



COMMONWEALTH OF AUSTRALIA

## Official Committee Hansard

# HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS, FINANCE AND  
PUBLIC ADMINISTRATION

**Reference: Australia's manufactured export and import competing base now and  
beyond the resources boom**

THURSDAY, 8 FEBRUARY 2007

CANBERRA

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**HOUSE OF REPRESENTATIVES**  
**STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION**  
**Thursday, 8 February 2007**

**Members:** Mr Baird (*Chair*), Dr Emerson (*Deputy Chair*), Mr Ciobo, Mr Fitzgibbon, Ms Grierson, Mr Keenan, Mr McArthur, Mr Secker, Mr Somlyay and Mr Tanner

**Members in attendance:** Mr Baird, Mr Ciobo, Mr Keenan, Mr McArthur, Mr Secker and Mr Somlyay

**Terms of reference for the inquiry:**

To inquire into and report on:

The state and future directions of Australia's manufactured export and import competing base, focusing on, but not limited to:

- Australia's dominance in commodities exports and the impacts of this on the economy following the resources boom;
- The state of the country's manufacturing sector (and the goods and associated services) including opportunities and challenges from the expansion in global trade (in particular by China); and
- Policies for realising these opportunities.

**WITNESSES**

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**Committee met at 10.13 am**

**BLACK, Mr Lindsay, Operations Director, Melba Industries**

**EDQUIST, Mrs Zoe, General Manager, Australian Fashion Council**

**HAWKINS, Ms Christine, Director, Cinnabar Designs Pty Ltd**

**MANWARING, Mr Brett, Chief Operating Officer and Chief Financial Officer, Bruck Textiles Pty Ltd**

**VAN KRIEKEN, Mr Ashley, Executive Director, Council of Textile and Fashion Industries of Australia Ltd**

**WADDELL, Mr Peter, Chief Financial Officer, Stafford Group Pty Ltd**

**CHAIR (Mr Baird)**—Welcome. I declare open this public hearing of the House of Representatives Standing Committee on Economics, Finance and Public Administration inquiry into the state of Australia's manufactured export and import competing base now and beyond the resources boom. The inquiry was referred by the Treasurer, the Hon. Peter Costello MP, on 3 May 2006. The inquiry has authorised more than 40 submissions to date from various parts of Australia from a broad cross-section of interested parties. Copies of these submissions are available on the committee's website.

Australia is currently experiencing an economic boom in resource commodities. The manufacturing sector has experienced benefits and challenges arising from the boom. The committee is inquiring into the robustness and preparedness for the future of our manufacturing sector and the impacts of or synergies from the resources boom. Today we will be hearing from representatives of the Council of Textile and Fashion Industries of Australia.

Although the committee does not require you to give evidence under oath, this hearing is a legal proceeding of the parliament and warrants the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. I welcome the representatives of the Council of Textile and Fashion Industries of Australia. We have received a written submission from you. Would you like to present additional evidence or make a general presentation before we proceed to questions?

**Mr Van Krieken**—I will make a few opening comments. I thank the committee for inviting us to this hearing. I understand this is generally a private meeting so thank you for making the time to see us. This is a very important inquiry for the textile, clothing, footwear and fashion sector of Australia. The sector, perhaps contrary to some perceptions, is a growing sector. It has in recent quarters seen employment rise, export growth increase and stocks grow.

**CHAIR**—Is that predominantly in the fashion sector?

**Mr Van Krieken**—It is spread across sectors. There is certainly strong growth in the technical textiles area.

**CHAIR**—Technical textiles? What is that?

**Mr Van Krieken**—Non-woven textiles and man-made fibres, including products such as Kevlar synthetic fibres—perhaps my colleagues can elaborate on that later—environmental fibres and filtration fabrics. Certainly, fashion is another area. Personal protective equipment is also growing. That growth is coming about with companies pursuing a variety of means of attracting that growth, and that includes differentiating their product both domestically and internationally, whether it be through branding or, as we are seeing increasingly, building on quality aspects and supply chain efficiencies—being able to deliver product in a shorter amount of time and more tailored to the client’s needs. There is also an increasing uptake of technology, and not just traditional textile technologies but technologies from the electronics field and from several other fields.

The industry does welcome the support that successive governments have provided, most recently the strategic structural investment program post 2005. Whilst we are successful in this growth there are some issues, and we have noted several of them in our submission, that we believe are perhaps hindering and even dampening the industry and causing some concerns. I will go through them briefly as I am sure the committee will have questions on them. Obviously, we are very concerned about exactly what sort of playing field the free trade agreements Australia is negotiating are providing for manufacturing, particularly for textiles, clothing and footwear.

**CHAIR**—What would you want to see happen?

**Mr Van Krieken**—The key issue is that, certainly in the most recent agreements, we are not seeing a huge amount of benefit coming from them. In particular, I will use the US agreement as an example. According to our data there has been no growth in TCF exports from Australia to the United States under the agreement.

**CHAIR**—Is that surprising, though?

**Mr Van Krieken**—Given the yarn forward and fibre forward rules of origin it was not surprising, and that is probably a very good example of the sort of outcome we would not want to see in other free trade agreements.

**Mr SOMLYAY**—What about trade the other way?

**Mr Van Krieken**—Again, our data is not showing any significant increase.

**CHAIR**—Are they too busy fighting the Chinese?

**Mr Van Krieken**—I think they might be too busy pursuing other—

**CHAIR**—Millions of jobs lost in terms of their own sector.

**Mr Van Krieken**—That is correct, yes.

**Mr Black**—Perhaps I could give an example of the issues in terms of the US FTA. We manufacture some fabrics that are used in protective clothing for smelter workers. There is a large aluminium-smelting industry in the US. Due to the rules of origin in terms of where the yarns are sourced from, if they come from the US or Australia you get an entry into the US market. These yarns are not made in Australia. They have come out of Europe. There is a big IP component in the yarns. So when we try to sell those fabrics or export them into the US we pay duties of between 13 per cent and 25 per cent depending on the weight and construction of the fabrics going in there, which automatically precludes us from a lot of the market opportunities and obviously hurts our competitiveness in the marketplace in the US.

**CHAIR**—Was that issue addressed in the free trade agreement? Why are we still seeing tariffs of that size?

**Mr Van Krieken**—Essentially because we cannot move the product in under the preferential trading grounds because we do not meet the rules of origin. Certainly if we met the rules of origin we would have the preferential tariff.

**CHAIR**—I see. So the rules of origin mean that you had it manufactured in China, does it?

**Mr SOMLYAY**—No, they have to import the—

**CHAIR**—The imported part of the composed product is likely to be made in China, for example, and therefore it does not meet the rules of origin? Is that what you mean? I am missing something.

**Mr Black**—In this case, it is the yarns that are used in the fabric.

**Mr CIOBO**—Where are the yarns manufactured?

**Mr Black**—They are manufactured, for this particular product, in Europe. I guess the critical nature of that is that the IP or the performance and features of the product are inherently in the yarns so it is not the sort of thing that you want to spread around to anybody. There has been a lot of development and a lot of technology go into the development of that product and the yarns. It is one of the major secrets to that particular product. There is not the ability to make that in Australia. Obviously, we do not particularly want to get into sharing our secrets with the US just to comply with the rules of origin.

**Ms Hawkins**—We have the same problem with the manufacture of certain fine merino knitwear. It is all beautiful Australian wool, but there is no yarn processing in Australia—certainly not of the quality that goes into our knitwear. The Italians have the monopoly on that. So wool goes offshore; it is processed—it is spun—offshore. We bring the yarn in and turn it into fabric and finished product. That is excluded from the benefits of the free trade agreement also because of the yarn.

**Mr Waddell**—I think the issue here with the rules of origin, actually, is that the free trade agreement with America has a yarn forward rule of origin whereas other agreements have a regional value or regional content rule of origin. In these cases, although more than 50 per cent

of the value added to the product or the end product being sold is Australian, because the yarn came from elsewhere we cannot get it into America under that preferential agreement.

**CHAIR**—Have you taken that up with Foreign Affairs?

**Mr Van Krieken**—It has been raised with Foreign Affairs. It was also raised in the last review of the Australia-US free trade agreement.

**CHAIR**—Did you argue for it at the time? Were you in discussions with—

**Mr Van Krieken**—We were heavily involved in the discussions at the time. I was not in the role at that point in time, but the organisation was. We understand that the US is fairly adamant that it is included in every free trade agreement they undertake. It is an example of one such instance. To move onto that in terms of the level playing field, we are certainly also concerned with a lot of the non-tariff barriers that exist, particularly when you are looking at agreements with China. The committee may be aware that the US has formally launched action against China in the WTO now on import and export subsidies. Quite obviously, that is a concern for us, because we find that we are competing, not only in a domestic market now but also internationally in many markets, with Chinese product. Again, it comes back to what is a fair playing field. If we are to have a free trade agreement with a country then we should not be seeing artificial cost reductions or artificial price inflations. Perhaps, Chair, given that we have already started, maybe we can move onto questions and we can continue from there.

**CHAIR**—Sure. I suppose we want to get a handle on this. Obviously there is concern out in the wider community about the manufacturing sector and whether it has a future and whether, once we have been through all the good healthy things from the resources boom, we will still have a manufacturing sector in place or whether we will see more and more of it going offshore. We are trying to get a picture from the textile and fashion sector of whether it has a future, how much it has reduced over the last 10 years or so because of competition—particularly from China, I would imagine—and whether there are specialised sectors that we should be encouraging and developing. What should government be doing? I invite you generally to speak on that.

**Mr Van Krieken**—I think we should start with general comments. Certainly over the last 10 to 15 years the industry has declined and rationalised. That was the result of, again, successive government decisions to reduce tariffs and other forms of protection. Quotas were removed in the late eighties. I think the final quota was removed in 1992.

**CHAIR**—Was that a good thing or a bad thing?

**Mr Van Krieken**—It really would depend on what sector of the industry you speak to. Perhaps unlike the US and the EU, it has given us a bit more time to adjust and operate. Since around that time, you can certainly see a steady decline in employment turnover. However, as I noted in my opening comments, in recent quarters over the last couple of years we have started seeing an uptake in many of those areas—for instance, with employment rising.

**CHAIR**—What is total employment now?

**Mr Van Krieken**—Just over 56,000.

**CHAIR**—What was it 10 years ago?

**Mr Van Krieken**—Ten years ago, at its peak, it would have been around 120,000. It has effectively halved.

**Mr CIOBO**—What is happening with productivity? Because we have seen an increase in productivity are there therefore increases in volume or is that declining as well? Because it is a smaller workforce, does it mean that there is an industry of going backwards or being automated or whatever?

**Mr SOMLYAY**—Does that workforce include subcontractors working from home?

**Mr Van Krieken**—It is based on ABS figures and does not include home workers. I think the estimates—

**Mr CIOBO**—No, it does not.

**Mr Van Krieken**—on home workers vary from 30,000 to 300,000. Our feeling is that it would be closer to 30,000.

**Mr CIOBO**—What about volumes?

**Mr Van Krieken**—I might pass the question of volumes over to some of the companies here but, before I do, I will tell you that volumes of clothing production have remained fairly constant. Yarn has fallen, fabric has fallen slightly—

**Mr CIOBO**—You mean for production?

**Mr Van Krieken**—Yes, for production.

**Mr CIOBO**—But imports have gone up, haven't they?

**Mr Van Krieken**—Yes, imports have gone up.

**Mr CIOBO**—Are we value adding or not?

**Mr Van Krieken**—I would class the sectors and companies that are growing at the moment as value adding to resources. Perhaps some of the companies here would like to make a comment on the productivity side.

**Mr Manwaring**—No problem at all. Our company, Bruck Textiles, was predominantly an apparel and work wear business. We have had to reinvent ourselves and the products that we make because it is evident that the niche market that Australia can service is the short run, quick turnaround production. The other area that we focused on is purely the value add side of things—those that are technical products and those that have riskier elements attached to them.

Our business has reinvented itself to move away from the traditional work wear. For example, we provide all the fabric for camouflage gear for the defence forces. We have a significant furnishing business as well—blinds and drapery fabric. But they are not just traditional blinds; we are moving into things such as flame retardants. Those areas are code of product, which are more complex and require shorter run, higher value products. Whilst you could say that meterage has gone down, the dollar value per metre has increased significantly.

That has resulted in having to have a completely different skilled workforce as well. Traditionally, the textiles industry has had an older workforce. It is fair to say that a lot of the previous participants in the industry were European migrants—they had the skill sets that were there—but it has changed around a lot. The skills that are required are everything from the technical, laboratory side of things through to the environmental aspects of what we do. It has really changed the dynamics of how we have to focus our business.

A lot of that has been brought about by our customers, who have decided, for example, that rather than buying fabric in Australia they will buy garments overseas. If you move the garments overseas, traditionally you will move the fabric overseas. So our niche markets are focusing on the short run, quick turnover and/or areas where we have a competitive advantage, and technical textiles is really where we see our market being. We are also focusing on export opportunities, not just looking at maintaining domestic business, whether that is done through acquisition opportunities or through reinventing new products. Particularly in the flame retardant area, Australia's standards are well above world standards, so we are certainly focusing on those.

It is made difficult in particular by some of the US agreements. Non-trade barriers such as the Berry Amendment, which determines where the yarn has to originate for products that are sold in the US, make it very difficult. Going forward, as we look at Asian free trade agreements, it is the non-trade barriers that are the issue. One area in particular that I think our industry is very reliant upon is government procurement. In all other countries that we deal with, all government procurement is excluded from free trade agreements, whereas in Australia the textile side of things has been carved out and is open slather.

**CHAIR**—What about with the US agreement? Government procurement is now available to Australian suppliers. Are you saying that textiles are—

**Mr Manwaring**—Not for us. Because of the Berry Amendment, we cannot supply them.

**CHAIR**—Is that right?

**Mr Manwaring**—We are happy to be on a level playing field. The only concern is that the non-trade barriers take that away.

**CHAIR**—That is a very good point. Is Work Choices helping you in negotiating?

**Mr Manwaring**—I cannot talk for the whole industry, but our main business is located in Wangaratta, which is in regional Victoria. We are in an area where unemployment is only about 1.2 per cent. So it is not a case of worrying about what awards say et cetera; you have to pay a certain level to attract the employment. Work Choices certainly has provided opportunities in work flexibility, which is what our industry needs to be able to survive. It is no longer a case of

having the traditional attitude of, 'Let's just open for 12 hours a day and we'll run this machine full-time.' We need to have a multiskilled workforce, and certainly Work Choices provides those opportunities. But, as we sit here today, the union movement does not seem to want to push ahead with the fact that the world has changed from the eighties and nineties, and so it is difficult.

We are trying to maintain a healthy relationship with our employees. Certainly, our preference would be to have one standard agreement across a whole site, but the reality is that that is not going to happen whilst the unions will not see eye to eye with the new legislation. It is forcing us into a position where we are going to have to go with AWAs, which is not a bad thing in itself, but the administration that comes along with having 20 agreements on the site as opposed to one is, again, an additional cost. There are certainly some benefits there. I know that in the fashion sector in particular there are concerns about some of the areas under the IR changes that do not actually deal with how you deal with contractors.

**Mrs Edquist**—Contractors and outworkers have been quarantined from it, which is a real problem for my group.

**CHAIR**—Your group is?

**Mrs Edquist**—Fashion designers, basically. We are talking—

**CHAIR**—Sass & Bide and all that?

**Mrs Edquist**—Yes, exactly. Generally they are small to medium businesses. We do not really have any large businesses that design and manufacture here anymore.

**CHAIR**—It is growing, though, isn't it?

**Mrs Edquist**—It is growing.

**CHAIR**—I see that Australian designers got quite a bit of exposure at Fashion Week in the States.

**Mrs Edquist**—That is right. There are five designers—most of them are members of our organisation—who are over there at the moment, which is really encouraging, because that has only happened in the last few years.

**Mr SECKER**—How does being quarantined from contractors cause you problems? What is happening that is causing you problems?

**Mrs Edquist**—The industrial relations regime that deals with contractors is highly complicated. Basically, the federal award recognises outworkers as employees. So all the responsibilities that you have to an employee you have to an outworker, who you may not have any control over because they are not in your physical premises. But the main problem is that there is a middleman in there as well, so you do not actually know who the outworkers are out there but you are still responsible for them.

**Mr SOMLYAY**—But outworkers do not want to be employees.

**Mrs Edquist**—They do not.

**Mr SOMLYAY**—They want to be small business people.

**Mrs Edquist**—They do. They are microbusinesses, basically. The award does not recognise them as such; it recognises them as employees. There is no recognition of contractors in the award, even though contractors make up 90 per cent of the workforce. So there is a major problem. It impacts on designers because designers get targeted by the union, because they are the most visible part of the supply chain.

**Mr SOMLYAY**—One manufacturer in my electorate has this problem with outworkers and is being sued by the unions now. They have come onto their premises and demanded \$10,000; otherwise they will close them up. The threat is that they are going to move offshore. They will take their business offshore, if this continues.

**Mrs Edquist**—Yes.

**Mr SOMLYAY**—I would have thought that Work Choices would give your industry more flexibility to stop it going offshore. Are you seeing evidence of that at all?

**Mrs Edquist**—It does not affect the rules regarding outworkers. What is contained in the award now stands. It has been specifically excluded for reasons which are really mysterious to us. But something needs to happen, because the structure just does not recognise the reality of the industry at all.

**Mr SOMLYAY**—Can the committee have a strong recommendation from you as to what needs to be done with regard to outworkers?

**Mrs Edquist**—Yes.

**CHAIR**—That would be good.

**Mrs Edquist**—Certainly.

**Mr Manwaring**—It is fair to say that one of the big things is that the education has not been there. The legislation certainly can have some benefits for those who are involved with it, but the education of small businesses has not been there. They do not know what they need to do to comply.

**Mrs Edquist**—No. They have no idea.

**CHAIR**—That is an interesting point.

**Mrs Edquist**—Under the award there is a legal requirement that you register with the board of reference if you outsource any production. I would say that, out of all of the people I have spoken to, probably only two or three have been aware that they need to do that. Even when you

speak to the union and say, 'Can you give us some recommendations of people who are registered so that we can pass that information on to these designers, who want to use registered factories,' they do not have anyone on their list.

**Mr SOMLYAY**—The P&Cs who provide school uniforms are mixed up in this as well. They are subject to these fines as well.

**Mrs Edquist**—Yes. For a small business trying to manage, it is really terrifying, because it is very difficult—almost impossible—to be compliant.

**CHAIR**—We need to take that up as a separate issue. I think that is important. Thank you for raising it.

**Mr CIOBO**—We have seen the nature of the industry change, which you have all mentioned. The impression I get is that you have shifted from being a volume industry to being more of a niche industry, which we are seeing increasingly across all sectors in Australia. It is all value add, whether or not it is work wear, like you were talking about. I know that the Stafford Group have the Anthony Squires label. Is that a good characterisation of what is happening: there are increased opportunities to continue with niche marketing? We know that our key designers are getting increased international exposure.

My other comment is that the impression I am left with is that we have seen a significant decline in labour costs as a percentage of overall production costs. I would have thought that would make us more competitive than it has been traditionally, where perhaps labour has been a greater percentage of your unit cost. I am interested to know whether or not you agree with that.

**Mr Waddell**—I would like to take up both of those. The Stafford Group does control the Anthony Squires label. The Anthony Squires product is manufactured in Preston. Over the last 20 years or so there has been this massive decline in Australian clothing manufacturing, particularly out of standard-regulated factories. We have managed to maintain our production levels out of Preston for a fair period of time now. We find that we can only do that because we have created a niche market which is fairly high in the price levels that you find for men's structured suits. It is a niche market that is supported by the quality of the product. So it has been a conscious strategy to create a label that sits high enough to allow us to control it in Australia with Australian manufacturing.

One way or the other, I think most clothing and textile businesses have to find that sort of niche, whether it is that niche or whether it is a niche specialising in some technical skill that other people do not have. For us, because it is clothing manufacturing, I guess it has to be a price niche because it is pretty hard to find a lower niche where there is volume enough to create a business without having a lot of import competition.

As far as the labour costs go as a percentage of the product, part of this drive to get the highest levels of quality we could get created a need for some pretty competent equipment. Those investments were made in the nineties and the early 2000s and are continuing. But you still need a substantial proportion of labour input just because of the nature of clothing—you are putting pieces of cloth together and not all of it can be done automatically, particularly when you have production levels which, because you are in a niche, cannot be huge volumes. So the labour

costs are still there. They may have declined slightly as a proportion of the overall costs but it has been pretty stable over the last few years.

The issue we have is, as our overseas competitors get better at what they are doing, we are getting more overseas competition at the lower edges of our Anthony Squires market. With the free trade agreements, we are concerned that they might create avenues for competition to become better priced coming into Australia than occurs now. It continues to get better priced. Our attitude really is that we want the stability to continue as we have with the present industry plans. We would like the free trade agreements, in whatever they do, not to change the industry plans. Those industry plans should be basically set in concrete as far as we are concerned.

**Mr CIOBO**—Just on that point, what does that mean? Increased competition is not a bad thing. Is the issue that you do not feel it is a level playing field?

**Mr Waddell**—Absolutely.

**Mr CIOBO**—So we need to address that issue. That is a massive issue to address.

**Mr Waddell**—Sure. There are two criteria we see in that. Just looking at China, we know that the Chinese government subsidises its exporters. It might only be a few per cent; we do not know the amounts, but we have had correspondence with Chinese suppliers where they have said that their prices have to increase because the government has changed the degree of subsidy. The other issue is, when you are looking at a level playing field in terms of exchange rates, we have found that the Chinese currency has effectively devalued against the Australian currency significantly over the last few years. We cannot see why a country that has massive trade surpluses like China, when dealing with a country that has trade deficits like Australia, should have had the level of devaluation that has occurred to the extent it has, unless there is government control over the exchange rate.

**Mr CIOBO**—They do not float the US dollar, and we have appreciated against the US dollar.

**Mr Waddell**—The yen has been close to the US dollar, but against the Australian dollar it has depreciated by about a third over the last five years. It is a significant disadvantage to us that it is not a level playing field. We have an open exchange rate policy whereas they do not, so the product coming in from China, which competes with the bottom level of our manufacturing, has this price advantage. That is one of the issues that I think needs to be addressed.

**CHAIR**—It is exercising the Americans as well. There was a private member's bill in the US Senate about blocking imports until China agreed to float their currency. It was not long after that that there was a small increase in the value.

**Mr Waddell**—Very small.

**CHAIR**—That is obviously a bit beyond what this committee can influence, but I appreciate what you are saying.

**Mr KEENAN**—What measures do you think the government should take to address that? We can raise it with the Chinese authorities but we are not going to re-regulate the currency.

**Mr Waddell**—It is a very difficult issue. There are probably mechanisms whereby if the currency is not floating there could be some sort of tariff compensation.

**CHAIR**—No, this committee is not going to give you tariff protection.

**Mr Waddell**—We are not asking for that.

**Mr Van Krieken**—We are not asking for tariff protection at all.

**CHAIR**—I think it should be clear that we have all moved on from that stage. The industry has to be competitive and we are happy to look at your proposals. I will give you an example. I spent six weeks attached to the UN in New York. I was at an outlet store and there was an Aussie guy alongside me with his arms so full of stuff that he could hardly move. The shop guy said to him, ‘You’ve a lot of stuff there,’ and he said, ‘If you could see how much we pay for stuff in Australia you would understand why.’ When I compared the price at David Jones with what you could buy it for in New York, the same stuff was on average four to five times as dear in Australia. A lot of the stuff is being brought in from China. A lot of Aussies do not buy anything in Australia; they travel overseas and buy it all offshore. What are we doing in our supply chain? Is it because our retailers’ margins are so much higher? What is happening there in terms of the future of manufacturing in this sector? A herringbone shirt, for example, which is quite an iconic shirt, is \$A 170, but you can buy Calvin Klein shirts for \$20 in New York.

**Mrs Edquist**—It is about volumes. The larger the volumes the cheaper you can sell things. That is the problem with Australia.

**Mr CIOBO**—Doesn’t that mean we should be pursuing export opportunities?

**Mrs Edquist**—Absolutely.

**Mr CIOBO**—I would have thought that Collette Dinnigan, sass & bide et cetera were spearheading that campaign.

**Mrs Edquist**—Yes, they are. But aside from all the junk coming from China at the lower end of the market, the other problem is that we have the explosion of the megabrands.

**CHAIR**—Designers.

**Mrs Edquist**—Yes. They are multinational companies with huge budgets and they can dominate.

**Mr SOMLYAY**—Could you give me an example of a megabrand?

**Mrs Edquist**—Adidas, Calvin Klein—

**CHAIR**—Calvin Klein produce most of their stuff in China. It is sent to the States and then it is sent down here. Why is it four times the price here that it is in the States? The same volumes are being prepared in China in the production runs and we are getting the same stuff.

**Mrs Edquist**—We have fewer purchasers.

**CHAIR**—But still something is significantly wrong. You cannot say it is the production run, because it is the same production run. It is not you guys. These are the mega international competitors.

**Mrs Edquist**—You just spoke about David Jones. I do not know how many thousands of customers David Jones would have in a day but in the States a David Jones would have millions of customers a day, so they can obviously have smaller margins because of the volume. That is why a lot of clothing here is a lot more expensive.

**CHAIR**—It is not the only answer.

**Ms Hawkins**—I would suggest that the tax regime here has something to do with it as well.

**Mr CIOBO**—Are you talking about the GST?

**Ms Hawkins**—No, not GST necessarily.

**CHAIR**—Corporate tax rate.

**Ms Hawkins**—The corporate tax rate and the entire regulation and structure of the corporate tax system are an issue. I have run large design businesses and microbusiness. For a small business, both the administration and the collection of tax are a real burden. There are absolutely no incentives to reinvest in small business. All the profits that are returned to the business are done on an after-tax basis, so we are being penalised for paying tax and then having to put after-tax dollars back in.

**CHAIR**—These are worth while—

**Ms Hawkins**—They are significant issues for small business.

**CHAIR**—issues to raise. From your point of view, what can we have an impact on? That is very tough. The corporate tax rate is one thing, but also after tax in terms of—

**Ms Hawkins**—Reinvestment. We are only able to reinvest half of what we might otherwise be able to because the nation takes the other half. That is fine, but it hinders the growth of the business where you are relying on reinvestment, organic profits, in a small business, which is how most small businesses survive. You cannot go out and find venture capitalists to support your business, especially in fashion and textiles. It is not the sexy end of the market for the Macquarie Banks and the venture capitalists, quite frankly.

**Mr KEENAN**—Which of our trading partners has that sort of regime? The United States has a better regime for—

**Ms Hawkins**—A much better regime. I think the UK has some benefits for reinvestment for small business that we do not have. I would be struggling to think of one, but my general impression is that for a smaller business it is a friendlier tax regime. We need fiscal policy which

is designed to promote reinvestment in the business to create more jobs. We would employ more people and train them more if we could only keep more resources to do it.

**Mr Manwaring**—The main point I want to touch on is manufacturing itself. The biggest threat to Australian manufacturing is the skills shortage over the next few years.

**CHAIR**—Skills shortage—we have heard that quite a bit.

**Mr Manwaring**—A massive issue, as I mentioned before, is the ageing workforce. The ability to retrain those people is one thing but even continuing to make the same products is an issue. We have got people in our workforce who have been there for 40 years. They are not going to be there in the future, so there very much need to be training incentives.

**CHAIR**—What kinds of incentives?

**Mr Manwaring**—As I mentioned, because our area is becoming more technical, a lot of the real growth areas in textiles require tertiary education. There is a perception that manufacturing is a dirty industry. This is why you have so many people doing law and accounting degrees but not engineering. One area that we suggested was in the area of HECS: to encourage people into that area, look at a reduced HECS where we have skills shortages—that is for the next generation to ensure we have got those ongoing skills.

**CHAIR**—We still have a responsibility for that, so it is well worth while.

**Mr Manwaring**—But in terms of existing training, investment in training is just as important as investment in machinery or new products. If you look at tax regimes, a 125 per cent tax deduction for R&D is all well and good but if you are not investing in people R&D is not going to do anything.

**CHAIR**—That is true; that is a very good point.

**Mr Manwaring**—There could be something along the lines of an agreed incentive in terms of investing in training. Let us face it: companies have to put their money up front to do it. It needs to comply with whatever is agreed as appropriate training, but there could be a simple methodology in terms of how it is assessed. Every company has to do a tax return each year. It can be audited. It can be checked by all of the appropriate authorities. To have something like a 125 per cent tax deduction for approved training, I think, is critical for the future of the manufacturing industry.

**CHAIR**—It is a good point. We are officially due to finish at 11 o'clock, so we are going to lose people because they have got commitments. Could you hammer home for us some of the key issues like skills training and the write-off—that was good in your comments. It has all been constructive, but let us focus on that for our colleagues.

**Mr SOMLYAY**—What is the level of mobility of the workforce amongst your workers? Is there competition in the industry? Do you lose workers to someone paying higher wages?

**Mr Manwaring**—It depends on where you are based. Being regionally based, I am not worried about having to compete against just other textile manufacturers; I am competing against the guy down the road who makes roof trusses. That is the nature of what we do. So it comes down to wage levels. Industry has its part to play as well, but we really need to lift the profile of manufacturing. That is the dirty side of things at the moment. There are opportunities in manufacturing. It is not just a case of standing behind a machine. We have lab technicians; we employ 28 engineers; we have HR managers and environmental managers. We need government assistance in promoting it as well, by saying, ‘Here are the opportunities in manufacturing,’ and getting education out there through the tertiary system.

In our area we have started working with high schools and TAFEs to try to change the perception. Fifteen years ago, if you were in Wangaratta you were told, ‘If you do well at school you’ll get a job at Bruck.’ It has changed to: ‘If you don’t do well at school, you’ll get a job at Bruck.’ That is the perception in terms of manufacturing that we have to change. When we actually go to them and show them the opportunities that are there, they are just blown away. That is something that the industry has to take some ownership of as well. Similarly, for us from a manufacturing perspective, the whole brand support side of things which is there for larger companies is not there for small companies. Their brand is everything. When you spoke about Calvin Klein and asked, ‘Why can they sell at three times the price?’ it is because Calvin Klein is a label you want to wear.

**Mrs Edquist**—It really is the only asset for those small businesses.

**CHAIR**—The question was actually: why can they sell at four times the price here versus four times there—not their label against our label.

**Mr Manwaring**—I understand that.

**Mr SOMLYAY**—Regarding a chain store in the USA that buys their supplies from China, why do they get them for a quarter of the price that our chain stores might buy them?

**Mr Manwaring**—Volumes run China.

**Mr SOMLYAY**—Is it purely volume?

**Mr Manwaring**—If you are prepared to sign a 12-month commitment, which is what America does, and take massive volumes, your price reductions will be about 60 per cent. That is the case.

**Mr SOMLYAY**—So our people are purchasing from China at a higher price than the US for the same goods?

**Mr Manwaring**—Yes.

**Mr Van Krieken**—With that said, in recent times that has worked to the advantage, in some respects, of the Australian industry because some retailers have come back onshore because they cannot use the suppliers they were using in China. So it has been beneficial. I would like to add one comment to Brett’s comments. Certainly, the council as a whole is very active in working

with VET clusters and school councils on improving the perception, but one thing that I think would also be in the remit of this committee is that we have the technical colleges starting. None of those cover textiles, clothing or footwear.

**CHAIR**—Is that right?

**Mr Van Krieken**—It is something that I think is sorely missed again, because many of them are in regional areas and there are still many companies operating in regional areas. So I would ask that perhaps the committee look at how this scope of schools could be expanded.

**CHAIR**—At your end, in fashion, isn't there a fashion design school in East Sydney?

**Mrs Edquist**—Yes. There are quite a number of fashion design schools. There is East Sydney TAFE, which is probably one of the leading ones at the moment, but there is also RMIT and a couple in Perth. A lot of graduates are coming out. There are a lot of people starting their own small businesses. Regarding the skills shortage, I have been called a number of times by someone inquiring about where to find a cutter. It is so hard to find them. These people are now at a complete premium because there are so few of them.

**CHAIR**—Cutters are not necessarily at the fashion schools or East Sydney or RMIT. Cutters should be at the TAFEs.

**Mrs Edquist**—Yes. It is also important for them to be multiskilled and not just be a cutter, a seamstress or something. It really is necessary for these businesses to have someone who is multiskilled, because they do not have the cash flow to take on a variety of people who can do that and they do not have the runs to justify it.

**CHAIR**—That is a good point. Are there any other points you want to raise?

**Mr Van Krieken**—Perhaps we could just raise that, obviously, government procurement is a very important issue for us, for many—

**CHAIR**—Government procurement in Australia?

**Mr Van Krieken**—Yes. For many companies it may be or could represent an extremely large client for that particular company. We have put forward some suggestions in the paper. A lot of it is perhaps just about educating procurement officers to understand the textiles and clothing industry. It is a complicated industry, particularly when you are talking about a highly technical garment such as, perhaps, a firefighter uniform or a Defence uniform.

There are two elements there. One is educating procurement officers to understand what can be made in Australia and the advantages of it, particularly so they can set the right specifications. The second is asking governments to look at what they can do to provide some additional acknowledgement to Australian industry. As we have said, other countries throughout the world do it. We would certainly push home that point, because one of the best ways to stimulate an industry obviously is through demand and government procurement represents one way of increasing demand.

**CHAIR**—The Defence Force is particularly important.

**Mr Manwaring**—That is a good example, actually. The defence department has just released their draft strategy policy and it is moving along those lines. The only problem is that that is not the procurement policy. Everything that is in here which is encouraging Australian production is fantastic, but unfortunately that is not what the procurement policy says.

**CHAIR**—We will certainly make a note of that.

**Mr SOMLYAY**—What about state governments?

**Mr Manwaring**—Each state government has its own policy. For example, Victoria does not have a policy to purchase Australian, but they have what is called an Ethical Purchasing Policy, which says we have an obligation to purchase product that is similar in terms of the working conditions being similar to Australia et cetera. But, again, how do you police all of that? We are not looking for special consideration. Touching on one of Ashley's points, it is more the education of government so that they are aware of what Australian manufacturers do produce. We have our own part to play to let you know that as well. That mechanism—whether we call it cluster groups or whatever—of parties talking to each other and understanding what Australian manufacturers do manufacture, and manufacturers understanding what it is that government actually purchases, is important. I would be happy to compete with anyone on a like-for-like basis anywhere in the world in terms of the products we make for Defence, but it needs to be a like-for-like basis. In terms of the opportunities, let us be talking to each other where there is strategic benefit for both parties.

**Mr Van Krieken**—My final comment is on innovation and R&D. Obviously, as I noted in my opening comments and as has been noted by my colleagues, a great deal of the niche marketing comes from the adoption of technology or new innovative products, machinery or processes. We have a very good system in Australia in some respects, but there are still some issues, particularly when it comes to helping companies identify what technologies are out there and what technologies are available. We have a project in Victoria, for instance, which has over 100 TCF companies registered and we are matching them with technology providers. We have over 45 matches under way at the moment. We are finding that there is a great deal of knowledge within the industry of what they want and there is a great deal of research capability, but there does not seem to be this matching. These companies do not know what research is going on. So certainly we feel that another recommendation from the committee should be to review the process of how research groups are communicating their technologies with industry and perhaps for some research groups to become a bit more aware of what the textiles industry in Australia can do.

**Mr Manwaring**—As an example of that, the CSIRO is actually one of the leading experts in nanotechnology, particularly with textile products. The only problem is that most of the companies they are dealing with are overseas.

**CHAIR**—Really?

**Mr Manwaring**—They are not even talking to Australian companies, saying 'This is what we're developing.'

**CHAIR**—That is interesting. You should talk to the Minister for Education, Science and Training.

**Mr SOMLYAY**—Chair, do we have a submission from CSIRO?

**CHAIR**—No. We might follow that up and see if we can talk to CSIRO about what they are doing. I think that is a very good point.

**Mr Black**—It is important, because, as I understand it, CSIRO's funding from the federal level has over a period of years decreased quite substantially. So what they have had to do is go out and seek funding from partners to kick off research projects. Quite often that may be a large international company or large company here, but the smaller and medium-sized companies have not necessarily been able to get on board just because of the cost. They might have some very worthwhile projects that they would like to pursue, but of course one of the first talking points from CSIRO is: 'This is how much it is going to cost you if you want us to get involved,' which is a bit unfortunate. Brett's comment before was correct: there is quite a lot of scope with that interaction between the research organisations and industry on very meaningful projects. That can be improved substantially.

**CHAIR**—That is great. We really appreciate your input. You also have the ability to further interface with the committee—we are the ones who actually write the draft report—by putting in other ideas and submissions. You have brought up some very worthwhile and useful comments. We do not have all the answers, obviously, and we need to look to you to bring forward the recommendations. It is about the industry into the future and what it is going to look like.

**Committee adjourned at 11.05 am**