in a lot better way than what they maybe currently can.

I suppose the area under the SIP scheme of innovation is one which is very hard for SMEs to really define. Whilst we appreciate that innovation is the future of small companies the actual development of innovation of new products sometimes exceeds the amount of money that small companies have got to invest into development. A lot of that I think is left more to companies such as CSIRO and AWE and those type of people. So how they fit into the scheme I don't know, but I would think for small to medium enterprise companies the more important thing, instead of innovation, is more to do with the training of people. We would see that part of any new program should be the fact that we can incorporate training in there.

Let me just give you an example of that. We as a company have found it very difficult to find skilled technical people so we have actually obviously gone out and trained our own people, albeit that's not grandiose but for a small company like ours we have trained our own technicians. Our third fully-qualified technician has just completed his apprenticeship and that's - that takes a four-year apprenticeship so it's one every four years we've been putting through ourselves. The tertiary education system, for whatever reason, does not have in New South Wales anyway any specialised textiles or clothing training programs so hence any apprentice, to get a theoretical training, has to go and take modules out of different courses which means that they're not mixing necessarily with like people; they're mixing with people who could be wanting to be electronic engineers or toolmakers or whatever it might be.

There's fors and againsts that, so I don't want to get into that today, but what it

has meant to our company is that we have had to in actual fact embark - even though we buy the highly sophisticated computerised machinery what we have had to do is embark on a training program of our own where we send our own staff to Japan. Each of our technical staff, including the apprentice, goes to Japan on a regular cycle of every two years minimum where they're trained at the machine supplier - has his own training program over there. The cost to our company is obviously his accommodation, his salary, his flights and him obviously being out of the business. As an example, we feel that that should be part of the SIP program, should be allowable under the SIP program. Some sort of recompense or some sort of claim could be made under that.

Under the SIP program another area that we would like to see included into that is being able to bring the tertiary education areas - for instance in New South Wales we have a couple of technical institutions, one in particular is the UTS, where our group ABL has seen fit to fund a grant to one of the fourth year students who is not only the most creative in the textile and clothing and design degree course - and it's the only degree course in Australia - but also trying to build them into business - put business acumen into their course. So we're looking for a student who will go into the industry who has creativity but also understands the business and how business runs. What we'd like to see under SIP as I suppose an ABL member would be, how can we best encourage moneys being able to be provided to bring institutions and industry together so that we're training the right type of people coming out into the workplace or at least going into the industry.

I mentioned about type 4-5. I'm not too sure how much type 4-5 has been used in the previous SIP scheme but we would certainly like to see that particular area maybe opened up a little bit more. As an example, I'm a member of a group called Australian Merino where this group is putting together - right now it's eight manufacturers but it's also a supply chain operation. So we're working with a grower group of farmers who grow the wool and we're working with the top maker spinner is involved who manufactures the yarn obviously, but we can either have it woven into woollen products or knitted into knitted products. As a group we are looking at going overseas to try and find a customer who is interested in taking a range of garments.

As you know, we're sort of told, "Go forth, young man, and find an export market" - very difficult in textiles. So unless you've got a really good story to tell then obviously you're out there fighting against a lot of other very good companies. We're obviously trying to look for the niche which is, "Here's Australia, here's the woollen products," and we're looking for one customer that can handle that. If we tried to take on all of the USA then it would be impossible, we wouldn't be able to handle it, but if we took on one retailer in the USA in one region then it would be possible. We would like to see that sort of - right now, sure there are grants that are available, mainly from state government, to do market research for us but we would

like to see as part of SIP somehow incorporating in type 4-5 some sort of grouping of people going away and being able to access different markets overseas.

I don't mean, "Let's go to an exhibition where we put up a stand and we all stand there and look at each other," because I have been to those sort of places and I understand what they're like. It's more doing the homework before we go and then having the connection in the particular country that we're going to approach and having a representative or going there as a joint force to get out there and make it happen. Obviously the benefit that we want from SIP is that if we are successful then we should be able to get some sort of cover for the expenditure and the cost of setting it all up under SIP.

Also under SIP and how it fits into what area we would certainly like to see that one of the things for small to medium enterprises is that the - generally you'll find that the owner is the manager, he's the guy that tries to handle everything. He's at the coalface working on machinery one day and he's out there selling the next. He's trying to handle industrial relations, he's now trying to handle new occupational health and safety requirements and it does become a bit of a burden on business. One of the things that we think should be incorporated is better management systems within businesses. So in other words if a company needs better management systems outside of - it's easy to go and buy a piece of machinery but then how do you actually run your company to make sure that you're the most cost efficient to get the right product out there at the price that you can be competitive against the imports.

Obviously there's business management operating systems and I know that computerised hardware and software etcetera comes under the program already but I suppose what we're talking about more is, how do you actually run your business on a day-to-day basis to streamline it and make it more efficient? We as a company are ISO 9001/2000 quality assured. Originally of course the idea of going into ISO was one of a bit of a political nature to do with if we wanted government contracts back into the 90s you were seen to have to have a quality assurance program and one of those programs obviously started off at 3900 and then went to 9000 international. We were fortunate that we saw it as an opportunity not only to put a quality assurance system in that would obviously get us government work and get recognition from our customers, we also learnt very quickly that quality assurance programs such as ISO 9000 made us more aware and made us a more efficient company in the way that we operate our business.

Right now we are currently upgrading our manual yet again. We are using outside consultants to assist us to do that, to streamline the running of our business. So it means that the management in the business, of which there are three, can walk away from the business and do other jobs within the business and know that the running of the business is being carried out by the staff. The cost to get to these sort of levels under ISO and look at these sort of systems obviously is quite large and we

think that that should be also eligible for small to medium enterprises under SIP quality assurance and/or business operating systems that would make us more efficient.

I'd like to sort of briefly - I don't quite understand the reasons why, but the LDCs which are going to start to come into effect as of 1 July, I would certainly think that some of the countries that - obviously I can understand the motherhood and God reasons for why we're doing it but I find that what it will do, it will only allow some of the bigger operators within the system in Australia who are currently already importing a lot of their - the majority of their goods from overseas, or their garments from overseas - it would only allow them the opportunity to be able to move out of what is a reasonably low-cost country to manufacture right now into an even lower-cost country because there won't be any import duties on the product that's coming in. I think that apparel and clothing should be certainly one that should maintain its tariffs even from LDCs. That's about all I've got to say.

DR ROBERTSON: Okay.

MR ORTON: Perhaps I might make a couple of remarks about this outreach program that we're suggesting for SMEs. One of the things that we've found in talking to some parts of the industry is a fairly low level of knowledge about what is happening in the global TCF and L market. I guess as the PC itself highlighted, unless firms change what they're doing there are going to a lot fewer firms than there currently is participating in the sector. So I guess we see a need for two things. One is to provide information in a way that's easily accessible to smaller businesses and then to secondly turn that into some knowledge about what this means for the particular business and therefore what kind of strategy might be needed for that business to make the most of its capabilities or intellectual property with those environmental considerations in mind.

Usually small businesses I think, as Neil has outlined, are burdened with all sorts of information on a whole range of issues already: regulatory, compliance, let alone information about how the industry is functioning and our experience is that broadcast information provision through direct mail brochures really doesn't cut through. What is really needed is some one-on-one information provision, perhaps in group sessions, that attempts to, I guess, in a way tap as many willing industry participants as possible on the shoulder and invite them to come along and really get a grip on what's happening within their sector with the prospect of some additional perhaps one-on-one limited help to identify what the impact of those developments might be for that business and then to navigate them to other sources of help, which might be within TCF's specific programs like SIP or could be outside SIP, might be AusIndustry, state government programs, might even be directing them towards initiatives like Neil outlined where there are some networks or groupings of TCF sectors getting together to approach markets jointly rather than attempting to do it

individually.

We see a need for this, I guess, now let alone beyond 2005 because the 2005 change is one that many companies perhaps haven't come to grips properly with and that maybe this is something that could be considered, I guess, pre-2005 but if not, certainly between 2005 and 2015. I guess what we would see as being the new element of this program would be to, as I characterised, that attempt to eyeball people either in a group session and following that up with some limited one-on-one work to really take them through what those changes mean for their business. It wouldn't be a full business diagnostic. There are probably other programs that can do that. But it would need to be conducted by people who knew the sector and in whom the smaller businesses would have confidence. I'm happy to expand on that a bit more.

Perhaps just finishing off on the tariffs issue, I guess in the presence of a continued and substantial structural adjustment scheme, which we would prefer to see extended to 2015 and consideration being given to fully funding it to that period, and in the presence of better knowledge and some programs to deal with market access arrangements that the target that the commission has identified are ones that we could work towards provided I think that we introduce an extra step there at 2010 to the current 25 per cent rates which we would see going to 17 and a half, 14 per cent in 2010 then down to the 10 per cent in 2015, the current 15 per cent rates of course coming to 10 per cent in 2005 but stepping to 7 and a half per cent in 2010, then down to the 5 per cent in 2015.

We see that being a more realistic approach to the industry, given its current level of preparedness and I think the additional burden that the LDC initiative quite likely will create for local businesses. So perhaps we might leave it there and are happy to have some discussion.

DR ROBERTSON: Thank you for that. The least developed countries issue has been raised by several people. You know, at the moment it's less than 2 per cent of total imports of clothing, textiles and footwear. Now, there is a slight threat probably from Bangladesh and that's about it. So I don't think that's something to get too anxious about. There are some problems in the rules of origin but they will be looked at, I think, again. So I really don't think that's a big issue, especially in terms of, as you said, looking after other people. It clearly costs something to do that. So the least developed countries issue is not a major one. It doesn't compare with the other things you've raised, I don't think.

You pointed out that some of the proposals you've made on SIP would in fact effectively seem to spread it thinner or more selectively. It has to do one or the other. We wondered about - we had a lot of people complaining about small firms not gaining access and one of the ideas we had is that maybe we could set aside some

of the money for a sort of small firm beauty competition. In other words, small firms would be treated separately from the majors and there is a case - I mean, from little acorns giant oak trees grow sort of approach and it's difficult to say, you know, this firm that has just set up in his garage or her garage is going to become a winner. So it does need judgment and the beauty competition that we mentioned as an alternative way of dealing with SIP could in fact just be a minor program that would go to small firms on a basis of making your case, I suppose. Would that sort of meet some of your problems?

MR COUPER: I can understand what you're saying but would we still keep the criteria within the scheme, that it's based on your manufactured product here in Australia that keeps you qualified to be able to access SIP?

DR ROBERTSON: Yes, I think it would.

MR WEICKHARDT: Yes, would want to lead you to - hopefully motivate you to become more competitive in terms of manufacturing and investing in Australia, but this is sort of very much work in progress and ideas in the area.

MR ORTON: Yes.

MR WEICKHARDT: The idea that small businesses be given assistance with a range of things. You've mentioned a whole bucket of them that might help make them more competitive, but I think the focus of the scheme has got to be towards encouraging them to be more competitive in terms of doing something that adds value in Australia as opposed to taking a bucket of money and building a factory in China or Bangladesh or something like that.

MR COUPER: Correct, we agree with you there.

MR ORTON: Yes.

MR COUPER: I suppose without knowing the statistics it would be interesting to see what is actually the small to medium companies that actually produce the majority of goods locally manufactured but really are not registered or are not participating in SIP and I think you would find that it's the old 80-20 rule in reverse where I think 20 per cent of the goods are being produced by 80 per cent of the turnover. So I would think that the majority of goods that are being produced or manufactured right now in Australia are being produced by the small to medium enterprise companies and that's where I think that they should be encouraged.

MR WEICKHARDT: I don't think the statistics show that albeit that the statistics may not capture some of those small businesses in that they may be classified as retailers or, you know, something like that. But in terms of the sort of output that's

recorded, the current SIP scheme caters for a very small percentage of firms but it certainly covers well more than 50 per cent, probably 60 or 70 per cent of the output of the sector. So I think the 80-20 rule probably does apply but it's arguable, as David said, that some of those small companies are centres of innovation, entrepreneurship and - you know, we had a guy from Mercedes Fashion Week in yesterday talking about, you know, lots of small designers making high-fashion goods, probably small numbers but probably highly innovative, highly value added and trying to get export markets.

MR ORTON: Yes.

MR WEICKHARDT: All that stuff sounds good. The question is, how can you encourage that in a way that, as David was saying, doesn't just smear the money everywhere because there's just not enough money to really make a difference if you smear it everywhere.

MR ORTON: I think we accept the need for some kind of rationing device and the competitive application route is probably a good way of doing that, particularly if it's sufficiently broadly specified to give each individual applicant an opportunity to demonstrate how what they're proposing will lead to an enhancement of its competitiveness, however that might be - it might be on the cost side, it could be on the marketing, product development side. I guess what brought that home to me was talking to some of our smaller TCF members and asking them how they thought they were innovative, what did they do that was innovative, and certainly for some of them it's definitely not a technical version of innovation. It's doing what they might have otherwise done in better ways using newer technology.

So, for example, one firm I spoke to makes sports suits but it makes them out of lycra and it has worked out how to cut and sew them in a way that they retain the body shape and both male and female basketball teams look great when people go to see them and as a result he's won markets in North America. But the other surprising, to me I guess, thing was that he felt an innovation for him was finding someone who enabled him to use the Internet properly and to convert what people might have, in narrative form, given him or specified to him what they wanted the uniforms to look like, to convert that into some kind of a diagram, an illustration that he was able to - so there was some imaging software that he had to come to terms with, that he was able to email to people very quickly with a bit more value added than his competitors and he got sales out of it. So innovation need not be highly technical for smaller firms.

DR ROBERTSON: Now, in fact we had a burst from a lady in Geelong who had been working with small firms for a number of years and she had lots of stories of just how innovative these people are and how they don't need much money. They just need a bit of capital to get started and so they - - -

MR ORTON: Or a few contacts or networks or - - -

MR WEICKHARDT: Contacts or a specialist expertise for six months.

MR ORTON: Suppliers or - - -

MR WEICKHARDT: Just to get them over the hump.

DR ROBERTSON: But of course finding ways of helping is very difficult because again there is a big danger in that kind of thing.

MR COUPER: But some of those products and those sort of expertise, if there's not the volume available to be produced in Australia because the majority of the volume is being imported then there won't be the manufacturers here that can assist in being able to help them develop the products and that is one of the biggest problems that we have right now, is that the number of people who are actually left to be able to actually produce those sort of products is diminishing, right, and I think that that's where SIP, at least in the scheme, gives those that are left an opportunity to lift themselves and be able to stay within and provide those opportunities to take innovative designers and people like that and be able to produce their product for them. I see them every day. They ring us up and want to come out and make their garments and it's great. But we're one of two knitters left in Sydney. In Melbourne there were 450 when I started in the business and it's down to - I don't know how many, but it's only a handful.

DR ROBERTSON: There are certain sectors where clearly imports have taken over, but at the same time there are plenty of areas where people are still in and still making a good go of it. So you have to take a broader view than that. I mean, the development of technology in knitting has tended to push those things offshore, I think. There are very few of them left, I agree. Let me turn to something slightly different. You've actually said a number of things, Paul, in your submission that we welcome, like unilateral tariff reductions are a fact of life, because we've had a lot of people in here who don't think we should be doing anything in Australia and I've struggled with the economics because most of them don't want to understand what I'm saying. So it's very nice to come across one submission that says unilateral tariff cuts are a fact of life and we've got to get used to it. So that's welcome to us, and obviously we agree with you about the general tariff - you know, the 3 per cent tariff which you know we wrote a report three years ago that said that should go.

MR ORTON: Yes, and we're not giving up on that one.

DR ROBERTSON: No. There are a couple of areas that are mentioned in your submission that have been thorny problems for us and still are. One is outworkers

and the other one is entitlements. Your section on outworkers supports - as you did when we met you before - the idea of award wage rates and OH and S and all those things that the unions think is a good idea. But I mean our conclusion on that is if you push too hard all you do is drive the industry offshore because if the costs go up to the level that they would be in the factory then these outworkers are going to lose their job because they're going to find that they're uncompetitive. We think this issue is a pretty complicated one where some people would take a lower rate of pay in order not to have to go to work for whatever reason there might be. I mean, I have problems with regulation. It's all very well to introduce regulation but implementing regulation is extremely difficult and can be extremely expensive. I wonder if you would care to say anything about the outworker issue.

MR ORTON: Yes, I'd only just make some brief remarks but we propose to deal with it at a slightly greater length in our written material using others within our organisation who are more intimately involved with outworkers. So I think we can only agree with you that a regulatory approach isn't the preferable approach and that, as you say, the more that an attempt is made to make outwork look like factory work the more that work is likely to shift offshore so there's certainly a need to strike a balance. But I think in the argy-bargy of relationships with the labour movement and indeed with government we've come to the view along with a number of organisations that we do need to come up with some kind of system that sets some reasonable standards. The danger is that over time those might ratchet up and we end up with that kind of work going totally offshore.

MR WEICKHARDT: Paul, in your submission can you sort of comment a bit more on the merits behind that argument because there are two sides to the argument. One is - I mean, I think there is little doubt that Australian manufacturers who use outworkers see the flexibility and fast response aspect of being able to use outworkers as a key issue and so although the unions might not like that, I don't think any of us have any difficulty with the fact that if Australian manufacture is going to have a competitive advantage it's probably built around some of those issues of being able to respond rapidly to fashion trends and that will mean inevitably quick ramp ups and ramp downs. But if that is a key competitiveness issue there's an argument that says outworkers ought to be able to be paid and treated reasonably and, if you like, insisting on some minimum level of award shouldn't drive these people offshore because by their very nimbleness and preparedness to react quickly they're providing enough competitive advantage to offset any labour cost disadvantage. That's one argument.

The other argument is, this is all incredibly marginal - you know, anything that adds another straw will break the camel's back and people will just say, "Damn it, we'll take the manufacture offshore." We'd be interested in your views as to which of those arguments has more weight. I suppose the reality of the situation is that this is such a diverse industry that there are examples of all that and a continuum in

between.

MR ORTON: I'm sure. We've got examples of all that within our own membership, so happy to do our best in weighing those two views.

MR WEICKHARDT: I mean, we've certainly met people who've looked us directly in the eye and who've sounded very plausible, and we've got every reason to believe them, who say they use outworkers and they have every confidence of those outworkers being fairly treated, and yet we have the union bring along an outworker who talks about being paid at most \$5 an hour, they quote examples of people who never get paid.

MR ORTON: It is a very complex business with lots of intermediaries in there. Yes, it does create difficulties for any one element within that chain to actually influence outcomes too much. I guess that's part of the reason for the council that has been set up.

MR COUPER: I suppose the question is, why do people use outworkers? The reason why they use outworkers is because it's cheaper and because they're trying to compete against product that is being imported which is cheaper. Then let's see how we can get the cost out of the product. We as a company use a limited amount of outwork. It might be to manufacture a component, but that is really all that we use it for. The majority - and I'm talking about 100 per cent of the garments that we manufacture - are manufactured within the factory. It doesn't mean to say that in future we won't be looking at outworkers or looking at contractors who specialise in specific areas. I think there's a slight difference between the word "outworker" and "contractors".

Outworker gives me the impression that it's somebody who is at home with a sewing machine and it's an easy in, easy out type thing and somebody delivers a bunch of garments to you and you have to put those together and then that's it, and you get paid by whatever means; whereas a contractor tends to be a registered factory who have set themselves up as a factory that you can physically go and see which they're specialising in one part of putting the garment together. So it may be that a company like Calcoup Knitwear in the future manufactures the fabric and the assembly of that product, the actual garment itself may be done by a contracted factory outside of our own factory. For all intents and purposes it's still our product, we still do the quality assurance on it, we ensure that the product meets the specification that our customer requires and is delivered on time. So we have all those components but we - now, that's maybe something that will happen in the future.

You raised the issue about moving - if you put too much pressure on does that mean that the manufacturer of these garments would then go offshore. I think the

people that use outworkers the majority have already moved a lot of their stuff offshore and that the outworker is only giving them the quick response back here in Australia on the short runs that they can't fulfil overseas because it's taking them eight weeks to get the turnaround to get it back.

MR WEICKHARDT: Which suggests they should be able to afford to pay then a reasonable rate.

MR COUPER: Exactly. They should be able to make sure - and that's where I don't think - I think that regulation is important and I would support the union on that because on that basis it then at least makes it a level playing field as far as garments that we may be producing inside our own factory where we're paying the right level of award rates and all the other add-on costs versus somebody who's been able to manufacture something somewhere else at a cut rate to - or the worker is being paid at a cut rate. You mentioned the word \$5; I don't know whether that's right or wrong.

DR ROBERTSON: The problem with regulation is that it can be very expensive to ensure that standards are maintained. See, the unions are in favour of regulation but they actually don't have much data either. They're not much better off than we are as far as I can see in terms of how many outworkers are there, how many of them are treated badly. They can quote cases but given the numbers that they say exist, numbers of outworkers, the number of cases are quite small. It's a very difficult area to get - - -

MR WEICKHARDT: One senses if there was a - I mean, (a) if the standards were clear - and they're probably becoming clearer in terms of codes of practice and retailers accepting codes of practice and (b) if there were abilities to communicate with the people that are outworkers about what their rights and entitlements are and they had rights to put their hand up where they are being exploited then I guess, if you like, self-regulation could work. But having sort of teams of storm-troopers racing around Brunswick inspecting every facility doesn't seem to make a lot of sense to me.

MR ORTON: Yes. No, we certainly wouldn't be supporting anything other than the current - making the current system work well. I would certainly agree with you that attempting to police this in a heavy-handed black letter law form of regulatory environment would be incredibly expensive and probably not very effective. A far better way is to use the existing code and the mechanisms set up around it to get a reasonable platform put underneath conditions and pay.

MR COUPER: I think that the codes of practice that are involved in New South Wales currently that are in there which are supported by the government in New South Wales have definitely meant that it's been cleaned up a lot more and I think a lot more people are sort of aware of what their obligations are. I think even - well, I

don't know what the union submission was but my discussion with the union is I think they think that they're making more inroads than what - in other words it's not growing, it's being controlled or contracting, and I would sort of go along with that.

The movement of operations offshore may be in some ways beneficial as well as not being beneficial, I suppose, to the industry. We ourselves have our own operation in Fiji and our reason for setting that operation up in Fiji was purely to be able to use the labour cost efficiencies over there versus savings over there versus what they are in Australia. We still own the equipment, we train the people, we have our management go over there and help with the technical side of the business over there. But the main aim of why we set the business up over there was to try and eradicate some import of goods. In other words, our customers were saying to us, "We are able to buy this particular product at a far cheaper price from overseas by a finished garment. What can you do that would mean that I could still use you as a supplier and yet get the product at the price that I want," and by using the Fiji operation we've been able to do that.

Now, where does that benefit Australia, I suppose you might say. Well, for instance we buy all our yarns here in Australia so therefore the yarn supplier, the top maker and those first stage people are all still getting our orders. That means that we are, I suppose, morally doing something for an overseas country and the goods that obviously are sold here we still pay our taxes here. So in that sense we're assisting the country and what we're doing is, we're stopping, albeit maybe a very minute piece of importing happening, we are stopping that importing occurring. We're also giving our customer, because the quantities that they would maybe have to buy over in an offshore country like China are far greater than what we're able to quick response and turn around for them just by over in Fiji, because in actual fact to move something from Fiji to Australia is almost as quick as moving it from Perth to Sydney, I can assure you, and of course we've got the machinery there. We can offer that for them.

MR WEICKHARDT: Paul, can you talk a bit more about this global outreach program because I'm sympathetic with a lot of the objectives, but I can't help but think that clever consultants and intermediaries could insert themselves into this process and extract 90 per cent of the benefit.

MR ORTON: Yes. Frankly I think there's a big role for organisations like my own and our colleagues around the country because I don't know that we've really engaged with our entire membership in a way that I guess has helped them understand the realities of the global TCF marketplace. But frankly we don't get enough subscriptions from them in order to fund the slightly more intensive work that I outlined. So I would certainly see industry organisations being in there in some way to ensure that this didn't become a consultant fiesta.

MR WEICKHARDT: Have you had a look at all at some of the programs that regional councils or regional groupings offer? We had, for example - was it Whittlesea or the northern region?

MR ORTON: Yes, it was the northern suburbs one, yes.

MR WEICKHARDT: Industry people from Melbourne who came forward to the inquiry. You might have a look at their submission. NIETL I think they call themselves and they described work that they do with small businesses which sounds very similar to the sort of thing you were describing.

MR ORTON: Yes.

MR WEICKHARDT: They get funding from DOTARS I think, the Department of Transport and Regional Services, and they had small sort of books teaching people about marketing and quality control and exporting and stuff like that, and very much pitched at small businesses. They run programs at night so people can come along and, you know, it was along a similar vein saying that, you know, at the moment there are opportunities to make small businesses more competitive and they just need a bit of help in the process.

MR ORTON: Yes. I guess we do a number of those programs, for example with local government in south-western Sydney, a program called the GROW program. Don't ask me what the acronym stands for because I've forgotten, but basically it does pretty much the same things on export issues in particular. So you're right, I think there are a number of existing relationships and mechanisms. For example, just last night we were talking at our international trade committee meeting with Austrade and there's a move afoot to bring together Austrade, AusIndustry and state government industry assistance programs into something not unlike what we were describing here, but perhaps better characterised as a caravan in industrial estates where again, rather than relying on broadcast communications they would locate in places where the businesses within those estates use.

So it might be somewhere they get their suppliers from or they go to get their lunches and actually have stuff available for them on site and to be able to talk to them. So I think the principle of eyeballing people is one that we need to do better at. But we need to do it in not just a regional sense, which a number of these programs have focused on regions as in non-metropolitan regions. The bulk of the New South Wales industry is in Sydney. I think we need to be doing something in the metropolitan areas: Sydney, Newcastle and Wollongong, in particular to, I guess, be able to tap these people on the shoulders and we wouldn't be doing it necessarily alone. I think we would need to be engaging a number of other providers, both government and non-government organisations like our own, to put a program together.

But I don't know that there's funding necessarily available for the whole thing. I think part of the role would be to navigate people to existing programs so we wouldn't see this as a total call on TCF sector funding. But I think certainly the bit about outlining the realities of the TCF marketplace and giving them a little bit of one on one - it might only be a couple of hours, it might be a day at the most - on what this might mean for that business and if they have a business plan have they taken it into account? If they haven't, "Here are some places you can go to, to get further help."

MR WEICKHARDT: Again you might like to look at the submission from the TCF Resource Centre in Western Australia. This is the one David mentioned before.

MR ORTON: Yes.

MR WEICKHARDT: A final question from my side is: we made a recommendation about entitlements and some form of general inquiry to perhaps try and act as a circuit breaker in this difficult area. Do you have any views on that?

MR ORTON: I guess we're pretty committed to the government's GEARS scheme and we would like to see that operating as it has been designed to do. I guess the whole issue of providing for entitlements, as you say, is a very vexed one. But from businesses' point of view we need to come up with a system that doesn't tie up working capital and funds that need to be used to secure the future of individual businesses. But perhaps you might expand a bit more on what you saw the commission's proposal leading to.

MR WEICKHARDT: Simply that I guess we've seen a lot of energy being consumed in discussions between unions and employers on this issue of entitlements.

MR ORTON: Yes.

MR WEICKHARDT: Where almost every ounce of energy ought to be devoted to, you know, "How can we work together to make this a more competitive industry and a more competitive business?"

MR ORTON: Yes.

MR WEICKHARDT: Despite the fact that the GEARS scheme worked there were a number of employers who have said they don't see that that is actually going to be an acceptable outcome for their employees. They're still concerned that there will be ongoing disputation around this whole issue and I guess our view was: this is complex, it can't be solved at a firm level. The solutions at an individual firm level are unworkable. We, I don't think, have very much sympathy for the unions' push for

trust funds and things of that sort. So we said, "Look, as a circuit breaker rather than having individual employees and firms butting their heads on this issue it would be better that some form of national inquiry looked at all the issues and came up with an Australia-wide recommendation that actually meets the needs."

Now, maybe that is a modified version of GEARS. But until everyone has, if you like, signed off on that it just seems we're providing a hell of a lot of heat and anger and understandable frustration in this sector particularly, where employees based on the track record of the industry have every reason to be worried about access to entitlements. Yet, you know, their solution of them banging their head against the biggest employers doesn't actually produce any good result.

MR ORTON: Yes, you're right. It's an incredibly complex issue. But our position currently is one of support for GEARS. I think we probably should look a bit more closely at the suggestion that you've made. I guess we'd much rather be looking at improving the sustainability of the industry and its capability to maintain and provide jobs, and anything that makes it more difficult for companies to fund their operations is a real worry I guess. So I guess for the time being we're fully committed to the GEARS scheme.

MR WEICKHARDT: You might like to comment on that in your final submission.

MR ORTON: But we'll comment on that in our final submission, yes.

MR COUPER: You wouldn't be looking at SIP or the arrangements, whatever the scheme might be, having some sort of funding in there for entitlements of staff?

DR ROBERTSON: No, the sums of money involved are far too big I think.

MR COUPER: Thank you. You relieve me.

MR WEICKHARDT: I also don't think that it's sensible to consider tackling this issue on an industry basis, let alone a firm basis.

MR ORTON: I agree with you.

MR WEICKHARDT: It's a matter of pursuit - - -

MR ORTON: Absolutely, yes.

MR COUPER: Yes.

DR ROBERTSON: Okay. I think we're about through here on this side, unless

you have anything further to say.

MR COUPER: I suppose my only comment would be that I don't know where the retailers fit into all of this, but I would hope that they're at least coming forward with some suggestions of how they can support the industry in Australia.

MR WEICKHARDT: I think they've at least said they do want an industry here, which I think should be reassuring to the industry.

MR ORTON: Yes. I guess, although it has had a chequered history in the past, some more work on supply chain relationships might not go astray. We've certainly been involved. We, being ABL, have been involved in at least one supply chain initiative that attempted to demonstrate to retailers the value in sharing some of the benefits of supply chain efficiencies across the whole supply chain, ultimately not with a huge amount of success. But it's certainly heartening to hear that there has been an acknowledgment that they want an industry. So I think we can flag that as an issue that we as an organisation will be paying more attention to.

DR ROBERTSON: All right. Thank you very much.

MR ORTON: Thank you.

MR COUPER: Thank you.

DR ROBERTSON: I declare these hearings closed.

AT 9.52 AM THE INQUIRY WAS ADJOURNED ACCORDINGLY

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