



COMMONWEALTH OF AUSTRALIA

Proof Committee Hansard

SENATE

ECONOMICS LEGISLATION COMMITTEE

Reference: Customs Tariff Amendment (Textile, Clothing and Footwear Post-2005 Arrangements) Bill 2004; Textile, Clothing and Footwear Strategic Investment Program Amendment (Post-2005 scheme) Bill 2004

TUESDAY, 3 AUGUST 2004

CANBERRA

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Tuesday, 28 September 2004

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SENATE
ECONOMICS LEGISLATION COMMITTEE

Tuesday, 3 August 2004

Members: Senator Brandis (*Chair*) Senator Stephens (*Deputy Chair*), Senators Chapman, Murray, Watson and Webber

Substitute members: Senator Ridgeway for Senator Murray

Participating members: Senators Abetz, Boswell, Brown, Buckland, George Campbell, Carr, Cherry, Conroy, Cook, Coonan, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Fifield, Forshaw, Harradine, Harris, Kirk, Knowles, Lees, Lightfoot, Ludwig, Lundy, Mackay, Marshall, Mason, McGauran, Murphy, Murray, O'Brien, Payne, Ridgeway, Sherry, Stott Despoja, Tchen, Tierney and Wong

Senators in attendance: Senators Brandis, Carr, Chapman, Marshall, Ridgeway, Stephens, Watson and Webber

Terms of reference for the inquiry:

Customs Tariff Amendment (Textile, Clothing and Footwear Post-2005 Arrangements) Bill 2004 and Textile, Clothing and Footwear Strategic Investment Program Amendment (Post-2005 Scheme) Bill 2004

Committee met at 3.41 p.m.

CHAIR—I call to order this public hearing of the Senate Economics Legislation Committee. This hearing has been convened to take evidence on the [Textile, Clothing and Footwear Strategic Investment Program Amendment \(Post-2005 scheme\) Bill 2004](#) and the [Customs Tariff Amendment \(Textile, Clothing and Footwear Post-2005 Arrangements\) Bill 2004](#). On 16 June 2004 the Senate referred these bills to this committee for inquiry and report by 12 August, with particular reference to: whether the strategic investment program bill assists small and medium sized enterprises to access government assistance; whether the legislation improves market access overseas; whether the phase-down of strategic investment program funding from 2009 threatens the future of the industry and employment; whether the legislation provides adequate support for high-value exports; whether the legislation provides adequate support for R&D activity; whether the legislation provides adequate support for production value added activity; whether the reduction in grants types from five to two will decrease access for some TCF firms; whether the cut in tariffs will have an adverse effect on the industry, the economy generally, employment and sustainability of regional cities and towns; whether our trading partners are reducing tariffs at the same rate as Australia; and whether the combination of these two bills and provisions in the United States free trade agreement will adversely impact on the future of the industry and on employment.

Before we begin taking evidence, I remind you that all witnesses appearing before this committee are protected by parliamentary privilege with respect to their evidence. Parliamentary privilege refers to the special rights and immunities necessary for the discharge of parliamentary functions without obstruction or fear of prosecution. Any act by any person which operates to the disadvantage of a witness on account of evidence given by that witness before this committee is treated as a breach of privilege. I also remind you that giving false or misleading evidence to the committee may constitute a contempt of the Senate and be punishable as such.

[3.44 p.m.]

FIRTH, Mr Allan, Executive Director, Carpet Institute of Australia

GARRETT, Mr John, Vice President, Carpet Institute of Australia; and Director, Godfrey Hirst Australia

SZAKIEL, Mr Charles, President and Chairman, Carpet Institute of Australia; and Managing Director, Ulster Carpets Pty Ltd

CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Mr Szakiel—Ulster Carpets is a carpet-manufacturing operation in Devonport, Tasmania.

Mr Garrett—Godfrey Hirst is a carpet manufacturer based in Geelong, Victoria.

CHAIR—Mr Szakiel, the committee prefers all evidence to be given in public, but should you or the other witnesses at any stage wish to give any part of your evidence in private you may ask to do so and the committee will consider that request. I now invite you to make a brief opening statement, after which we will proceed to questions.

Mr Szakiel—Firstly, the Carpet Institute welcomes the opportunity to appear before this Senate inquiry. We believe that, rather than rehash a lot of information that is already on the public record through various submissions of ours in this long process, we will just leave as much time as possible for questions from the senators, which we believe will probably be more productive for the process.

As I mentioned, the institute has participated in a very long inquiry process. The reference for the post-2005 review was sent to the Productivity Commission in November 2002 and the commission delivered its final report almost eight months ago. Whilst the institute did not get everything that it asked for at the Productivity Commission inquiry, we believe the package announced by the government provides a good platform for the industry to move forward.

The carpet industry has performed well under the existing TCF arrangements but much more needs to be done in the ensuing years. What we need more than anything is policy certainty for us to get on with the job in the future. The Carpet Institute supports strongly the TCF package as announced and we call on all political parties to enact the legislation as soon as possible. That is the position that we come from. As I say, we have submitted a lot of information publicly in various formats, and indeed to this committee, and we welcome any questions that may come from this Senate committee now.

CHAIR—Thank you. Mr Firth, Mr Garrett, do either of you have anything to add?

Mr Garrett—No.

Mr Firth—No.

CHAIR—I have one question. Are you satisfied with the level of consultation engaged in by government with your industry in the development of this package?

Mr Szakiel—I would say the answer is yes. We have been involved with government fairly intimately over a lengthy period of time. As an industry, we have sometimes requested further involvement with government and most of those requests have been met. Certainly from our industry's point of view I would suggest that we are comfortable with the degree of consultation. I do not know whether my colleagues would have anything to add to that.

Mr Garrett—I would be quite happy to agree with that.

Mr Firth—There have been extensive consultations with officials and also with advisers, yes.

Senator CARR—I would like to begin by getting some basic information. The Carpet Institute represents how many different companies? What size are the companies, on average? Can you give us an indication of how that fits within the scope of the industry as a whole?

Mr Szakiel—I will call on our executive director to answer that.

Mr Firth—There are two levels of membership. Full members are carpet companies that have substantial manufacturing investments. There are 14 full members of the institute. Those members account for about 95 per cent of carpet-manufacturing activity in Australia. There are a larger number of associate members. They are suppliers of goods and services to the carpet industry. Overall, the Carpet Institute has a membership of

about 47 and that covers the whole supply chain, from fibre production through to carpet manufacturing through to retail.

Senator CARR—Would it be fair to say that you effectively represent the 14 largest companies in the industry?

Mr Firth—That is correct.

Senator CARR—Your submission points to the challenges faced by the industry. You talk about the small domestic market and the scale/scope disadvantages of Australia's industry by comparison with our international competitors. You talk about the loss of crucial infrastructure; restricted access to overseas markets; and increased import penetration as a result of further tariff reductions, free trade agreements and the emergence of China as a major carpet manufacturer. Could you enlarge on how you see the future of the industry, given the scale of those challenges that you are proposing to this committee?

Mr Garrett—The issue for us as an industry is that we participate in a relatively small marketplace. We have 20 million people, we are in a relatively isolated market and we are competing against major manufacturers in larger countries—for example, the United States. Seventy per cent of the world's carpet is produced in the United States. The challenge for us in this market is to get some degree of scale—recognising that that scale comes from in a sense having to have manufacturing facilities which in themselves are somewhat inefficient, because to get scale we need to participate in all marketplaces. For example, we need to participate in the residential market, the contract market, the hospitality market and the lower end of the residential housing market to have any degree of scale.

I can speak from Godfrey Hirst's perspective. We have somewhere between 35 and 40 per cent of the Australian market. We produce an amount of carpet which is, on a world scale, equivalent to a manufacturing plant overseas. The difference that we have is that in that world-scale plant we have to produce perhaps up to 200 products. A similar plant of that scale overseas might produce between 10 and 20. So that is one of the major challenges that we have.

The strategic investment program has enabled the industry to internationalise itself to ensure that it is not simply building manufacturing capacity but producing differentiated capacity. We do have severe limitations in terms of market access to a number of countries throughout the world. We are the only country which has unilaterally reduced its tariff. That tariff rate, as far as the carpet industry is concerned, will go from 15 per cent to 10 per cent as at 1 January 2005.

Senator CARR—Thank you very much for that answer. You talk about the loss of crucial infrastructure. When did that occur?

Mr Firth—I guess it is symptomatic of what is happening generally in textiles. As the sector has contracted, the technology support companies or the training infrastructure have adjusted to that. It has been happening progressively over the years.

Senator CARR—Why did the previous package not assist in this area, if it has been such a long process of decline?

Mr Firth—The interest for us is in the assistance to companies. There has been assistance generally to other organisations, through other support schemes. But, be that as it may, that reduction in infrastructure has occurred—as it has globally, I have to say.

Senator CARR—So you did not get a lot of assistance out of the last package in terms of infrastructure support?

Mr Garrett—The last package, which was the strategic investment program, focused on bringing manufacturers up to international competitiveness. That was the major focus of the package. It did that through a combination of investment support and support through innovative practices.

Senator CARR—Obviously your company has done well in that regard. It would be one of the more successful companies in Australia, would it not, Mr Garrett?

Mr Garrett—We would like to think so. Thank you.

Senator CARR—Certainly in the textile industry. How many of the other 14 major manufacturers can be said to have done well out of the last package?

Mr Szakiel—I think that, of all the manufacturers within the institute, there is probably only one that has not in some way benefited from the package. I will give you a perspective at the other of the scale from

Godfrey Hirst. Our organisation is a very specialised manufacturer. We focus on the commercial hospitality market, with woven Axminster product, which is a very specialised product itself. We have certainly welcomed the current package. Indeed, the current program as it exists has enabled us to invest in equipment we otherwise would not have been able to invest in—not that we would not have invested, but not to the same extent that we have.

I can give a glaring example. The nature of the investment that we undertook enabled us to gain fairly significant projects such as Changi Airport in Singapore against full-blooded international competition not just from European manufacturers but from Asian manufacturers as well. We look forward to the continuation of this, because we now have the opportunity to bring in an in-house technology. When I say ‘in-house’ we are now part of the second-largest woven producer in the world and we have in-house technology developed by our parent company. It is patented technology that is not available to anybody else and we are looking forward to being able to bring in this new technology at a reasonably fast rate, which will enable us to compete in the face of much lower labour cost based companies. Again, whilst we would not stop investment—that would be a foolish thing to say—our ability to invest at the rate that we require to be truly competitive is largely dependent on the continuation of this program.

Mr Garrett—I also refer you to page 4 of our submission where we talk about the high levels of investment in the carpet industry since 1997. In fact we have had employment growth of 14 per cent. We have significantly increased our productivity, which has made us more internationally competitive, and our annual export sales have increased by 31 per cent over that same period of time. We have used the strategic investment program as it was designed and that is to try to internationalise our business and to accept the fact that there will be a greater level of import penetration and our response to that is to shore that up through increased exports.

Senator CARR—You refer here to the annual export sales which increased by 31 per cent, yet your submission also talks about impediments to market access obviously in overseas markets. What markets are you talking about and what is the nature of these impediments?

Mr Garrett—The nature of the impediments is tariffs which apply to pretty much all Asian countries with the exception of Hong Kong and Singapore. All the other countries enjoy larger tariff rates than we have in Australia. I can tell you that the largest single market for our company is the United States and we share a very similar tariff rate with that particular country.

Senator CARR—In regard to your largest market, the United States, how does the free trade agreement assist you?

Mr Garrett—I think the free trade agreement from our point of view is a little disappointing in one sense and that is that there is the yarn forward rule that applies to it so I think that that has a disadvantage. Outside of that there will be no major change.

Senator CARR—No major change?

Mr Garrett—No.

Senator CARR—So it is meaningless for you?

Mr Garrett—I am not sure that it is meaningless but I do not think that there is a—

Senator CARR—How much will your volume increase as a direct result of the free trade agreement?

Mr Garrett—We do not think that there will be any change in our volume. That is a growing market for us and we focus in the top end of the residential market which is a very small niche.

Senator CARR—Fair enough. In regard to other tariffs how is the post 2005 package going to assist you in terms of gaining greater market access?

Mr Garrett—In terms of the market access, that is really government policy. The issue for us is that we have a continuing reduction in tariff. I think we have all expressed the fact that we do not necessarily want to participate in a unilateral reduction in tariff. Be that as it may, that is the government’s decision and what we are attempting to do is to recognise that and to recognise therefore that we would like greater access to these marketplaces. The SIP program has enabled us, as I said, to internationalise our business through investment both in terms of differentiated plant and equipment and also in terms of innovative processes and products.

Senator CARR—I ask the Carpet Institute these questions, so it is not just directed to Mr Garrett. I am struck by the proposition you put to us that we are the only country that is unilaterally reducing tariffs—the only country. Have I got that right—that is what you are putting to the committee?

Mr Garrett—That is correct.

Senator CARR—You are further saying to us in your submission that further tariff reductions will lead to increased import penetration?

Mr Garrett—That is correct.

Senator CARR—Can you explain to me why you are supporting further reductions in tariffs?

Mr Garrett—You say we are supporting further reduction in tariffs. We, the carpet industry, put forward a submission through the productivity process and asked for a review process in 2008 with respect to tariff. The reason we asked for that review before further tariff reductions were in place was to enable us to assess—to see what the rest of the world were doing. As part of the process we accepted, as we did in 1997, that there would in fact be a further reduction in tariff for a further five-year tariff pause and that there would be significant opportunity for us to participate in investment allowances and funding that would come through for improvements in productivity and product innovation.

Senator CARR—I am interested in your reference to the Productivity Commission. I will come back to that but I just want to be clear about this, because I am still trying to work my way through what you are saying to me. With regard to our tariff regime on carpets, how do we compare with Canada, another competitor of ours? How does that compare?

Mr Garrett—Canada has a higher tariff rate than we do. From memory, it is around 14 per cent.

Senator CARR—And Europe?

Mr Garrett—Europe is 12 per cent. We will be sitting at 10 per cent as at 1 January 2005.

Senator CARR—So they are higher than us?

Mr Garrett—Yes.

Senator CARR—And what is the tariff regime like in the Asia-Pacific region?

Mr Garrett—The tariff regime is varied. It ranges between 20 and 35 per cent, with the exception of the two free ports that I referred to before—Hong Kong and Singapore.

Senator CARR—So you would not call it a level playing field when it comes to dealing with our competitors, would you?

Mr Garrett—No, I do not think it is a level playing field.

Senator CARR—That would not follow from the evidence you are giving. I am interested in your stated position in the Productivity Commission submission:

... that the carpet tariff should be held at the 2005 levels for a period of at least 5 years, and that any further reductions should be subject to an Industry Tariff Review.

Aren't you being required by the government to essentially abandon that position?

Mr Garrett—I think that what we are being required to do by the draft legislation is to compromise on that position, as distinct from abandon it. What we have achieved from this draft legislation is a further tariff pause of four or five years. The only difference between what we asked for in terms of the tariff and what has been suggested is that, instead of a review process in 2008, there would be an automatic transition to a lower tariff in 2010.

Senator CARR—So you really have not changed your position from that advocated in March last year to the Productivity Commission?

Mr Szakiel—We have not changed our position but I think it has to be borne in context. From the industry's point of view the certainty, moving forward, of policy and the ability to make longer term decisions as soon as we possibly can—I am talking about fairly significant investment decisions—is far more important than the fact that the tariff will come down by another five per cent automatically rather than after a review process. So from our point of view it was, as Mr Garrett mentioned, a compromise but it was a worthwhile compromise in order to get some certainty as quickly as possible on the investment front.

Senator CARR—You would not object, though, if the tariffs were held at the 2005 levels for a period of five years while a review was undertaken?

Mr Szakiel—We would not object to that at all, no. But our view, as I mentioned, is that the key thrust is the certainty of the investment climate and the certainty of the environment in which we are operating. That far outweighs the compromise that we are prepared to make.

Senator CARR—You know that is the Labor Party position. You do not object to that?

Mr Szakiel—That is right.

Mr Garrett—We have been going through the process of review for some considerable time now. We had a compromise position that was developed as draft legislation in November last year. All we are asking for is certainty moving forward. Charles has made the point that we need to make investment decisions in our industry. We want to be in a clear position so that we know what the future holds.

Senator CARR—I am sure you do. You proposed to the Productivity Commission:

... that special consideration needs to be given to address the unique circumstances of regionally based employers. How does the post-2005 regime assist in that area?

Mr Garrett—It does not.

Senator CARR—Mr Garrett, your submission from Godfrey Hirst says:

A reduction in tariff will have an adverse effect ...

How will that have an adverse effect on Godfrey Hirst?

Mr Garrett—Any reduction in tariff rate potentially will increase the opportunity for import penetration. But again the point has to be made that in the context of the package we believe that the opportunity for us to have a further program of five years in terms of targeted investment will offset that.

Senator CARR—I have asked you a similar set of questions in regard to your role in terms of the Carpet Institute but this is specifically relating to the submission from Godfrey Hirst. You again argue that Australian tariffs are among the lowest in the world and that Australian tariffs are broadly in line with America and Europe—in fact, we are below—and that ‘further reductions in tariffs in the absence of a clear move to improve Australian companies’ access to major markets would severely undermine investor confidence in the Australian carpet industry’. Can you enlarge on that?

Mr Garrett—What particular part of our submission are you looking at?

Senator CARR—Is that not from page 16 of your submission?

Mr Garrett—Are you talking about the Godfrey Hirst submission?

Senator CARR—Yes. Is that not your submission?

Mr Garrett—The submission to the Productivity Commission?

Senator CARR—Yes.

Mr Garrett—Yes. I am sorry. I thought you were referring to—

Senator CARR—Is that not your submission now? Do you hold that view now?

Mr Garrett—The answer is that yes, we still hold that view.

Senator CARR—What are the measures you think the Commonwealth government could undertake to improve market access for the carpet industry?

Mr Garrett—We have always argued that tariff reduction should not be of a unilateral nature and we have always argued that there should be a proper review process in place before there is further unilateral tariff reduction. We have always argued that.

Senator CARR—Thank you very much. That concludes my questions.

Senator WATSON—I have a couple of questions. Firstly, I would like to acknowledge the manner of the presentation by your group and the clarity with which your group conveyed your message to the committee about your concerns and also your aspirations. Often we get lots and lots of information running into dozens of pages, so thank you for the clarity of your particular presentation. Can you give me some figures for the projected capital investment in the next five years from the carpet division, assuming this bill goes through?

Mr Garrett—Allan, would you have that information?

Mr Firth—No, I do not. I could canvass the members and provide that in confidence if that was acceptable.

Senator WATSON—I would be interested in the extent of investment, not only of the government programs to assist but also of other funds.

Mr Garrett—Could I make one point here? It is very hard to give that particular information.

Senator WATSON—I am asking for an estimate.

Mr Garrett—There are many variables. We do not know where the exchange rates are going to be, we do not know what competitor forces are going to come out of China, we do not know—

Senator WATSON—Assume all other things being equal. I think that is all you can base it on.

Mr Garrett—Do we assume a free trade agreement with China? Do we assume a free trade agreement with the United States? What are the assumptions that we make?

Senator WATSON—But in planning for the future you would base it on certain criteria, wouldn't you?

Mr Garrett—Perhaps we could put that.

Senator WATSON—Yes, I do not mind. We want to ensure that there is going to be a very healthy projected capital investment to ensure that you have the improvements in productivity associated with that investment. Without going into confidential matters, could you inform the Senate of the effect of the incentives in terms of improvements in production and in processes that you refer to in your submission. You divided it into two parts, I noticed.

Mr Garrett—I am sorry; I am not sure I understand your question.

Senator WATSON—I do not really require an answer if the answer could involve confidential issues. But you talk about improvements and innovations in production and about improvements and innovations in processes. Could you outline the sorts of improvements you are referring to?

Mr Garrett—As I have indicated to you, there are different key drivers for the industry as we move towards the future. There is an acceptance that there will be further import penetration. On the back of that the focus for our industry has been to mitigate the damage that that can create by creating export markets. That has been a major driver for the industry. That is complemented by very high levels of capital expenditure in terms of product development and processes. Those processes have been developed as a result of the large level of capital expenditure and as a result of differentiating product for world markets.

Senator WATSON—I came from the textile industry, so I am interested in those innovations in terms of improvements in production. Whereabouts in the area are you going to find it in terms of production? Where is the focus now? Is it on design or—

Mr Garrett—It is a combination—

Senator WATSON—picking up the threads initially or increased speed of the operation of the machine?

Mr Garrett—All of those things are important.

Senator WATSON—We are talking about innovations in processes. What are the processes that are going to be of most benefit in the carpet industry as a result of the SIP?

Mr Garrett—I think the most important thing is to be able to put processes and product development in place which would differentiate our product and make products that would be acceptable in world markets.

Senator WATSON—But in terms of the processes, is it really in the weaving area? What is the particular focus?

Mr Garrett—In our particular case we are talking about manufacturing of carpet. It is tufted carpet, which is somewhat different to that produced by Mr Szakiel's company. Just to give you an idea, what we would generally do is purchase a bit of plant from the United States, the UK or Germany. We would bring it into our organisation and, because we run a multifibred operation, which is a combination of synthetic fibres such as polypropylene and nylon and also wool and wool blend products, we would in fact have to completely strip down the machinery to change the processes to enable that particular plant to run all sorts of different multifibre. That is somewhat different to what would happen if you had a similar plant in a major scale market such as the United States.

To give you an example, the problem we have is something like this. If we want to participate in export markets, the only opportunity we really have to compete internationally is to look at product that we have some competitive advantage in. For the carpet industry that is clearly in natural fibres. We cannot compete in

product with a high level of synthetic component simply because we are competing with major plants in major markets. So we have to be able to differentiate and innovate in our product design and process design to enable us to manufacture carpets out of natural fibres which have desirable outcomes in those markets.

Senator WATSON—You still missed the main thrust of my point. Are the projected moneys that you are going to invest going into great improvements in techniques of dyeing or improvements in weaving? What sorts of areas are you envisaging? You must have a focus where you believe these moneys can be best spent.

Mr Garrett—Let me give you an example. We are the only company in the world which continuously dyes wool, so we have developed a process as a result of investment with the assistance of the strategic investment program which enables us to continuously dye wool. That was a major innovation, so in fact what we do is hold white yarn systems, we tuft it into what we call greige carpet, which is carpet that is undyed, and we hold it in stock. When it is required by the market both in plain and designed form, we are able to deliver that to markets within Australia and also into export markets.

Mr Szakiel—As I mentioned, we are at the other extreme of carpet manufacturing. We are very specialised. We specialise in custom design. Ours is a very labour-intensive process in comparison with tufting. The key driver for us in competing with low-cost countries is to find a way of investing in a process that, through its innovation, enables us to remove a lot of the labour cost. By way of a specific example, I will mention some of the equipment that we are looking at investing in at the moment. I will use numbers for the purpose of illustration only because I think they will drive the point home.

To set up for a particular job, we need to, on the back of the loom, put 11,000 bobbins of yarn behind the weaving machine. With the new process that we have, we are able to weave with the same number of colours that we would with the 11,000 bobbins of yarn by having several hundred of bobbins of yarn. The improvement in technology in the back end of the weaving process will enable us to cut a lot of the labour cost out of the operation. Furthermore, the previous process that required the 11,000 ends has a restriction on the number of colours that you can have in the design. With this new technology that we are looking to invest in you not only have reduced the number of bobbins from 11,000 to several hundred but also have a far greater colour range or number of colours that you are able to put into the process. That gives you a very significant competitive advantage in the designer market, which designs for the hospitality industry that we are predominantly focused on.

It is only by cutting out some of that labour cost or indeed adding some features which are not available through existing weaving processes that we are going to find ourselves with any sort of competitive advantage over the low labour cost countries, particularly from South-East Asia.

Senator WATSON—How important is design in selling a carpet?

Mr Szakiel—In our business it is critical—and it is certainly critical in John's as well. Innovation and design, which is another area that we have invested in and will continue to invest in, is a critical part of our business. It is a key driver.

Senator WATSON—What about colour?

Mr Szakiel—We piece together colour and design. Colour is very important. You have to anticipate the fashion trends market by market or, as it is in our case, hotel by hotel or airport by airport. Working with design and colour is an integral part of the whole process.

Senator WATSON—In terms of the brightness of colour, would you not have a competitive advantage because of the lower energy costs in Australia vis-a-vis some of the Asian countries, particularly in dyeing?

Mr Garrett—Why do you see that we would have an advantage?

Senator WATSON—We would have lower energy costs here compared with most Asian countries.

Mr Garrett—I do not really know what the rate of energy costs is for Asian countries, but I could not possibly imagine that we would have an advantage over some of the extremely low labour costs that they have. So we have to be innovative. As I mentioned to you, doing things like continuously dyeing wool carpets is something that no-one else in the world does.

Senator WATSON—Sometimes rule of thumb relativities are quite handy in assessing performance and outcomes et cetera. Is there any relativity between increases in productivity offsetting, say, each percentage decrease in tariff?

Mr Garrett—So what you are saying is that, if you have a five per cent reduction in tariff, that is equivalent to X amount of productivity?

Senator WATSON—No, the other way around. If you have X percentage improvement in productivity, has that any relativity to each percentage reduction in tariff?

Mr Garrett—I think that there are so many other variables in that equation that it is a very difficult one to establish.

Senator WATSON—But looking at them in isolation, can you say that, if you can get a one per cent improvement in productivity, it will more than offset a two per cent or three per cent decrease in tariff?

Mr Garrett—I cannot answer your question.

Mr Szakiel—I do not think there is a rigid formula that would apply.

Senator WATSON—I suggest that you might perhaps like to look at that because it can be a handy management tool.

ACTING CHAIR (Senator Stephens)—Senator Watson, I just draw your attention to the fact that we are well over time with these witnesses.

Senator WATSON—Just finally, then, what is the time sensitivity of this legislation for your industry?

Mr Garrett—We recognise that there are going to be changes in the structure of our industry as we move forward. We have mentioned that we see China as a major threat. We see some of the larger developed countries such as the United States, which have huge scale advantages over us, as a major threat as well. As we move forward we would see a higher level of import penetration. Our focus, therefore, is to offer differentiated product development and product into overseas markets. And we believe that we can take advantage of that by using our advantage, which is clearly in the production of wool and wool products.

Senator WATSON—I think you missed the thrust of the question: the time sensitivity of the legislation. If the legislation gets delayed, does that have a major impact on your decision making?

Mr Garrett—It certainly does in terms of investment.

Mr Szakiel—That is the key issue—the uncertainty. Given that the announcement of the new scheme was made some time ago, people were indeed planning their future investment strategies on the basis that the new scheme would be legislated, but because of all the delays there is a lot of uncertainty. Speaking from our company's point of view, but I am sure philosophically most other companies would be in the same boat, I have to say that we are just a little bit hesitant about how quickly to move forward with that investment because of the uncertainty of the legislation. So, from the industry's point of view, our view would be that it is critical that the legislation gets passed as soon as possible.

Senator WATSON—Thank you. I have some other questions but other witnesses can pick them up.

ACTING CHAIR—Thank you very much, Senator Watson. Thank you, gentlemen, for appearing before us today. We will certainly consider your evidence in determining our report.

[4.22 p.m.]

CARSTENS, Ms Debra Janet, Chair, FairWear in New South Wales; and Coordinator, Asian Women at Work Inc.

HUANG, Ms Qi Fen, Chinese Community Worker, Asian Women at Work Inc.

ACTING CHAIR (Senator Stephens)—Welcome. The committee prefers all evidence to be given in public but should you at any stage wish to give any part of your evidence in private you may ask to do so and the committee will consider your request. I invite you to make a brief opening statement and then we will move to some questions.

Ms Carstens—Thank you very much for the opportunity to speak. By way of introduction, I thought it might be useful to explain to you who is involved in the FairWear campaign because some of you might not be familiar with it. FairWear has been campaigning for nearly 10 years to try to stop the exploitation of outworkers in the clothing industry in Australia. It is a coalition of community organisations, churches and unions that are concerned about this issue. I emphasise that FairWear see outworking as a legitimate form of work but we are trying to stop the exploitation of outworkers and ensure that they get fair wages and conditions. Asian Women at Work is one of a number of FairWear member organisations involved directly in working with outworkers, and we are a Sydney based organisation. The outworker leaders from Asian Women at Work have prepared their own submission to convey to you the enormous impact of overseas competition in the clothing industry on their work and their families, so we commend that submission to you.

There are three points that we would like to address in our opening remarks. The first one from FairWear's point of view is to assure the committee that there is national concern from church organisations, community organisation and unions about these two bills that are before us. One indication of this concern has been the 16 submissions that this committee has received from church and community organisations from four states. The key concerns surround the maintenance of employment for factory workers and outworkers, the majority of the latter being women from a non-English-speaking background. Their concerns are coupled also with concern about the exploitation of workers overseas, to where some of this work may be exported.

The Uniting Church in Australia submission, from the Victorian Justice and International Mission Unit, represents well many of the concerns of the church organisations that are part of FairWear. I would like to draw attention to a couple of statements that they made in their submission. On page 1, they say that the Uniting Church Justice and International Mission Unit:

... is not seeking to protect Australian jobs per se, but rather is seeking to ensure that competition in the TCF industry is not based on the greatest financial advantage going to companies and countries that use the greatest level of human rights abuses and exploitation to produce TCF goods.

In another part of their submission they say:

The logic of tariff reduction, as was highlighted in the Productivity Commission *Review of TCF Assistance* 31 July 2003, is that it allows cheaper imports into the Australian market for the potential benefit of consumers, at the cost of the wages and working conditions of people employed in the industry both in Australia and overseas.

In relation to job losses, it is also worth noting that on page 5 of the Uniting Church submission they make the following comments:

Further tariff reductions will undoubtedly result in job losses from the textile, clothing and footwear industries in Australia. This will add these people to the pool of unemployed people. It is ironic that the Federal Government is taking such action at the same time as it has been reviewing social security payments to encourage unemployed people to be more self-reliant. In the words of Minister Vanstone and Minister Abbott:

We are committed to developing a system that helps people who can work to get jobs and be more self-reliant.

and:

For most Australians, paid work provides money not only to live on and raise children, but also self-esteem and a connection to their community.

It is of concern, then, that we would have a great number of people joining the unemployment queues.

The second key point that we would like to raise in our opening statement is that it should be clear that outworkers are losing work and are being forced to accept reduced rates of pay already as a result of competition from overseas. The significant role of outworkers in the clothing industry has been left out of

detailed analysis in the Productivity Commission report, and outworkers themselves have been left out of the TCF package altogether.

Chinese and Vietnamese outworkers who we work with through Asian Women at Work are the largest communities in Sydney involved in outwork, and they have been continually reporting the reduced amount of work available to them. However, the loss of work is most starkly demonstrated in some of the smaller communities. The Uniting Church recently funded Asian Women at Work for a six-month project aiming to explore extended outwork in the Lao community and try and link them into training programs and so on.

The total Lao community in Sydney comprises only some 5,000 people. The research found that previously there were hundreds of people from the Lao community that were involved in outwork, and there is now only a handful of those people left. There is only a handful of people in the Lao community still involved in outwork. Most of them lost their jobs in the last two to three years. A year and a half ago, the two remaining Lao employers in the clothing industry ceased to operate, on the basis that there was not enough work for them. Consequently, the outworkers that were working for those employers have all ceased to work. We were only able to identify fewer than 10 outworkers that were still involved in the Lao community doing outwork, and they were working for Chinese and Vietnamese employers.

Similarly, the community work and discussions with outworkers in the community undertaken by the Khmer project funded by the New South Wales Office for Industrial Relations has identified that 70 per cent of Khmer families were previously involved in outwork and now there is barely five per cent of the community involved in outwork. Now, it is only women, not whole families, engaged in that employment. Other members of the family may have other forms of employment and a small number of women have remained involved in outwork.

In relation to the effect on outworkers of overseas competition that they are already experiencing, those in the Chinese and Vietnamese communities who have been involved in outwork for a long period of time—15 to 20 years—talk of making similar garments over the last 10 to 15 years for increasingly lower rates of pay. Qi Fen is going to give you two examples of those lower rates of pay that they have been receiving.

Ms Huang—One of the outworkers sews swimwear. Ten years ago she received \$17 an hour to make the sample and the orders, but for the last three years she has received \$7 an hour for a similar type of garment. This low rate of pay and culture of working hard means that she is working more hours, such as 12 hours a day, or 16 hours a day in the busy season, to get enough income for her family. She told me one experience to do with her health. One day, when she drove her car on the way back from delivering her order to her employer, suddenly she could not see anything in front of her. She had to stop her car on the roadside for more than 20 minutes. After that, she was very scared and called her husband to come and drive the car. Since that time, more than one year ago, she has stopped driving.

The other outworker works in the fashion industry. She has made ladies' blouses for more than 15 years. She used to receive \$11 per garment. But in the last five years she has received only \$5.30 per garment and has got more complicated work, such as joining 13 pieces in a garment. There were 13 different pieces to put together in the garment. She usually starts work at six o'clock in the morning. If there is the stress of an urgent order, she has to start work when she wakes up, at three or five o'clock. In the last three years she has had two miscarriages. She still wants to have a baby for her husband.

Ms Carstens—The third key point that we would like to make in our opening statement is that there is a clear need as part of this TCF package to have a labour adjustment package to assist outworkers and workers in the formal sector to retrain for other industries. We recognise that there have been some problems associated with the implementation of a LAP in the past. That does not mean that the concept of a LAP is wrong but that we need to work on a better program of implementation to be able to deliver better outcomes for the workers who participate.

In relation to the delivery of a labour adjustment program for outworkers, we would recommend that the government look at the model that was very successfully used and developed in the Behind the Label strategy in New South Wales, where community organisations have been funded to locate outworkers and draw them into training programs. A broker is employed to liaise between community organisations and training bodies to ensure that courses are set up and tailored to appropriately meet the needs of the outworkers who are engaged in the training. One example of a very successful course was set up by a broker, through the Chinese Australian Services Society, for Chinese outworkers to do a family day care program. They were therefore able to do the training to become family day care workers in their first language, Chinese, and were then able to apply to become family day care carers through the scheme run by the training organisation. It had a very

successful outcome for outworkers in channelling them into new employment. Qi Fen is going to outline a little more some of the elements of the Behind the Label strategy.

Ms Huang—The community worker plays a very important role and is very successful in locating the outworkers to join the training program. Because we speak their languages, they can easily understand about our training program. Through the training, our trainees gain knowledge of Australian society. Our trainees are isolated women. They build up their self-confidence and start to work on plans to make their dreams come true.

Some of the outcomes include the following. First, after they graduate with skills from national clothing production certificates III and IV some outworker women set up alterations businesses. Second, some outworkers become assistant child-care workers in the child-care centre and family day care program after they have been trained. Third, some outworkers can get a better rate of pay for work for fashion designers. Fourth, more and more outworkers want to get into the training programs.

Ms Carstens—In summary, FairWear and Asian Women at Work are saying that the outworkers are already being extremely affected by overseas competition that already exists because of low tariffs and other economic factors and we do not believe that there should be any further tariff reductions because they are already suffering from this situation. We are already faced with legislated tariff reductions early next year, so they are going to be faced with further competition from overseas for their jobs. So we see that it is really important that outworkers are included in a labour adjustment program to assist them, along with other workers, to retrain for other industries.

FairWear and Asian Women at Work support the passing of the SIP bill but believe some amendments are needed to make it fairer and more equitable. We would also like to see SIP funding being tied to companies becoming accredited under the Homeworkers Code of Practice as part of ensuring that outworkers who are employed in subcontracting chains are receiving award wages and conditions. We will close our comments at this point and leave it for you to ask questions. Thank you.

Senator WATSON—Matters of exploitation such as you have presented to the committee today are clearly unacceptable in a society such as Australia's. In fact, I recall being part of a Senate committee that looked at this matter of exploitation some years ago. It does appear to me that the state supervision of these sorts of practices is obviously leaving a little bit to be desired. Would you like to comment?

Ms Carstens—I am sorry, I am not quite clear on what the question was. Could you repeat that?

Senator WATSON—I prefaced it by saying that the exploitation was clearly unacceptable. We have had Senate committee reports on this matter on a number of occasions over the last 20-odd years. For the exploitation to be continuing, as you have enunciated today, obviously means that something is not working, that there is insufficient supervision of these outworkers by the relevant regulatory authorities. I was just asking you to comment.

Ms Carstens—Thank you for clarifying your question. The FairWear campaign has been involved heavily in the discussions and campaigning around the voluntary Homeworkers Code of Practice that is in place for retailers and manufacturers to become involved in monitoring and checking what is going on in their supply chains, from the top down. FairWear have reached the conclusion that the voluntary mechanisms on their own are not able to work. So we are campaigning now with state governments especially, but the federal government's support would be appreciated, to have a mandatory code of practice for the clothing industry to mandate for retailers and manufacturers to be involved in actually checking their supply chains, where work is going and under what conditions it is being made.

Senator WATSON—Your criticism of exploitation does not go right across the sector—for example, I do not think there is very much outworking in the carpet division, is there?

Ms Carstens—We have not encountered outworkers involved there. Clothing is the main area in which we have encountered outworkers in the TCF industries.

Senator WATSON—That could even include making up of clothing from imported fabrics, couldn't it? So it is not necessarily a criticism of manufacturers in Australia. It could be a criticism of merchants importing fabric and using outworkers to make particular patterns et cetera. What I am saying is: is it a fair criticism of the industry? To me, the exploitation does appear to be also associated with the retail trade, whereby they are purchasing from merchants who exploit people such as you have referred to, so it is not necessarily the industry per se because it is merchants rather than manufacturers in the traditional sense that are at fault.

Ms Carstens—If you are talking about manufacturers in the traditional sense, I understand what you mean. Our comments are addressed to retailers and manufacturers, but we also talk about fashion houses—those who may in the past have been identified as manufacturers but who now really have no manufacturing base of their own, and in fact subcontract all of their work. Some manufacturers manufacture some work in house but also subcontract some of their work. So we do need to address manufacturers in the clothing industry, the fashion houses and, as you have rightly identified, the retailers as well.

Senator WATSON—The focus of these bills is essentially for the manufacturing industry in Australia to take advantage of the incentives—money given by government to manufacturers in Australia to improve their productivity and their competitiveness. Associated with that particular package there would be some reduction in tariff. I think we do need some clear focuses as to where your problem is. To me it is not necessarily exclusively with manufacturers. I am interested in the make-up of the textile manufacturing industry in Australia—the employment of outworkers vis-a-vis everybody else, merchants and retailers, exploiting such people. I want to know: is it a fair criticism of the manufacturing industry per se or is it a far wider problem?

Ms Carstens—The issue of exploitation of outworkers in the clothing industry is an enormous issue, and this is not a forum in which we can talk about all of the different issues. We are saying that we fully support the strategic investment program that is put forward and believe that the industry needs that sort of support. We are asking for additional criteria and additional components to that that give all businesses access to support so that they can look at restructuring and what they need to do along their supply chain to ensure that the outworkers who are making their clothing are being paid correctly and are receiving award conditions. We are also going so far as to ask that the receiving of that SIP money be tied to becoming accredited and, therefore, committing themselves to ensuring that their supply chain is not exploiting outworkers.

Senator WATSON—I think the real problem does not lie with the manufacturing industry in Australia per se; it lies perhaps with importers importing fabric—

Senator CARR—Where do you reckon they work—overseas? They are working here.

Senator WATSON—We are trying to focus on the importance of these bills to the manufacturing of textiles and carpets et cetera in Australia. The focus is not on providing incentives to people who are importing particular pieces of cloth and using outworkers to develop them. It is a serious issue.

Senator CARR—It is very serious. I acknowledge your deep concern, particularly given your experience in the textile industry, but both the witnesses here represent people who work in Australia in pretty ordinary conditions—appalling conditions, I might suggest.

Senator WATSON—Absolutely.

Senator CARR—We are talking about people in this country employing Australian workers under immoral circumstances. That is the submission that is being put to us. Have I understood you correctly?

Ms Carstens—That is right.

Senator CARR—You are talking about people employed in this country—

Ms Carstens—In Australia—that is right. And, while we accept Senator Watson's position that some of the textile and carpet industries may not be directly involved in exploitation of outwork, the clothing industry is also very much a subject of this inquiry and the clothing industry is the centre of where this problem exists. That is why we are bringing this submission to this place and asking that the SIP funding for the clothing industry be tied to incentives to make sure that people are ensuring that workers in their supply chains are not being exploited here in Australia.

Senator CARR—Thank you very much for coming here today. Is this the first time you have been to a Senate committee?

Ms Carstens—It is the first time here in Canberra. We did speak to the inquiry Senator Watson referred to earlier about exploitation, back in 1996.

Senator CARR—So you are old hands. There is no problem on that score.

Ms Carstens—I do not know that that is quite the case.

Senator CARR—It is very good. I think it is really important that people come and put a view to the parliament about these important matters. Did the department come and talk to you before these bills were presented to the parliament?

Ms Carstens—No, that was not the case.

Senator CARR—So you have had no contact with the department about the issues that you are raising?

Ms Carstens—Not with the department, no.

Senator CARR—Have you talked to anyone in the government about these things? Were you asked about these things by the government?

Ms Carstens—No. At the time of the Productivity Commission's original inquiry they attempted to make contact with us, but the one day they were in Sydney and able to see us was a day on which we were not available.

Senator CARR—But there has been no contact with you in the consultations by the government about these particular bills?

Ms Carstens—There has been no contact, no.

Senator CARR—How do you feel about that?

Ms Carstens—I am concerned about it, given that—as we have indicated to Senator Watson—Asian Women at Work has been involved for over 10 years in addressing the issues of outworkers in the clothing industry. Certainly in New South Wales we have been recognised as an authority on these issues. We are currently in contact with some 600 outworkers in the clothing industry. Given that outworkers represent such a large percentage of the industry, it would have been good to have seen their concerns more thoroughly addressed in the Productivity Commission's reports and also in this legislation and the assistance package. They are totally absent from the assistance package.

Senator CARR—You want to see an ethical employment clause put into government assistance packages—is that what you are saying?

Ms Carstens—That would be great, yes.

Senator CARR—I want to be clear about that.

Ms Carstens—Yes, that is what we would like to see.

Senator CARR—You want ethical conditions in terms of the way in which Australians treat other Australians in this country applied as a condition of government grants?

Ms Carstens—That is right. It would need to apply down the whole supply chain, as it does with the Homeworkers Code of Practice, not just in their direct employment of their own work force. We are not, in any of our comments, reflecting on the direct employment relationship between the manufacturers and their direct employees. What we are concerned about is what goes on down the subcontracting chain, which we are saying they have the power to address through their employment contracts if they choose to.

Senator CARR—What do you think the impact of further tariff reductions will be on outworkers?

Ms Carstens—I think that we will see more and more outworkers unable to get work and that we are going to have a situation of greater financial difficulty in many of the communities. As I said when I talked about the Lao community earlier, we went from hundreds of people employed in that community to only a handful now remaining, still doing outwork. A few of those who had been displaced from outwork got factory jobs in the clothing industry. There were also a small number who gained factory jobs in other industries. But the large majority of the outworkers were at home, unemployed. They were not able to access alternative employment once their work from outwork had dried up, so their families are in difficult situations. I think we will see that microcosm of the Lao community repeated across many of the communities that have traditionally been quite extensively involved in outwork. We will also see an ongoing pressure on the rates of pay for outworkers. The examples that Qi Fen gave are two of many, many examples we could give you of where there is pressure on prices downward because of the competition from overseas.

Senator CARR—It has been put to this committee that the government has effectively blackmailed the industry in forcing the industry to accept further reductions in tariffs in return for assistance. What do you say to those claims?

Ms Carstens—We do not see that there is a need to link the tariff reductions to the strategic investment program. We have additional reductions that are going to occur next year anyway, apart from any tariff reductions that may be legislated now through this particular proposed bill. We have already talked to you about the difficulties that outworkers are already encountering with the competition from overseas. The exchange rate and other factors are part of that as well and are continuing the hardship for outworkers. We do not believe it is necessary to link these two bills. We think it is important that the industry and workers receive

assistance in adjusting to the current climate of this industry, and further tariff reductions are not necessarily to be tied to that.

Senator CARR—You have made a plea to this committee that we should link the consideration of ethical employment practices to government assistance. How ethical do you think it is to insist on the industry accepting further tariff reductions in return for assistance without that necessary inquiry into the effect of such a change?

Ms Carstens—I can speak personally about that. I do not believe that it is appropriate to make that linkage or to force that linkage. I do not believe I am in a position to make, on behalf of my organisation, a judgment about the ethics of the government.

Senator RIDGEWAY—I want to follow up the questions that Senator Watson asked about the 600 outworkers that you represent. So I can clarify this for the record, can you explain to me where the 600 outworkers are currently employed? Can you give some sort of description of the businesses so that I can understand whether we are talking about just an employment issue or we are talking about manufacturing? I note that you say on page 1 of your submission:

A couple of outworkers in our network who receive award rates of pay have been told by their boss that he doesn't know what will happen to his business after 1st January when the next tariff cut comes into effect.

That seems to imply to me that you have also got businesses working in the manufacturing side. I wonder whether you might be able to clarify that so that the committee is clear on this and the record has a proper description of the types of businesses your outworkers are in.

Ms Carstens—In New South Wales outworkers are deemed to be employees, so none of them is working as a private contractor. They are all involved in manufacture because they are actually producing the garments. Their employers are a variety of people. They may be people who actually have a factory base, do some work in house in their factory and then give some work to outworkers. Their employer may be someone who is based in their own home and really does not do much production at all but simply has a contact network of outworkers to whom they go and deliver the work. There are outworkers for whom their employer is only a Christian name, a mobile phone number and a van that delivers the work to their house. They have no further knowledge of whether there is a factory base or what there actually is behind that person. Is that assisting in clarifying your question?

Senator RIDGEWAY—It is. I am trying to understand, even in the context of what has been said in the submission, whether or not any of the businesses that you describe are legally entitled to access, for example, the strategic investment program or otherwise have access to that.

Ms Carstens—I think it would be useful to direct this question later to the union because they have a deeper understanding of at what point people can access the strategic investment program and where that fits in terms of the outworker supply chain. My understanding is that smaller businesses are less likely to have access to SIP, but we are saying that perhaps some of those smaller businesses should be given access to that. As I said, in terms of detail I would defer to the union to answer that question better than I can. Certainly Asian Women at Work are talking to employers about improving the way that they are working and we are trying to ensure that outworkers are paid properly. We would like to see the ones who seriously want to become good guys and to restructure have some support to do that. If the strategic investment program is one of the ways by which that can happen, then that is great.

Ms Huang—Can I pass on that our outworkers ask you to please remember them when you make your decisions.

ACTING CHAIR (Senator Watson)—We shall. Thank you.

[4.56 p.m.]

O'LOGHLEN, Mr Geoffrey M., Government Relations Adviser, Australian Association of Leather Industries

RICH, Mr Allan, Chairman, Australian Association of Leather Industries

ACTING CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Mr Rich—I am the Managing Director of VHSP Pty Ltd, which is located in North Laverton in Melbourne.

ACTING CHAIR—Thank you for your submission. I invite you to make an opening statement.

Mr Rich—The Australian Association of Leather Industries requests that the SIP legislation be amended to enable the leather industry to claim support for product development and process improvement expenditures to 2010, like the rest of the sector. If this is not done, then a second option—and this is a reluctant suggestion—would be to increase the level of support for capital expenditure by the Australian leather industry to the same rate as product development and process improvement expenditures, which is 80 per cent under the scheme.

The Australian leather industry has been directly affected by successive governments' TCF and L policies since the 1980s. The industry is experiencing the same pressures to adjust and change, involving investment product development consolidation and exporting employment and technology, as other sectors such as knitters, weavers, footwear manufacturers, carpet producers, clothing assemblers, and cotton and synthetic yarn producers.

The industry faces the same pressures and needs to 2010 that these other sectors face. Because of the integrated and dependent nature of supply chains, adjustment pressures are not solely dependent upon the tariff rate for that sector in isolation. The leather industry is influenced by the extent of transformation of Australian raw materials that occurs in Australia in the clothing, footwear and furniture industries.

Changes in clothing and footwear tariffs and the resultant contraction of these sectors' manufacturing have directly pressured the Australian leather industry. The transfer of Australian manufacturing capabilities to overseas production sites has assisted our foreign competitors' scale in adversely affecting our ability to compete against them for other customers. The Australian leather tariff, which is at five per cent, is equivalent to that affecting the yarn sector which is continuing to receive assistance.

The leather industry is an integral component of Australian industry that has responded to government policies in the past. We have invested and restructured and we now have to emphasise product development if we are to avoid undifferentiated competition. It would be unfortunate in the extreme if this work and effort were curtailed prematurely.

ACTING CHAIR—Is the thrust of your submission that in recent years you have not had as good a deal in SIP assistance as the rest of the industry? I acknowledge your performance: during the 1990s it has been very good. In fact you have been a leader.

Mr Rich—Under SIP, up to 2005 we had the same eligibility as the other sectors of the TCF. It is post-2005 that our concerns relate to, because for some reason we have been differentiated against.

ACTING CHAIR—Do you think you are being penalised for your outperformance?

Mr Rich—Penalised for our outperformance? I do not think that is the thrust of it. I do not think there is adequate understanding of the pressures that we are encountering in our industry. Maybe you are right: maybe we are being penalised without fully understanding what we are confronted with today.

Mr O'Loghlen—I am not sure we would say we are being penalised for our performance because, on a number of key measures, other people who have done better than us on indicators have not been similarly treated. If we are to be penalised for our performance as having done that well it would imply that we had done better than anybody else in a number of key areas. That is not the case.

ACTING CHAIR—Why is it there is the contention that you face the least adjustment?

Mr Rich—Because we are trying to pin a reason on why we have been excluded. I have had some verbal confirmation but nothing very specific and nothing very certain.

Senator CARR—When you say 'verbal', who by?

Mr Rich—It is more, it would be fair to say, the word around the traps—

Mr O'Loghlen—Officials.

Mr Rich—Rumours.

Senator CARR—That is not the way governments work; that is not the way the public service works. Did an officer tell you that you have been excluded?

Mr Rich—It was announced in the ministerial statement. That is how we found out.

Senator CARR—So that is how you found out—by way of a ministerial statement. Was an explanation given to you by any officer of the department as to why you were being discriminated against?

Mr O’Loughlen—The best explanation that we had was that a decision had been made to skew the assistance available under the scheme towards those sectors facing the greatest adjustment levels.

Senator CARR—Has there been anything given to you in writing to explain that?

Mr Rich—No.

Mr O’Loughlen—No.

Senator CARR—And you say it was verbal.

Mr Rich—Yes.

Mr O’Loughlen—Yes.

Senator CARR—What was the nature of this verbal communication? When did it occur?

Mr O’Loughlen—After the press release.

Senator CARR—So an officer of the department has told you?

Mr Rich—Yes.

Mr O’Loughlen—And it was subsequently confirmed in the minister’s statement to the parliament.

Senator CARR—Did you contact the officer or did the officers contact you?

Mr Rich—I was contacted by the officer.

Senator CARR—So an officer rings you up and says, ‘The reason you are not getting any money out of this package is because you are doing too well’?

Mr Rich—It was not exactly because we were doing too well; it was because of the skewing towards those that had greater structural adjustment—perceived structural adjustment.

Senator CARR—You say here that some restrictions will apply as ‘they face least adjustment’ and are ‘highly capital intensive’ and ‘innovative activity ... is more technically oriented’. Were those the views given to you by way of explanation?

Mr O’Loughlen—They were the reasons given in the minister’s explanatory memorandum.

Senator CARR—They were only advised to you informally, I take it?

Mr O’Loughlen—Yes.

Senator CARR—Can you explain to the committee why you think that is wrong? Why is that analysis incorrect?

Mr Rich—In broad terms perhaps I could illustrate something we would be doing at the moment. First of all, under the first years of the scheme we have invested heavily in our business and we have leveraged the scheme to make ourselves more internationally competitive. In our organisation we do not have a lot more to spend on capital at the moment. We now need to be innovative and creative. We are working on one particular product that is really interesting. It is taking a bobby calf skin—a bobby calf is a young calf, only a couple of weeks old at the point of slaughter, for veal—that might be black and white or jersey coloured, and bleaching it into a white condition, so it is pure white. There is an enormous demand for pure white skins by companies like Dolce and Gabbana, Gucci and Prada—some of the really globally recognised superbrands. No-one in the world is able to deliver a bleached white skin, so the skins are sourced from obscure places around the world with very low yields which happen to be white calf, which is really rare.

We are trying to deliver a product that will replace this rare, hard-to-find white calf and deliver it in a condition that is good enough to put into a Prada purse, for example. In order to achieve that, we are spending lots of time and effort on R&D. We have got experts from around the world working in our factory, and we are claiming that under the SIP scheme at present. We will not be able to do that going forward. We have not finished getting ourselves in a position to be a highly differentiated, internationally competitive business. We

are not ready. We are not quite there yet. We need more time. I am making the case from my own perspective, and maybe that explains—

Senator CARR—You would not be the first that has come here and been asked to make a case from your own perspective. That is the whole point of these inquiries—to allow people to put their view. I am just interested to know whether it was a junior officer or a more senior officer who contacted you.

Mr Rich—I must say I am not really strong on process—

Senator CARR—Obviously no-one else is either, if you get told you are going to be shafted like this by phone.

Mr Rich—It was the minister's office.

Senator CARR—The minister's office? Right. Was it a ministerial adviser?

Mr Rich—Yes. I did meet with the minister prior to the announcement.

Senator CARR—I see. So you're saying it was a political decision.

Mr Rich—I do not know.

Senator CARR—I am just trying to work out how it worked. Obviously we will ask the department later on how it is that you have been excluded in this way, but I am just trying to get an understanding from you as to what the process was that led to your exclusion.

Mr Rich—We do not understand why we have been excluded, because there are other sectors in the industry that have the same tariff settings as we do in our sector, for argument's sake.

Senator CARR—You were part of the last package, and you are not part of this one. That is the thrust of your submission.

Mr Rich—We are part of it, but on a limited basis. Only type 2, and the association believes—

Senator CARR—You think you are getting the rough end of the pineapple.

Mr Rich—Absolutely.

Senator CARR—What has been the government's response to your representations? I take it you have come back to the government and said, 'This is a bit rough.'

Mr O'Loughlen—We are going through the processes of the development of the program as is. This is the stage we are up to. We are told what the government's decisions have been.

Senator CARR—So you are asking us to amend the bills to allow you to participate more fully.

Mr O'Loughlen—Correct.

Senator CARR—You want to see a separation of these bills from the tariff measures.

Mr Rich—I do not think we have a position there.

Senator CARR—Are you of the view that the reduction in tariffs will assist you?

Mr Rich—No, I do not have that view.

Senator CARR—Do you support further tariff reductions in the current environment?

Mr O'Loughlen—The leather industry's tariff is at and will be maintained at five per cent so, directly speaking, the leather industry is not directly affected. Reductions in our customers' tariff levels will have a consequent effect upon our domestic market.

Senator CARR—Fair enough. So what do you say about the non-tariff barriers that are affecting your capacity to export?

Mr Rich—This is an issue for some of the members, where there are barriers. I think in general the industry sees itself as focusing on becoming increasingly differentiated so that it has a place in the global market through capability rather than through tariffs or to get around the non-tariff barriers.

Senator CARR—Explain to me what these non-tariff barriers are that specifically affect your component of the industry.

Mr O'Loughlen—The restrictions in overseas countries, whereby they can require domestic leather supplies to be processed in those countries and turned into leather there so that there are basically export constraints

upon hides, can be a problem. In China they are buying from designated suppliers within China, which impedes access for our people.

Senator CARR—So in China they have preferred suppliers and supplier lists.

Mr Rich—Preferred supplier arrangements. They have complex rules on import-export.

Senator CARR—So it is a new variation on rules of origin, is it?

Mr Rich—Yes. We have looked at setting up our own sales and distribution networks in China. It takes a long time and it is very difficult to obtain the right to import goods and distribute them within China. You need to use Chinese companies and Chinese people.

Senator CARR—What are the other major markets you are finding difficult to access?

Mr Rich—The way the world is going, China is the most important market in the world for us by so far that all other markets are inconsequential. So, if I may, I will talk about China specifically.

Senator CARR—Do you source your hides from Australian domestic sources?

Mr Rich—Yes.

Senator CARR—Thank you very much.

ACTING CHAIR—We will certainly look at the support issue which you have raised. The committee will take it up with the department.

Mr Rich—Thank you.

ACTING CHAIR—Thank you for appearing before the committee.

[5.13 p.m.]

BURROW, Ms Sharan, President, Australian Council of Trade Unions

KITCHENER, Mr Gerard Daniel, National Industry Policy Adviser, Textile Clothing and Footwear Union of Australia

O'NEIL, Ms Michele, Victorian State Secretary, Textile Clothing and Footwear Union of Australia

ACTING CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Ms O'Neil—I am also the National Vice President of the TCFUA.

ACTING CHAIR—Thank you for your submission. I invite you to make an opening statement and the committee will then ask you questions. One of the earlier witnesses spoke on a couple of matters on which you may have more information and may wish to comment. Feel free to comment on any matters that have been raised by other witnesses.

Ms O'Neil—Thank you. We appreciate the opportunity to address you today and also the opportunity for this committee to consider some of the issues that are of grave concern to our union and to workers in the industry. I appreciate that you have had an opportunity to see our submission, so I will not go to it in great detail, but I would like to summarise a couple of key points and respond to a couple of the issues already raised this afternoon.

One of the reasons we thought it was critical that these matters be referred to this committee was that we were concerned that the tariff reduction bill and the SIP bill were being linked by the current government in parliament. We are looking for—and I will go on to explain on what basis—the connection between the two bills to be severed; for the tariff amendment bill in its current form to be voted down; for the SIP bill to be amended to include a lower eligible threshold for companies' expenditure; for the bill to include an employment impact statement as part of the strategic business plan reporting and accountability requirements for business that would deal with employment levels and intentions of companies regarding jobs in Australia and also the issues of ethical employment dealt with by FairWear this afternoon; and for there to be tightened eligibility to ensure that only genuine Australian manufacturers have access to the scheme. We are concerned with those aspects that provide assistance to designers that would not be manufacturing at all in Australia.

We are looking for the introduction of a TCF labour adjustment program. This comes out of our concern about the massive number of jobs that have been lost as a result of the industry restructure over the last 10 to 20 years. We want that labour adjustment program to be created in a separate bill. We will deal with the need for that program later in our submissions, but we would want it to deal with some really critical points for workers, such as providing both vocational training and English language and literacy training. There are a high number of workers in this industry whose first language is not English and who need not only new skills but also the capacity to read and write in English to be able to access other jobs.

The program would also need to have a special allowance that dealt with, again, the high proportion of women in this industry. Any means tested allowance that took into account their partners' income would disadvantage those large numbers of female employees. It would also need to include a subsidy and a relocation allowance for companies that hired eligible workers and, importantly, union based liaison officers who could assist workers in the very difficult transition after losing a job in this industry to finding a job in another industry and could act as both advocates and information providers—the middle people between workers and the myriad services out there that many workers in our industry never receive.

We would also want to see that program adequately funded. The structural adjustment program, which is not part of the legislation but is proposed as part of the package of measures, is only funded for \$50 million. That program has some significant problems, which we will address later. Even the previous TCF labour adjustment program that ran from 1991 to 1996 was funded for \$92 million. We would be seeking a program that was funded for \$100 million over five years to assist workers, with half of that money drawn out of the proposed strategic adjustment fund and the other half out of new funding. Lastly, we want included in the legislation a tripartite Australian TCF industry council that would really give a chance for the industry to bring together all of the key stakeholders to talk about how we can have an industry that focuses on higher value added exports and has a future in the products we produce and the jobs we provide to Australians.

I will outline our major arguments. We think it is premature to introduce further tariff reductions now because we already have in legislation significant tariff reductions commencing on 1 January 2005. The

TCFUA opposes those reductions because there have been massive job losses in our industry over the last 15 to 20 years. We have seen a halving of the number of workers employed in this industry over the period from 1986 to 2000. Many of those workers have been unable to find any other jobs. The most recent studies show that half of the workers who lose jobs in this industry never find another job.

It is also premature to introduce further tariff reductions without any proper analysis of the social impact of job losses in this industry or of tariff reductions on TCF dependent communities, in particular many vulnerable regional communities that rely on this industry for the whole infrastructure and economic strength of their towns. The Productivity Commission failed to address the social impact in the studies that they did last year. There has also been no analysis or evaluation of the impact of what will be the Thai free trade agreement in January 2005. Likewise, there has been no analysis or evaluation of the potential effect of the US free trade agreement, which may well also come into effect at a similar time. Further, no analysis or evaluation has been made of the floated China free trade agreement, which would have a huge and devastating effect, we believe, on our industry.

All of these things are either already in place in terms of government policy or in the pipeline. To suggest that we legislate now for a tariff reduction in 2010 without any evaluation as to the impact of those agreements or proposed agreements is premature, we believe. It is also the case that the global impact of the ending of the multifibre agreement in January 2005 has not at all been analysed. All of these things will be significant for our industry. On the basis that, as has been stated by other witnesses this afternoon, we are already in front of the pack—Australia is already leading the way in terms of many of our trading partners' tariff levels; we have already reduced our tariff levels to a significantly lower level—why should we go out further when we are not seeing a commensurate reduction in the tariffs of those trading partners and when we also have not addressed the fundamental issues to do with the lack of a level playing field regarding things like: exploitation in those countries, child labour, prison labour and the capacity for no minimum labour standards to be recognised or incorporated into these agreements? We also think the SIP should be improved. I will hand over to Gerard Kitchener to deal with some of the aspects of the SIP before I continue.

Mr Kitchener—One of the key parts of the SIP throughout the period of the current program and under the proposed legislation that has caused a lot of concern amongst companies in the industry has to do with the threshold level of eligibility for companies to receive funding under the scheme. Basically, the current scheme only provides for a small minority of companies within the industry. It is a scheme that, in reality, completely ignores the small and medium enterprises within the industry. Four hundred out of 4,900 companies in the industry received money under the current SIP. Sixty per cent of the work force is represented in those 400 companies, so it is perhaps not as great a discrepancy as it may first appear, but we are still talking about 4,500 companies and 40 per cent of the employment in the industry receiving no SIP funding.

This is especially a concern when one of the reasons the government has tied these two bills together, as outlined in documents that the department of industry put forward at seminars, is that they want the SIP money—the industry assistance money—to be compensation for reductions in tariffs. If you have only got a small number of companies receiving the money, then clearly the majority of companies and 40 per cent of employees in the industry will be getting no compensation for the reductions in the tariff levels if these bills are passed in their current form.

The government, in response to concerns that have been raised by companies during the Productivity Commission review process, has announced as part of its overall package a \$25 million program for small businesses over 10 years. I think that, when you look at the figures and see that 400 companies will receive \$60 million a year—the SIP is \$600 million over 10 years—whereas 4,500 companies will receive \$2.5 million a year, it is a fairly laughable equation in terms of fairness.

I have been to a number of seminars that the department of industry has put on where it has been a major concern. I went to one in Melbourne where the room was packed out with a lot of companies who do not receive SIPs under the current program, and they were extremely concerned that they would not be eligible to receive SIPs under the new program. The government's proposal for a \$25 million fund over 10 years is completely inadequate, especially when they are saying that the tariff reductions are going ahead and the SIPs money is compensation for those tariff reductions, whereas 4,500 companies are going to cop the tariff reductions but will receive no compensation.

ACTING CHAIR—What is the size of these firms that you are referring to?

Mr Kitchener—You would need to ask the department of industry in their presentation for the exact numbers.

CHAIR—You said that the room was packed.

Mr Kitchener—There were about 200 to 300 people in this seminar.

ACTING CHAIR—About how many people do those people employ?

Mr Kitchener—Fewer than 20 employees would be my guess. I think 80 per cent of companies in the industry employ fewer than 20 employees. There are a lot of smaller companies in the industry, and there is a larger collection of companies with sizeable employment who by and large have been the companies that I believe the government has been discussing the details of the scheme with. I should add that the TCFUA is in no way saying that it wishes for companies who are currently receiving SIPs to receive less. We do not wish that to occur because we believe SIPs has been good for the industry and we support it, but we think that it needs to be extended so that a greater range of the industry is receiving assistance.

It is manifestly unfair for only a minority of companies in the industry who represent 60 per cent of employment to be receiving funding and the rest of the industry to be basically being ignored. The government's proposed \$25 million small business program will not go any way towards rectifying that inequality. We believe that the threshold level for eligibility for SIPs funding should be lowered and that there should be more money for SIPs. In that way, the current companies who receive money will receive the same money and the other companies in the industry will have access to the SIP Scheme as well.

We believe that there should be an employment impact statement as part of SIPs funding. Currently under section 37M of the proposed legislation there is a requirement for a strategic business plan to be put forward. We believe that it would be appropriate under that section for companies to be required to put forward an employment impact statement. The TCFUA acknowledges that companies who receive SIPs funding may in some circumstances reduce the work force as a consequence of that funding. If they are putting in new equipment, they may require lower numbers of employees than previously. We acknowledge and accept that, but we believe that Australian taxpayers would wish their governments to be giving money to companies who overall are promoting and extending their employment.

Currently there is no requirement for the employment of companies to be audited, and we think that it would be appropriate under the new scheme for that to occur so that we can at least have data about how employment has increased or decreased as a result of SIPs funding. Ultimately, if the scheme was not promoting increased employment then we would need to address why that was occurring and what changes would need to be made. We also support comments that FairWear raised today that companies receiving SIPs funding who contract out to outworkers should be required to ensure that those outworkers have fair wages and conditions.

Ms O'Neil—The other aspect of the program that we are concerned about, as I mentioned briefly before, is the structural adjustment program. It is not included in the legislation, but it is proposed as part of the package that it be administered through the Department of Employment and Workplace Relations. The problem with the description of the package that we have seen to date regarding the structural adjustment program is that it suggests that it is a program that is available to assist the industry. It does not talk about money that is specifically designated for workers, so potentially it is a program that is also accessible by companies to use for a range of other non-specified measures. It talks about it being available to communities, so again it could well be available to local councils or organisations that may use it to do any number of things, but it is not directly available to the workers themselves.

We think this is again an unfair aspect of this proposal. We support significant financial assistance going to companies in this industry, but we must see commensurate assistance for workers that are going to lose jobs as a result of changes in this industry and will be among any number of people that can put their hands up, potentially, to get money under a program that has no guidelines as yet and no specific objectives in terms of how it is applied. The notes to this legislation provided to the parliament say that it may well be tied to whether state governments also put funding in, when there has been no negotiations with the state governments about the provision of any funding for a program of this sort.

To suggest that it would only be available to companies which were the larger companies in major company restructuring leaves, we believe, many workers with no offer of assistance as part of this package. Many workers who lose jobs are in small to medium enterprises. Many workers who lose jobs are in companies that may not be seen as being in a significant TCF region. It should not be the case that, if you become an unemployed textile, clothing and footwear worker and just because you happened to have worked for a company that was small or medium sized or you happened to work for a company that was in the suburb of

Mitcham rather than in a specific high-density TCF area, such as Wangaratta, you should miss out. It should be the case that workers who are retrenched in this industry have access to a fair and proper scheme regardless of who they worked for and regardless of where they worked. We do support, however, the need to look at the specific needs of regional and small communities that are very TCF dependent.

The last comments we wanted to make were in relation to the comments that were made by a number of other participants in this inquiry this afternoon as well as in one of the submissions. You have heard comments from the Carpet Institute today and contained within the submission from the Council of Textile and Fashion Industries of Australia about the need to compromise on the tariff issue and the introduction of the SIP bill, and how in fact that compromise was reached in negotiations with the government in November of last year. There was no such compromise reached with any representatives of the TCF industry work force. There were no detailed negotiations with this union. There were no detailed negotiations with any representative voice of workers in the industry.

If there was a compromise reached and an arrangement made between parts of the industry and the government on what would clearly be seen as a trade-off on the issue of further tariff reductions to secure a certain amount of SIP funding, that was not done with the involvement of this union or any organisation that actually represents workers. I think that is a fundamental flaw in any negotiations. If you are talking about trying to have smart and strategic industry policy, you need to have all the stakeholders around the table. You need to have around the table the people that understand the future of the industry in terms of products and innovation and the great strengths that our industry has as far as how we can go grow exports as well as our domestic markets; but you also need the people that understand the cold, hard reality of dealing every day of our working lives with the faces of workers who have lost their jobs through no fault of their own other than having contributed many years of hard and skilled work to an industry that is declining as a result of government policies, without any adequate consideration of the future of those workers and their communities.

We have not participated in any compromise; we oppose the compromise. We support the introduction of a SIP bill and we support those companies that have received SIP assistance continuing to receive that assistance, but we want to see some changes and some fairness in the equation. I also need to draw your attention to a specific comment on the second page of the TFIA submission, where the chief executive officer of Bruck Textiles is quoted. It says:

He said failure to pass the package had influenced the company's projected budget this year—contributing to some 22 voluntary redundancies—and would no doubt be an ongoing consideration.

We received correspondence from Bruck Textiles regarding their intention to make redundant 20 to 25 workers on 26 May 2004. This legislation was not even introduced into the House until 16 June. I cannot accept the suggestion that somehow the redundancies in that case were linked to any delay in these bills being passed, given that they had not even been introduced, let alone referred to this committee, before that date. I believe it is essential to correct the record. Lastly, we are happy to answer any questions that you might have. As you can see, the TCFUA are passionate about our industry and the workers in it. We want to see it thrive, survive and grow.

ACTING CHAIR—As a refugee from the textile industry, I can empathise with a lot of your concerns. What about the time sensitive nature of the legislation? I note your comments on Bruck, but we are getting that message across the spectrum. Wouldn't you be worried at delays that might have an adverse impact on your people? How do you balance that out?

Ms O'Neil—I would be worried if it were the case that either the opposition party, the Labor Party, or the government had a view that there should not be a SIP. But we are aware—as is, I believe, the whole of the industry—that the current government clearly has a commitment in this bill to continue the program and that it is also the case that the Labor Party has a specific written and formal commitment to the ongoing SIP. So it is not the case that there is any risk that there will not be a program.

We also understand that the SIP is a program that assists companies retrospectively. It is due to come into place on 1 July 2005 but in fact the majority of companies that would receive assistance would be receiving assistance in 2006 for expenditure that had happened over the previous 12 months. We understand the need for certainty, but our view is that when you have both major parties committed to the program—committed to its future and to funding it—then getting it right is an imperative.

It is also the case that the splitting of the two bills would allow for the passage of the SIP legislation through the parliament, with some amendments. You have heard the sorts of amendments that we would like to see, but there would be nothing that would stop the passage of the SIP legislation through the parliament in the very

near future. We would support that. Our issue is the de-linking of the two bills and the suggestion that one is inextricably tied to the other. We do not accept that argument. We would like to see the SIP bill amended. We would like to see it passed and we would support its passing. But we do not want it linked to the tariff reductions.

ACTING CHAIR—It would be a terrible thing if there were reluctance to horse trade or something. While you say that the implementation of the scheme is going to be down the track somewhat, these people are preparing their budgets, plans and scales of operations now and may be looking at new plant. So this is sensitive and time does seem to be off the essence. Although both government and opposition are committed to the SIP, I do not think the industry really want a decision six months down the track. I think they are looking for a decision now, from what people have said to us.

Mr Kitchener—We would be quite happy to see a decision now, too. The question we have is: what is the urgency for the government to have tariff legislation in place now that will not come into effect until 2010? Why do we need the two bills linked? After putting in place this SIP legislation, you would have the effects of the Thai free trade agreement and the US free trade agreement. In January 2005, there will be further tariff reductions, which were legislated here in 1998, and you also have the end of quotas under the multifibre arrangement. I would have thought that it would be wise to consider the implications for the industry of all of those issues prior to legislating further reductions in 2010. My understanding of the positions of all the parties in the Senate is that there could be rapid movement on these bills if there were such a de-linking.

Senator RIDGEWAY—Why do you think the government has brought forward the plans so early on in the piece? Is there some reason for that, in your mind?

Ms O'Neil—Our view is that it is purely ideologically driven. We have looked in great detail at last year's Productivity Commission report, and there is no basis in that report to support further tariff reductions in 2010. The government's own Productivity Commission has not sufficiently argued the point in terms of the real benefit to the industry, and I cannot see any basis for the decision other than a fairly narrow ideological one about being seen to support free trade generally.

ACTING CHAIR—What is the status of the bill that you are referring to about a labour adjustment? Were you consulted on this? How far has that developed?

Ms O'Neil—There is no separate bill at this stage. The proposal that is in the government package is that \$50 million be made available, but it would be through the Department of Employment and Workplace Relations. So it is talking about a budgetary figure but there is no bill that is proposed as part of this package of legislation. We are saying that we believe it would be appropriate to have a separate bill that dealt with the labour adjustment program.

ACTING CHAIR—You talk about the productivity of 20-odd people. What sort of retraining are those people, or any future redundant people, going to get? What are they going to get in terms of retraining or moving to other areas et cetera? There are such programs, aren't there—global sorts of programs?

Ms O'Neil—You are right; there are some general programs. However, there are none that target TCF workers specifically. The most recent study that looks at what happens to TCF workers is a study that was done last year by Monash University and is called *The long goodbye: TCF workers, unemployment and tariff deregulation*. It looked at what happened to 300 workers in the TCF industry in Victoria who lost their jobs between 1999 and 2003. My earlier figure of about 50 per cent never finding another job comes from this study.

ACTING CHAIR—How many of those 300 were offered retraining?

Ms O'Neil—The interesting aspect of it is that most focus group respondents said they were given no or inadequate information about entitlements and little information about what to expect from, and how to work with, Centrelink. This was particularly the case for those people whose first language was not English. The percentage of workers who received any formal assistance in terms of non-financial assistance such as retraining was below 20 per cent. So less than 20 per cent of workers received any formal assistance. Of the workers who had found employment, the great bulk of them had found only casual, insecure or part-time employment, and not one of the participants had found work that was paying the same or better wages. So every person who had lost their job and had then found one ended up in employment where their income had reduced, and the great bulk of that was casual employment.

ACTING CHAIR—Sometimes these programs might have to be individually focused. For example, the first employment skill of the Laotian ladies who were put off might be to learn English, mightn't it?

Ms O’Neil—That is right. We had a very successful program that was run a couple of years ago after a major retrenchment at a place called Bradmill in Yarraville, Victoria. We managed to negotiate with the receivers of that business to run an assistance program that was called ‘Life after Bradmill’ to assist some 400 workers who lost their jobs as part of that company changing and reducing its work force. From that study, we found that the great bulk of workers had never written a CV in their lives and that the majority did not have English as a first language and had never entered a Centrelink office or any other training institution. It was only with very intensive direct support that they managed to access English language training and other jobs, and the majority of those workers reported that without some sort of financial assistance that would allow them to do retraining they had to look for other work. The sort of program that existed in the previous TCF LAP did exactly as you said, in that it provided assistance both for English language and literacy training and for vocational training, and we think that is the ideal combination.

ACTING CHAIR—I welcome Sharan Burrow, who has just arrived. I am sorry that we changed the program a little.

Ms Burrow—I thought I was spot on time! In any case, I apologise for not being here from the beginning.

ACTING CHAIR—Would you like to make an opening comment, Ms Burrow?

Ms Burrow—Yes. I apologise if the issues I will speak about have already been covered. I particularly wanted to appear because I believe that this is a really critical inquiry. We are dealing with one of the most vulnerable industries in Australia. The issue for us is that the Senate understand—and I am sure you do—that this is now a very serious context. If we were worried as the Productivity Commission reviewed this industry, we are now even more worried because of the context we have had since. In Cancun, the end of the multifibre agreement globally was reaffirmed. We have the agreement with Thailand. We now have the US FTA environment and of course the American smarts in getting their own interests protected through the yarn forward rule, which we think provides serious, potentially negative consequences for the Australian industry. So there is that context and a whole range of discussions still to come—for example, the debates around the reopening of the Doha Round, in particular when it comes to cotton, the yarn forward rule and value-added production. What was already a vulnerable industry is now incredibly vulnerable in the context of the global environment, and I would be happy to talk about that more if you are interested.

We want to make a few points. We support the proposition by the TCFUA: we urge you to separate these two bills and to see them as separate bills. The bill dealing with the industry program, the SIP, should be seen for what it is: legislation for an urgent and necessary industry assistance program to be put in place now. In terms of the tariff legislation, we cannot pretend that we see any merit in it at this point in this context, with the vulnerability of the industry; and 2010 is a way off. We would hope that there would be further reviews, that we would be able to assess the impact of both the domestic and global context on this industry, and we would hope that the Senate will see it in the same way we do. We do not believe that the industry should be held to ransom. We believe that it should concur, first and foremost, in the context of tariff reductions, before it gets the industry assistance that is necessary.

We think that it is premature to precipitate the enactment of the tariff amendment bill at this time. We think that it should be considered closer to the time of its practical operation, in 2008 or 2009. We believe that the industry package should be amended to extend its operation to small and medium enterprises. We make a huge plea to you about this. If we are to have a sustainable textile industry, there may remain some big players in Australia but our sustainable future is increasingly going to be through innovation in the industry and through small to medium enterprises. To not have the capacity to access this assistance, particularly in regard to innovation, is just not acceptable.

In regard to the operation of this industry package, we would also like to see an employment impact statement included so that we can actually track what is happening to working people in the industry. To that extent, it is absolutely imperative that a labour adjustment program—similar to that which operated between 1991 and 1996—be reinstated. We believe that should also provide for a non-means tested allowance because of women in the industry, in particular migrant women. We believe that is potentially discriminatory in a way that is not helpful. In general terms, we would summarise our points in this way: separate the two bills and focus on the industry assistance program, the SIP. That program should be extended to small to medium enterprises, should be supported by a labour adjustment program and should be inclusive in regard to the allowance on a non-means tested basis.

Finally, I would argue—and we argued this at the Productivity Commission—that a tripartite Australian industry council is absolutely critical. If you do not have the players on a tripartite base sitting around the table

together being responsible for negotiating a program to move forward, the actual successful parts of the industry will not be recognised and supported. Areas where we could look at niche market opportunities are not well understood. So the industry should have the confidence that government actually thinks it is important to retain such an industry in Australia. Where it is successful, it is hugely successful, and I do not think anybody would want to lose it. But we have seen such devastation, particularly for working people, in the last couple of decades that we really do need to put this industry on a sound footing. Tripartite planning and research and development are absolutely essential. I think they are probably the main points. No doubt, if I have missed something, we can pick it up during questions.

ACTING CHAIR—In regard to time issues, we have allowed an hour for your evidence, so we will finish at about 6.15. We did not start with the department of industry and we require to hear from them at the end, otherwise we will not have an input from them, which I think is important. If we finish your presentation by 6.15, that will allow half an hour for Mr Taylor from the Technical Textiles and Nonwoven Association. You will still get your hour; that is the main thing.

Ms O'Neil—I think Sharan has to leave us in a few moments. Perhaps if there are any questions of her before she leaves, that would assist.

Senator CARR—We heard from the TCFUA that there has been no effective consultation concerning the structure of the SIP package or the LAP package. Was there any consultation with the ACTU on either of those matters?

Ms Burrow—No.

Senator CARR—Have either of you undertaken any analysis of what you think the employment implications will be of further tariff reductions? Could we start with the legislative changes for next year and then have a look at 2010. Have you any analysis on that score?

Ms O'Neil—There is much debate about what will be the impact. I suppose what we go on in terms of the analysis that we make is what has been the impact of the tariff reductions over the last two decades. So we have seen, as I said, a halving in the number of people employed. I have to say—

ACTING CHAIR—It happened before then; it happened before the last two decades.

Ms O'Neil—The original decision was in the seventies; you are right. When I talk about a halving of employment, I am talking about a halving of the formal sector employment, because we agree with the comments that were made earlier from FairWear about one of the problems that this industry faces. I have to say that I think it was a great omission of the Productivity Commission that they did not pay serious regard to this issue about the huge number of unregulated home based outworkers in the industry. So the figures that we have only talk about those workers who are able to be formally recognised in the sector.

Using those figures for a moment, from 1986 to 2000 we saw a halving of the industry. We speak to those parts of the industry that have been hanging on—and that is how they describe themselves. Many of them report to us on a daily basis that they would not be able to survive the 2005 reduction let alone 2010. The psychology in the industry is that people are trying to work out how they can survive what is going to happen in 2005. That is going to be a massive problem but, knowing that another reduction has been legislated for 2010, they do not even believe it is worth the effort. I am describing to you the many reports to us, on a daily basis, by employers in the industry who believe their companies are vulnerable and that they will have to either move offshore or close their businesses altogether.

Coupled with that are a number of impacts for companies that are trying to adjust. We have some great news stories about companies that say: 'We want to adjust the sorts of products we make. We want to create new markets. We want time to be able to face this challenge. But we cannot even come up to breathe. We need a longer lead time where we can actually continue the period of adjustment so that we are long-term survivors.' As they describe it to us, the constant effect of these five-yearly drops in the tariff, at a dramatic point, mean they are unable to restructure their businesses for survival in the long term and they want breathing space. Gerry also has figures that are relevant to your questions.

Senator RIDGEWAY—How do you rationalise the question about long lead-times when, in your opening remarks, you mention that the union does not support the reduction in tariffs, even in the future? How do you bring those two things together, given what the businesses are saying?

Ms O'Neil—It is important to look at the real impact. If studies were undertaken that properly assessed the social and community impact of job losses and the reductions in both the tariff and nontariff barriers that our

trading partners have in place—and many of the barriers are, in fact, well hidden as nontariff barriers—and it could be shown that issues such as the abuse of human rights and International Labour Organisation standards were addressed in those countries then we believe the whole tariff issue could be addressed differently. In the absence of those three things, we say it is correct for Australia to be proud of its history of supporting basic rights for workers and that our public policy should recognise that as one of our strengths. But we also say that should be the basis of how we formulate trade policy and industry policy.

Senator CARR—What studies can we call upon to get any assessment of the employment consequences of tariff reductions?

Mr Kitchener—One study that we absolutely cannot call upon is the Productivity Commission study. If you are familiar with it, you would know that the basic assumption of the economic modelling used by the Productivity Commission is that the labour market clears—that is, all people who are displaced get a job. We know that that is not true. As Michele said, employment in the industry has halved from 1986 to 2000. The Productivity Commission has in no way addressed this issue, because all of their economic modelling is based on a completely flawed assumption.

The Victorian government undertook some studies through National Economics. Their submission to the Productivity Commission details their view about job losses and particularly breaks it down into local government areas. It analyses the impact in local government areas. It saw significant job losses resulting from the proposed cuts in tariff levels.

One of the key ABS statistics for 1986 to 2000 is that, in terms of employment, it is full-time jobs that have gone. What we have seen is the complete shedding of full-time jobs in the industry, particularly full-time jobs for women. The statistics for women in the industry are quite dramatic in terms of the employment impact—their share of employment. In 1985 there were 67,000 full-time female jobs; in 2002 this had reduced to 30,000. Male full-time jobs over the same period fell from 37,000 to 31,000. Over the same period, part-time female employment grew from 11,500 jobs to 13,000. Women fill 90 per cent of all part-time positions. What we have seen is a shedding of the full-time employment, particularly in the clothing sector, where females dominate. Whatever jobs have been created there have been part time, casual or outwork. There is a real social issue in terms of the type of employment that the industry is seeing in the future. The National Economics studies and our own assessments would be that in terms of employment numbers the industry could significantly downsize and probably halve again over the period to 2010.

Ms O'Neil—Just to add to that, we understand that there is a great concern in the industry about the loss of critical mass. If our prediction is correct and there is a halving of employment numbers again over that time, there is a very real question about a number of the interconnected parts of the industry also losing their capacity to stay in business. For example, if dye houses that rely on clothing manufacturers providing them with the material that they need for dyeing lose any of their local producers, they in turn become unsustainable. There is a great concern about what would be the critical mass that needs to be sustained in the industry for the industry as a whole to survive.

Ms Burrow—There are also questions of transparency. There are a couple of things we could do immediately if there was the political will. One would be to ratify the Home Work Convention, which would enable us to look at what standards are in place in regard to employment right across the industry. You have obviously heard from our allies in the FairWear campaign, and they will tell you the horrors that exist right in our own backyard. We would do well to then look at legislation that is domestic legislation at a national level equivalent to that being introduced in New South Wales. That would provide us with some capacity to use the laws to generate more transparency.

Then we could look at government policy—for example, procurement. If we were serious about this industry, we would actually be doing something that is dear to your heart, Senator Carr, and that is looking at the way in which we preference our own government contracts. When you look at the US FTA it is really instructive to see that defence industry clothing, for example, is not open to anybody. While we talk about these grand opportunities in the procurement market, they are actually reserved for domestically produced materials in America. You will see a lot of that. Look and hear what we do in support of this industry through all the opportunities we have through procurement. We do very little. There is a range of things we could do.

ACTING CHAIR—It is not all industries. Look at the paper industry, for example. I know a number of government departments where Australian producers are the preferred supplier.

Ms Burrow—I can tell you, from our examination of the uniforms for our Olympians, that the confusion in the trail of contracts is just enormous. We and Oxfam have been trying to work on identifying where the uniforms have been made and under what labour conditions people were making them. At some other time we could talk about the veil of confusion that has been thrown up there. I am not doubting that there are some good stories. What I am saying is that we do not do enough and we do not have in place the legislation to make those links so that the industry itself can put forward a case for preferencing arrangements.

Ms O'Neil—In fact, the proposals in relation to the US free trade agreement are going to make that proposal even harder to achieve. One of the things we are concerned about is this. You are right, Senator, that other industries have managed to do this. But by and large it is not the case in the textile, clothing and footwear industry. Significant leverage could be gained by the industry if there was greater commitment by all three levels of government—federal, state and local—to procure local goods. Many parts of the industry are reporting to us now that, when they tender for government uniforms, for example, which previously used to go solely to Australian made companies, they are now being asked to tender against companies that are putting in proposals to manufacture the product offshore. We are talking about the uniforms of police, for example.

Senator CARR—What about Australia Post?

Ms O'Neil—That is right. Australia Post is another example. In the past there was a clear commitment, both formally and informally, to have those products made here in Australia—Australia Post uniforms, defence uniforms, police uniforms, firefighter uniforms et cetera—and that is no longer reflected in the tendering arrangements.

Senator CARR—If 50 per cent of the industry is concentrated on Victoria, that national study for the Victorian government could be reflective of the national situation. That is twice the effect. Is that a reasonable assumption to make?

Ms Burrow—Absolutely. I think you certainly need to take that into account and then go beyond that to look at some of the global implications now. It will be cumulative on top of that assessment at that time. One of the disappointing aspects for us was this: we asked the Productivity Commission to give us a serious base for thinking through an industry plan—to look at where the opportunities were in regard to some of those areas of government support and also in terms of a successful industry base. To say that that was not there entirely is not fair, because the submissions were reflected, but I do not think there was the same degree of concern for and commitment to an industry strategy that we should be seeing in regard to this bill. It should be passed, but it should be passed with a lot more thought: what is the government's requirement to make it work; how do we include small to medium enterprises in particular; and what is the R&D and skills link with the development that is associated with that? If we do not keep abreast of the skills base and the R&D in the textiles industries, we are not going to be globally competitive.

Senator CARR—In the clothing and textile union's submission, reference is made to the government blackmailing the industry. Can you explain to me how this blackmail is reflected, and what is your evidence for it?

Ms Burrow—That is easy: accepting tariff reductions in return for industry support.

Senator CARR—What is the evidence for that claim?

Ms O'Neil—The evidence I have for this is that I have been approached by numerous companies—owners, directors and managers of companies in the industry—in Victoria who have said to me that the arrangement in terms of the negotiations between the industry associations, some of which they are members of, and the government was explicitly about accepting a further reduction in tariffs in order to secure the amount of money that was to be offered in the SIP.

Senator CARR—Mr Kitchener, you mentioned before that you attended some consultations—that is, I presume, seminars. You said something about overheads. Can you give the committee more information about the nature of those overheads? Was it explicit in those overheads that this was the trade-off?

Mr Kitchener—The overheads I referred to came from a seminar that the department of industry held in Melbourne.

Senator CARR—Do you have the date?

Mr Kitchener—I cannot recall the date, but when Mr Jumpertz appears for the industry department, you can ask him. He conducted the seminar.

Senator CARR—He is probably aware that there is a good chance that that will come up.

Mr Kitchener—They handed out the overheads. To answer your question, I would need to look through the specifics of the wording, but it was certainly made clear in the presentation that that was the case—that the SIP bill and the tariff bill were to be linked. I am not sure whether it is in this submission, but it certainly was explicitly said in relation to the presentation made by Mr Jumpertz at that seminar.

Ms O’Neil—It is also been put to me by the members of the TFIA and their executive that the negotiations were around the issue of the linking of the tariff bill to the SIP bill.

Senator CARR—Are you saying that it is a condition of the SIP moneys that the tariff bill be accepted?

Ms O’Neil—The term ‘condition’ was not used with me, but that is my understanding of what was put to me.

Ms Burrow—We think this is very easy to clear up. The SIP bill is critical. We think that if the two bills are separated then we can deal with the urgent issue of an industry package that is required right now, with some strong modifications, and then people can take their time on a much more considered approach to the question of whether the industry is ready to take the next step. We do not believe it is. I am sorry; I am going to have to leave, but I hope that you will appreciate that I made the effort because I think that this is very critical. Thank you for your attention.

Mr Kitchener—I have found a reference in one of the overheads. Under the heading ‘TCF Post 2005 Assistance Package’, the final dot point says, ‘These assistance measures are contingent on the legislation of the Tariff Reduction Schedule’—the assistance measures being the \$745 million TCF post-2005 assistance package.

Senator CARR—Would you be able to table that?

Mr Kitchener—Certainly.

ACTING CHAIR—Can we have a resolution of the committee to accept that document? Are senators agreed? There are no objections; it can be tabled.

Ms O’Neil—I will add a point following on from Sharan’s comment. Our position is that we want to be able to separate blind ideology from strategic, smart industry policy. We do not want to turn the clock back; we want an industry policy that works for where the industry is in 2004 and will be in the future. We want to support companies that are prepared to change; we do not want to support companies that are going to rest on their laurels. Our members are prepared to change. They are prepared to learn new skills and adapt to the changing demands of the industry. But we want to make sure that the industry policy is a smart one. We want the assistance of that policy, but not at the expense of leaving Australia and the jobs of Australian workers vulnerable. It is the critical link that we are opposed to. Our view is that it would be possible, with a bit of thought, to amend the SIP legislation in a way that would deal with these issues but still, as has been stated today, give certainty to the industry and allow us to pass that bill quickly and move on into the future.

Senator RIDGEWAY—I want to follow up the idea that you presented about an Australian TCF industry council and this having arisen as a result of recent studies. How far have you got with that and what sort of response is coming from government and industry? You also talk about it being properly funded. Have you given much thought to that and whether or not that ought to perhaps form part of amendments to what we are currently looking at or any other legislation or whether it ought to be done as an administrative program in a department?

Mr Kitchener—We are open to how it is structured, whether it is in legislation or whether it is done administratively. The key point is that there have been a number of studies of the industry in recent years, one being the TCF&L industry forum report. That was a process that this government went about, and a report was delivered in 2002. A firm of consultants got together a report and they held seminars and gatherings of the industry. The union was not involved in that; we were not on the committee, but we did attend one of the seminars. The final report that the consultants produced—at quite a considerable sum, from memory—said that the industry was very diverse and that there were problems with it being cohesive and recommended that the industry look at ways to get a more cohesive voice in terms of government.

I think you will see from today’s hearing that we have textile and fashion industries, the leather industries and the carpet industry. It is a very diverse industry. From our point of view we see the need for people—a body including employees in the industry and government—to sit around a table and discuss the critical factors affecting the industry. How that is specifically done in terms of how it is set up and how it is funded is not something which I can give you exact details about other than to say that there is no point in having

something in name only; it needs support in order to undertake what would be necessary research. Obviously the department would play a key role in that. Rather than have this diverse industry that comes together perhaps every five years when there is a review of tariff levels and industry assistance, an ongoing body where all of the major questions could be thrashed out in a cooperative manner is something that would be very positive for the industry, and the union would be very supportive of it.

Ms O'Neil—I have been around for a while, and when I was first involved in working for the union there were a number of bodies that brought together industry representatives with the union to discuss both industrial matters and industry policy matters. They happened partly because at that time we had a more centralised industrial relations system. We would often meet on the basis of negotiations and discussions, for example, around award changes. But the very forum that existed also became the forum that was used for industry policy discussion and cooperation as well. With the deregulation of that system into enterprise bargaining, there were no longer those forums where you got the key industry players together with the union to discuss either industrial or industry matters. I think it is a huge gap and it has led to all sorts of problems that this sort of council could address.

Senator CARR—This question is about the proposal you have for a \$50 million LAP. What is the basis for that?

Ms O'Neil—Our proposal is for a \$100 million LAP. The basis of it was that we looked at the program that existed previously. I said earlier that there had been some \$91 million over a five-year period, and I spoke about what the take-up rate had been over that program and the assistance provided. So it comes out of the Monash analysis that I had referred to earlier. To pick up on the earlier question from Senator Watson, 81 per cent of the people in that survey had received no instrumental assistance from their past employer, the government or any agency since they were retrenched. So nobody helped 81 per cent of them, 66 per cent got no financial assistance from the government after they were retrenched and only 29 per cent got unemployment benefits. Of the people who found new work, only three per cent were re-employed through Centrelink and four per cent through a job agency. So only seven per cent of these workers—and this is the most comprehensive study done recently in terms of TCF retrenched workers—received assistance from a government agency in retraining or job placement. It is partly based on that survey, partly based on our experience of the previous TCF LAP that existed and was scrapped by this current government and partly based on our experience of specific instances such as the Bradmill one I referred to earlier.

ACTING CHAIR—Thank you very much for your presentation tonight. It was very comprehensive; well done.

[6.19 p.m.]

TAYLOR, Mr Wes, Chairman, Technical Textiles and Nonwoven Association

ACTING CHAIR (Senator Watson)—I now call Wes Taylor, Chairman of the Technical Textiles and Nonwoven Association.

Mr Taylor—As well as being Chairman of the Technical Textiles and Nonwoven Association, I am the managing director and CEO of Geofabrics Australasia, the only spun-bond polyester plant in Australia, and also of Soil Filters Australia, which is located up on the Gold Coast.

ACTING CHAIR—Would you care to make an opening statement?

Mr Taylor—Yes, I would. As textile organisations we have spent the last few years of the SIP trying to restructure our businesses, to develop new products and new processes, and this was done with the assistance of the SIP R&D grants. As you can imagine, we were somewhat dismayed to discover that we were precluded from accessing R&D grants in the future—that is, post 2005. The reason given in the *Bills Digest* is:

... textile firms are not facing the same extent of restructuring pressures as other sectors of the TCF Industry, nor are they ... facing the prospect of significant tariff reductions.

The second part, I agree, is mainly correct for a number of our members but certainly not for all of them. We refute also that we are not facing the same extent of restructuring pressures. We all know that we live in a global environment and we operate in a global society. We have the same external pressures as all other textile firms. In fact, we believe that the external pressures placed on us are somewhat greater than those placed on some of the other textile companies, simply because we face tariffs of five per cent. The pressures coming from overseas, particularly with the strengthening dollar, are far greater on us than on those companies receiving tariff protection—maybe 15 to 20 per cent. So we refute the fact that we do not face the same pressures and therefore do not need R&D grants.

There was a memorandum put up, and where it did actually get it right was in the implied admission that textile companies need R&D. The memo said that we ‘will still be able to access the government’s industry-wide innovation R&D programs beyond 2005’. In other words, they were saying, ‘You will not get any R&D grants coming out of SIP, but there are other programs that you can access.’ I do not know if the senators have looked at those programs, but they are very difficult to access. For example, you have to have been in some of those programs for about three years before you get access to the grants.

There are grants that are offered through a tax reduction of 125 per cent; a simple arithmetic calculation will tell you that 25 per cent of 30 per cent of tax is about 7½ per cent. When you consider the high cost of R&D, there is also a very high risk: you can spend an awful lot of money on R&D only to find that the work you have done is of no avail and nothing comes of it. So there is a great risk involved—for something like 7½ per cent. We recommended in our submission that the legislation be amended to include R&D for the technical textiles and non-woven sector.

I think it is fairly well documented, and we probably do not have to argue the point, that the main driver for value creation is R&D. The second point we make and we make that very strongly is that R&D creates employment. When most people here have talked—I was listening to Michelle—they have talked about job reductions. We in the technical textile sector are in a position to create more jobs, but once again it seems to us that we have been penalised as far as R&D is concerned. There is also a very strong correlation between R&D investment and GDP per capita amongst OECD countries. New products, new processes and increased productivity open new markets and create jobs, and there is IP which can be commercialised.

There was an interesting article in the *Financial Review*. I do not know if any of you saw it. It had the heading ‘Canberra must feed the Berd’—that is, business expenditure on R&D. This article in the *Australian Financial Review* of Monday, 19 July made the following comments:

Having tripled in the 1980s under the influence of the R&D tax concession—

that is, the BERD, business expenditure on R&D, tripled during the 1980s—

Berd started to slip in the mid-1990s when the concession was cut ... In 2000 Berd was running at the equivalent of 0.72 per cent of gross domestic product ...

If you want to compare Australian business expenditure on R&D to what is happening in Japan and the United States, in those countries it is over two per cent. In Sweden it is over three per cent.

Once again we would just like to point out that R&D is the main driver of value creation. In this regard, a survey of our members showed that turnover per employee ran at between \$250,000 and \$400,000. Innovation also provides companies with the capacity to become market leaders. This, too, drives long-term growth. We find it of interest that after spending a lot of time trying to inculcate within our own organisations a whole culture of innovation and a whole culture of R&D—and that does not happen like switching on a light switch; it takes time to develop—suddenly this is to be cut off.

Finally, we made the point that the textile sector believe that we have been discriminated against. But we are not standing here whinging at the fact that we do not get it and others get it. What we are saying is that we are the ones who are the drivers; we are the ones who have the opportunity to create jobs; we are the ones who have long-term sustainability within this industry. But we need R&D to do it. We talk about free trade agreements—we have been doing that today. We need to stay ahead. We need R&D to do this. We need to innovate. We need to develop our processes and develop new products. For that we need R&D. I do not have to tell you that when you have a new product and you get a good niche within five years someone is going to start copying it. You have to continually inculcate within your business the attitude of R&D and innovation so that you continue to go ahead.

Finally, let me just say that the other thing I find that is of interest is that, in this restructuring process we talk about, we keep restructuring within where we are. We stay where we are. To me, restructuring is a bit broader than that. It means we restructure away from where we are and we develop new processes and new markets. I think there are opportunities here for firms that are struggling at the moment within the textile industry to look at the restructuring that is available and, through R&D, to maybe enter the area of technical textiles and maybe retain that employment and create further jobs and establish viable businesses for the future. Apart from that, I trust that our written submission adequately conveys the critical nature of R&D to our sector. We need it to stay ahead of our overseas competitors. The alternative to that is ultimately to stay where we are, to whinge, to whine, to do nothing and to stagnate and die.

Our recommendations are contained on the last page. I would like to briefly go through them. Once again, I restate that our industry—the technical textiles industry—is undertaking fundamental structural changes. The World Trade Organisation agreement on textiles and clothing, the ATC, will continue to drive change for some time. We are in a global society. It is not as if this is going to go away. Therefore, our industry needs to further invest in capital equipment and R&D and to address the structural change which at this stage we have only just started. We need to stay ahead. We recommend that a small amendment be made to the proposed legislation and that we do go ahead and pass this legislation promptly, but with the amendment that R&D be included for the technical textiles sector for the post-2005 programs.

Finally, given the delay in this legislation being passed and the impact of the uncertainty created, we recommend that we have a seamless transition from the current scheme to the proposed scheme—in other words, where there is money available and programs going ahead, that these be carried forward into the new program. I think that this will address some of the problems where uncertainty has been created.

ACTING CHAIR—It is a breath of fresh air to hear a positive approach from the textile industry. Can you share the secrets of your success? You were saying it is about design and opening new markets—I have heard this all before within the industry. What makes you so special in terms of your success, because you are talking about a growth industry?

Mr Taylor—I think it is because we have innovated, we have used R&D and we have looked for new product. Some time ago—I cannot remember the exact date—I was interviewed by the *Business Review Weekly*. There was a comment in that article by one of the academics, who said, ‘Oh, yes, but what the technical textiles people and people from geofabrics do is try and move away from textiles and claim that they are engineering firms.’ In a way he was right, but we have never walked away from the textile industry claiming we are not textiles; what we have done is employ engineers. My company employs 20 civil engineers. We look for applications. We go out there. We have built artificial reefs on the Gold Coast. We have developed processes. At the moment we reuse something like 135 million drink bottles a year which would normally go into our landfills and tip sites. This was obtained through a grant—not through SIP; it was a grant through the Victorian government. We developed it and we now use it.

In fact, there was a magazine that came out of the States where the Indians were saying, ‘It should be possible to make these products out of recycling.’ We have been making products out of bottles for years. We are ahead, but we only got that far by developing those products through R&D and innovation. We have Albany International, which now removes some of the noxious gases from power stations—from the stacks.

Again, by funding of R&D through SIP they developed these technologies. The trouble is that a lot of the people do not realise what technical textiles are. We are amazed by how many people do not know that we even exist. That is why we gave all those pretty pictures at the front of our submission and tried to explain what we are actually on about. But certainly our success, we believe, is because we have been innovative, we have been forward looking and we have tried to spend money on R&D, develop new products, develop new processes, particularly with existing products, and adapt them to particular markets.

ACTING CHAIR—Regarding reusing plastic bottles et cetera, how can you claim to be a textile industry using that sort of technology?

Mr Taylor—The shirt that you have there had the misfortune to be made into a fibre; it could have been made into a plastic bottle. All your drink bottles are polyester. As you know, polyester is one of our main fibres—though the material in the bottles is actually called polyethylene terephthalate. Polyester is a plastic.

Senator CARR—That is right—most of our suits are plastic.

Mr Taylor—That is exactly right.

ACTING CHAIR—So you take a yarn, do you, and convert it?

Mr Taylor—All synthetic fibres are basically plastics.

Senator CARR—Thank you very much for your submission. I think it is important that a broader understanding is apparent within the parliament of the range of the textile industries, and obviously your presentation highlights that. I am particularly interested in the fact that textiles are now being used to build roads, tennis courts and so forth. I notice that it is not just a question of apparel; it is packaging and a whole range of other areas. From what you are saying to us, am I right to assume that your case is very similar to that which is being presented by the Association of Leather Industries in the sense that you have been excluded from the advantages of the new program?

Mr Taylor—Yes, we have been excluded. I am not certain of what they would do; I know nothing about the leather industry. Let me say that our concern is not about being excluded. What we are concerned about is that we are that part of the industry that is innovative and that does use R&D money and we are excluded. That is my concern, rather than just being excluded.

Senator CARR—I understand the point you make. How many companies do you represent?

Mr Taylor—We have approximately 14 in number. They are made up of either manufacturers—that is, industry producers and machinery suppliers and producers—or companies. There are two that I can think of offhand that provide R&D to the textile industry.

Senator CARR—How many people would be employed in the technical textiles component of the industry?

Mr Taylor—If you want the exact figure, I could probably give it to you at a later date.

Senator CARR—An estimate will do.

Mr Taylor—If I remember, it is around 8,000.

Senator CARR—You are saying that you were given a memorandum to explain why the technical textiles section of the industry was being excluded from the R&D components of the SIP. Is that correct?

Mr Taylor—Yes. In fairness, I was surprised at the comment that we received from other people, and it was rumoured and various other things. I received a fax.

Senator CARR—Can we have a copy of it?

Mr Taylor—The fax is dated—I may have got it from someone else; I cannot remember—20 February 2004. It was from the parliament of the Commonwealth of Australia, House of Representatives, Textile, Clothing and Footwear Strategic Investment Program Amendment Bill 2004, and it is called an explanatory memorandum. It was circulated by the authority of the Minister for Industry, Tourism and Resources. In that, it actually outlines that one of the things that will be happening in future is that—

Senator CARR—Who sent you a copy of the explanatory memorandum for the bill? Do you know that?

Mr Taylor—I presume it is a general circular.

Senator CARR—Did you have any contact with the department before this bill was brought down?

Mr Taylor—We have had contact with the department and long discussions with the department, yes, regarding the amendments and post 2005.

Senator CARR—At what level in the department were you consulted? By which officers?

Mr Taylor—By the officers from DITR and also from the minister's office. We were consulted at that level.

Senator CARR—So a ministerial adviser, was it?

Mr Taylor—Yes. Malcolm Roberts.

Senator CARR—And your advice from the minister's office in February this year was that you would not be part of the program?

Mr Taylor—Yes. We were a bit surprised when we received it because we were hoping we would get somewhat better treatment from all the discussions and submissions that we had.

Senator CARR—Have you had any response to your representations since that notification?

Mr Taylor—No response. I have continued to make the point that I believe we should receive R&D, simply because we are innovative. We have only started that process and we have proved it. I know, for example, that technical textile companies are the ones that have spent the most money. I am talking about 'real' R&D, not R&D that is done in-house by your own people but R&D using organisations outside—for example, universities and other research organisations. I know certainly that the technical textile companies have been amongst the largest spenders in that area.

ACTING CHAIR—There is a quorum in the Senate which government members will have to attend. We will suspend the hearing until after the quorum.

Proceedings suspended from 6.39 p.m. to 6.46 p.m.

Senator CARR—I only have one serious proposition to put to you. Like many of the employer organisations within the industry, you have come to this committee and have basically said, 'We're not entirely happy with this proposition.' You are putting a much firmer case than others but in essence you are saying that you still want the SIP bill passed. Do you want that even if you do not get the amendments? The reason I ask you that is that the government appears to be quite intransigent on these bills. It appears to be saying that it is not interested in a bipartisan approach. It is not interested in any discussions. In fact, it rejected my overtures on behalf of the Labor Party to discuss this on a bipartisan basis last year. There appears to be no interest whatsoever in discussing the passage of these bills. If the bills cannot be amended should they be proceeded with after the election or should they be proceeded with ASAP?

Mr Taylor—Let me answer the first part. Depending on the extent of those amendments, if the bill were only amended to include R&D for the textiles industries, I believe that it would be passed. That, I believe, would be accepted.

Senator CARR—Has the government given you an assurance to that effect?

Mr Taylor—No. I did not say that. I gave an opinion.

Senator CARR—So what is the basis of your opinion?

Mr Taylor—The basis of my opinion is that it is not a huge cost. I would think there is a certain amount of money set aside. Let us be sure about this: we are not asking for more money to be given post 2005. We are saying that we should be included. We should have access to those funds. Therefore, I do not believe there will be any difficulty. I think it is quite a reasonable request. I cannot see them turning that down.

Senator CARR—You can't?

Mr Taylor—I would not think so.

ACTING CHAIR—That would mean that other people would get less. If there is a given amount of money and you widen the opportunity of claim, that means that the remainder gets a lot less.

Mr Taylor—Yes. That is good maths. Textiles get more. They continue to grow, innovate, carry out R&D and create more employment.

Senator CARR—How much less would they get? What would be the financial consequences of the proposed amendment that you are suggesting to the committee?

Mr Taylor—Over 15 years?

Senator CARR—But this bill is not for 15 years, is it?

Mr Taylor—Sorry; 10 years. It goes through to 2015. That is where I got the 15 from. It is over 10 years.

Senator CARR—But the first \$500 million is only to 2010.

Mr Taylor—To 2010, and then it goes on. From what has been done so far, in terms of real external type expenditure on R&D I would not think it would cost them much more than \$10 million.

Senator CARR—\$10 million?

Mr Taylor—It is not an awfully big amount of money.

Senator CARR—You would accept though there is a finite amount. The Senate is not in the business of amending bills.

Mr Taylor—I accept that that is a finite amount. I am saying that technical textiles should also have access to those funds for R&D purposes. We are excluded from type 2 grants.

Senator CARR—I am saying to you that that is effectively the same case that the leather association put to us.

Mr Taylor—That is correct.

Senator CARR—So it would be good for you and for the leather manufacturers, wouldn't it?

Mr Taylor—That is a judgment for the Senate to make. I am not arguing on behalf of leather.

Senator CARR—No, but the clear implications of what you are proposing would have to apply, on an equity basis, to others that have been excluded.

Mr Taylor—I have one other comment that I find of interest. Michele made the comment about American firms. I do not know if that is correct. That is not my argument. I am only trying to make a point. My point is that the uniforms, the outfits and the stuff that is used by the soldiers is technical textiles. It is not just some ordinary fabric that is made into a designer fabric. This is high-tech stuff. This is stuff that measures pulse rates, measures blood pressure, keeps them warm, takes perspiration away and does various things. These are technical textiles. These are the areas that we too would seek to operate in, but you need R&D funds to be able to access that.

ACTING CHAIR—Thank you very much for your presentation.

Proceedings suspended from 6.51 p.m. to 7.34 p.m.

EDGAR, Mr Andrew Campbell, Vice President, Council of Textile and Fashion Industries of Australia Ltd; and Managing Director, Yakka Pty Ltd

GARRETT, Mr John, Co-chair, Industry Policy Committee, Council of Textile and Fashion Industries of Australia Ltd; and Director, Godfrey Hirst Australia

VAN KRIEKEN, Mr Ashley Travis, Executive Officer, Council of Textile and Fashion Industries of Australia Ltd

CHAIR—Welcome. I invite you to make an opening statement.

Mr Edgar—The TFIA has been an active participant in this process, which has gone into enormous detail over the period of, let us say, the past 18 months. This has involved a Productivity Commission hearing, very detailed submissions which I am sure you are very aware of, draft reports, responses to those reports and, following the publication of those reports, detailed discussions with the department of industry and personal interaction with the minister and his immediate staff.

The industry represented by the TFIA supports the total package and it supports that package as the best means of providing the industry with certainty and surety for the period of the next 10 years. It is very important to view this as a 10-year program which is an extension of the existing five-year program which commenced in 2000 and is scheduled to finish in June 2005. I guess we have entered the debate very much in the spirit that it is a continuation of the existing program, and the beauty of the 2000-05 program is that the industry did have certainty. It might not have liked some of the aspects of that, but the combination of direct support through the SIP, combined with the knowledge that tariffs would reduce and were legislated to reduce to 17.5 per cent on clothing in January 2005, was something that we knew about in the year 2000 and we have been able to plan our businesses accordingly.

Without this legislation, we believe that companies in the TCF industries will not be able to plan with effective continuity. I have to say that we are absolutely horrified at the prospect of a sudden election, the whole matter being deferred until some time early in 2005 and references to further inquiries at a time when the industry has been inquired, inquired and inquired upon. That would inject a feeling of great uncertainty in the industry. We see the SIP as a program that is absolutely fundamental, and the utilisation of that in the existing five-year program I believe has been extremely effective. If the industry is given another five years of full support, which is really in clothing and textile areas and then ultimately in clothing only for a further period of five years, we believe that it will be able to meet the objective of international competitiveness. That was the going-in position, that we had to be internationally competitive.

The legislation proposals are supported by some very major companies in the industry, including Pacific Brands, Bruck Textiles, Godfrey Hirst, Melba Textiles, ADA, our own company, Yakka, and also by other associations. You have already heard from the Carpet Institute and the Footwear Manufacturers Association.

One issue that I would like to highlight is this rather emotive accusation that the industry has been blackmailed. With respect, that is absolute rubbish. The reason I say that in the strongest possible terms is that the industry has knowingly gone into a program where the phasing of tariffs has been an important aspect of this government's policy, it was an aspect of the previous government's policy, it was an aspect of the government before that. The effective rate of protection on clothing has reduced from something like 135 per cent down to 25 per cent over the last 15 years.

We would also say that, in looking forward, the government is very committed to negotiating free trade agreements. I am not addressing the US free trade agreement; I am addressing the Thai free trade agreement, the Singapore free trade agreement and references to initiating discussions with the Chinese. China already supplies 70 per cent of apparel into the Australian market. We believe that tariff reduction in one form or another is inevitable. We wish to make that point very strongly. It is therefore absolutely imperative that we see this legislation passed, see the new SIP approved and have a clear view of the next 10 years.

It should also be noted that the linking of tariff reduction and SIP really only comes into effect in 2010. The legislation to reduce the tariffs in 2005 is already in place. I do not believe this inquiry, this legislation or the current decision-making process is about to wind back what is inevitable in January 2005. I have heard no reference to that. We are looking at a program which continues the 2000-05. We are looking at 17½ per cent being frozen on clothing until 2010. We are then looking at a 10 per cent tariff rate until the end point of 2015.

As far as the references to structural adjustment funds and labour assistance programs are concerned, we would certainly support the extension of the scheme into those programs but we believe that new money has got to be found. If the labour adjustment program is to go from \$50 million to \$100 million, somewhere along the line another \$50 million has to be found to inject into the scheme. But in principle, they are very important. For all of us people running companies who have been involved in restructuring and putting in place the changes which have got to be faced up to, the more assistance we can give to employees made redundant in terms of retraining and so forth, the better. There is no argument from the industry against that; it is just a question of what you can do out of a limited bucket of funds.

I want to make some other points. We should comment on small business. John, perhaps I could ask you to make some comments to do with that.

Mr Garrett—There was a suggestion made previously that small- to medium-sized businesses have not had the opportunity of accessing SIP. The point I would make is this. SIP is a targeted, strategic program which small firms can—and currently do—access and which they will be able to access under the new scheme as long as they invest in new equipment, innovation or brand development. The aggregation is designed to assist smaller firms to access SIP, with a \$200,000 threshold, which we support. The point that must be made is that the small business component recognises that micro firms have different drivers from SIP participants and require further support mechanisms—hence the small business program that has been added to the post 2005 program.

I would like to make another comment, and I know that Andrew has already addressed this. There has been a suggestion that the industry has been blackmailed into accepting this legislation. The truth of the matter is that it is through a process of discussion and negotiation. We have clearly moved on, but we do accept that this is a compromise from our original position. There is no question that it is a compromise, but it is a compromise that we believe should be accepted in the light of the fact that we have surety, we have a program forward and we know what the broad concepts of that program are. Notwithstanding that, there is Andrew's point that we will accept it but there may very well be the opportunity to expand the LAP, which has been referred to, provided that particular funding or additional funding does not come from the existing SIP.

Mr Edgar—I have a further comment that relates to complexity. In any of these schemes, it is very important that we do not try to make them a catch-all of everything that should be addressed in the industry. I heard reference earlier this evening to the Homeworkers Code of Practice. The TFIA adamantly supports that, but I do not believe that we should be tagging that onto something else to make it conditional. It is very important that we continue to support that as an industry, continue to fund it and try to clean up those unacceptable practices that have existed in the Australian industry.

As far as employment impact statements and so forth are concerned, the strategic plan or business plan that is required as part of the application for SIP funding addresses those issues. It seeks information about employment. I believe that that is something that is exposed in terms of the decision-making process.

I would like to clarify a further point, on government departments specifying Australian made. No, there is not blanket specification of Australian made. Certainly the Australian Defence Force still tries to maximise its Australian-made uniforms. Our company happens to be one of the suppliers of those. Australia Post was also mentioned. We were the winning tenderer for that—which occurred recently—for both their retail wardrobe and their work wear. Whilst they have not specified 100 per cent Australian made, they have specified that they wish to maximise the local content in those wardrobes. In the tender they did ask for the imported comparison. They were provided with that. They were asked for the maximising local production comparison, and they were given that information. They have chosen to maximise the local production. I think it is important that we clarify that point.

Finally, I would like to say that the industry has been subjected to a long history of government regulation, government assistance and quota protection. There were Whitlam tariff cuts—as far back as that. Yes, there has been major restructuring in the industry, but it has not all been doom and gloom. I believe that there are some very, very viable businesses in the Australian TCF industry. Those businesses require certainty and a time horizon that is reasonable in terms of the sorts of capital investment and restructuring that are required. Ten years for the clothing industry and five years for the textile industry are broadly what this program gives.

In short, we encourage the committee to give a positive recommendation on the legislation, we see no need for de-linking to occur, and we certainly strongly refute that the industry has been blackmailed. Thank you.

Mr Garrett—I would like to add one point to that. In addition to that, we have a five-year window of a further tariff pause between 2005 and 2010, which is a period in which we have declared to the government that appropriate restructuring will take place. We believe that we can work within that time frame.

Senator CARR—Are you saying that you will not get any more money at the end of that?

Mr Edgar—Textiles will not have any more money after 2010; clothing will.

Senator CARR—But are you saying that they do not want any more?

Mr Garrett—I do not know what never means. The reality is that we do not know what the world is going to look like in 2010. As you are aware, our original submission was based on the fact that we did want a review process in 2008.

Senator CARR—I am interested in this. As you know, there are fundamental differences in the parliament about this question. There are fundamental differences on the issues of tariffs and there are fundamental differences on the approach to industry development. This is an important opportunity to have a range of groups come before the parliament. It does not happen that often. You have a chance to tell me that you do not want any more money after 2010 and that I am wasting my time trying to get it. Clearly you are not saying that, are you?

Mr Garrett—No, we are not saying that. But the other thing is that my understanding is that the parties are not very far apart on this.

Senator CARR—I disagree very strongly with you about that.

Mr Garrett—Let us say that one party is talking about wanting to de-link the tariff proposal from the SIP proposal and the other party is saying that they should be linked, but both parties recognise that there should be a strategic investment program moving forward. There is no question about that. Senator Carr, I have put to you previously that I would have thought the way through this, from a practical viewpoint, would be for the Labor side of politics to simply turn around and say, 'We'll accept the existing legislation, and if we're in power after the next election then we'll repeal the tariff component.'

Mr Edgar—In the post 2010 environment—and this is a general comment—if research and development were going to be a particular focus of industry development, then TCF, along with other manufacturing industries, would obviously be equally eligible to participate in that sort of incentive program. I do think that R&D is a very important aspect of all our companies' activities, whether we are a clothing company, a carpet company, a textile company or a technical textile company.

Senator CARR—The clothing and textile industry has special importance in this country.

Mr Edgar—Correct.

Senator CARR—In the past, it has not sought to be treated just like everybody else; it has sought special consideration particularly because of the social contribution that it makes.

Mr Edgar—Correct.

Senator CARR—Are you saying that you would see that changing?

Mr Edgar—I have spent 43 years in the Australian textile industry; I commenced in 1960. One of my earliest jobs was writing tariff cases, and not a lot has changed. What I believe has changed is that the industry has taken up the challenge of survival in a vastly different competitive world. We are competing, in one way or another, with the massive offshore production of very high-standard garments. We are also dealing with wildly fluctuating exchange rates, which have already been mentioned to you. In the calendar year 2003, the value of the Australian dollar altered by about 32 per cent. That is massive. The potential damage that that does to a totally Australian based manufacturer is enormous. You have no option then but to say, 'I'm going to rebalance my business between domestic Australia and offshore.' Regrettably, our company has had to do that—and this is with a 70-year history and commitment to manufacturing in rural Australia and all of that type of activity.

Senator CARR—I want to come to that because I think it is a very important issue, but first I want to ask you a few basic questions. How many firms does the council represent?

Mr Edgar—I will ask our executive officer to answer that.

Mr van Krieken—It would be around 150. It is difficult to say, because we have several associations that represent numerous members as well.

Senator CARR—I do not expect you to give an audited account.

Mr Edgar—The companies I read out—for instance, Yakka, Pacific Brands, Bruck, Godfrey Hirst, Melba and ADA—represent 7,780 employees. That is just to give you an idea. However, the total employment represented by the TFIA would be much greater than that.

Senator CARR—Has the council's membership declined in recent years?

Mr van Krieken—Yes, it has, as companies have disappeared off the face of the earth, like National Textiles.

Senator CARR—I am told that in recent years it has dropped by half; would that be true?

Mr van Krieken—I do not know if it would be by half; that is not my understanding.

Senator CARR—What is your understanding?

Mr van Krieken—It has dropped due to mergers and consolidation.

Mr Edgar—You are asking about the membership of the council?

Senator CARR—If you represent 150 firms now, how many were in the organisation, say, five years ago?

Mr Edgar—Probably 300, because it also represented a lot of smaller fashion companies that, for one reason or another, have decided to do their own thing.

Senator CARR—So it is not an unreasonable estimate. Would that be bigger than the decline in the industry?

Mr Edgar—No, not really. The industry has declined from probably 120,000 to about 70,000 or 80,000.

Senator CARR—So you are saying that it just reflects the normal employment situation. Have the other associations grown? Mr Garrett, has the Carpet Institute grown in size, has it remained stable? What is its membership?

Mr Garrett—We represent about 95 per cent of the productive output of the carpet industry. The actual membership numbers of carpet manufacturers have reduced but the institute has broadened its membership to include the supply chain management side, including the suppliers. So if you looked at the overall numbers you would see that they have increased.

Senator CARR—I am just a politician and I am watching these things from afar but the word I am getting is that the council's membership has had a few problems lately.

Mr Edgar—I would not be preoccupied with that.

Senator CARR—You do not think that is a big issue?

Mr Edgar—No, I do not. The council is still the peak representative body of the TCF industry. Yes, it has had to cope with shrinking in the same way other areas of the industry have but I would not question the veracity of the council.

Senator CARR—It is not a question of the veracity. I am interested to know where the government gets its advice about what is happening in the industry. That is the question I am raising here, because we have heard representations tonight from other associations in the industry which suggest to me that they are not properly consulted about where the industry is going.

Mr Edgar—I believe that the TFIA has represented the broad base of the industry and it has been consulted in a most detailed manner by the government and by department officials.

Senator CARR—Mr Edgar, it also occurs to me that as shadow minister I get different responses from different industry associations. I am wondering whether or not you think the council has been serving the industry as well as it could have in terms of broadening out its representations to the opposition?

Mr Edgar—I believe it has. We have had several visits to Canberra where we have endeavoured to approach members of the opposition. We have had discussions with them. We write them letters and endeavour to keep them informed. I found your own communication back to the industry extremely negative but that is a personal thing and we will not go into that.

Senator CARR—Tell me about that. I am more than happy to discuss it with you.

ACTING CHAIR—Let us talk about the bill because we only have a few minutes to go.

Mr Edgar—I was talking about your letter that came as a circular to the industry.

ACTING CHAIR—Can we focus on the legislation before us?

Senator CARR—This is about the legislation. I am interested in discussing this question.

Mr Edgar—I think we have dealt with the issues. I was just concerned about—

Senator CARR—I would like to discuss the issue because the government introduced this bill on 16 June.

Mr Edgar—Correct.

Senator CARR—When did you have a copy of the bill?

Mr Edgar—Not a long time before that.

Senator CARR—When did you finish your negotiations with the government on the bill?

Mr Edgar—I think we finished our negotiations on the actual package of proposed assistance in February or March.

Senator CARR—I am interested to know how it is that you finished your negotiations in February. We did not get to see a bill until June and then the opposition got attacked for holding it up when there were some 66 bills ahead of it on the list in the final two weeks of a parliamentary session. I am curious to know how that occurred.

Mr Edgar—I would not begin to know. As far as I am concerned we have one priority and that is to see this legislation passed. The fact that it got caught up with 66 other pieces of legislation that all of a sudden became absolutely urgent is unfortunate for the parliamentary process.

Senator CARR—Some people chose to take the government's position and attack the opposition for the failure of the government to get the legislation ready for the parliament. That is what concerns me.

Mr Edgar—We were not attacking the opposition on that score. I was concerned that politically the ALP suddenly appeared to come out with a proposal which would have resulted in significant delay and further review of the legislation. It is as simple as that.

Senator CARR—We put that proposal to our national conference in January.

Mr Edgar—Correct.

Senator CARR—So it did not occur suddenly.

Mr Edgar—That is fair enough.

Senator CARR—That was before you concluded your negotiations with the government.

Mr Edgar—That would be fair enough. I cannot debate that.

Senator CARR—You have said in your submission, quoting Bruck Textiles, that the failure to pass the legislation led to redundancies. What do you say to the evidence that the committee heard earlier this evening that the union was notified of the redundancies some weeks before the bill was tabled?

Mr Edgar—I would prefer not to respond on behalf of Bruck.

Senator CARR—It is in your submission; I think it is a reasonable approach.

Mr Edgar—We will certainly draw Bruck's attention to it and ask them to respond to your specific inquiry. I am sure they will respond very quickly.

Senator CARR—We have heard representations tonight from two other associations saying that they should be part of these measures and that they have been excluded. They have asked us to give consideration to amendments to the bill. How do you respond to their requests for amendments to the bill?

Mr Edgar—I guess the initial response is that we are certainly sympathetic to the things that have been said about research and development. However, we are mindful that the whole spirit of this legislation has been to provide positive assistance to the sectors of the industry which are required to undergo further restructuring via tariff reduction in the next five years and in the next 10 years, and they are the textile sector until 2010 and the clothing sector until 2015. It is only a limited pool of money and I think it becomes very difficult if they do not meet the twin requirements. However, I remain sympathetic to the R&D objectives that they are expressing.

Senator CARR—I want to be clear about this. You would have no objections to us moving amendments to accommodate those requests?

Mr Edgar—If the money was additional to the SIP pool of money, we would have no objection.

Senator CARR—On the condition that it was additionality?

Mr Edgar—Correct.

Mr Garrett—There was in fact legislation passed that covers both the leather people and the technical textiles people and gives them an opportunity to perhaps increase their strategic investment program claims on the basis of allowing them no cap on value added. That was also part of the overall package that was developed and declared in November 2003.

Senator CARR—Is it part of this legislation, as you understand it?

Mr Garrett—This is an amendment to the existing SIP legislation. My understanding is that it went through the parliament around February.

Senator CARR—So that was a previous bill?

Mr Garrett—Yes.

Senator CARR—It is not this bill?

Mr Garrett—No.

ACTING CHAIR—Earlier you referred to the time sensitivity of passing this legislation. Can you give the committee some advice as to the potential impact on investment within the TCF industry in the event of a delay in the enactment of this legislation? You talked in broad terms—

Mr Edgar—It is very difficult to quantify it. All I can talk about really is the decision making process that companies go through when considering major new capital investment. Some companies will make their final claim under the existing scheme on financial information with a calendar year ending 31 December 2004. That will be the last time that they will be able to make a claim. Other companies which are planning until June 2005 will be required to make investment decisions either later this year or in early 2005 that are going to impact on the later months of that year. We believe any hiatus and uncertainty in the scheme could result in companies saying, ‘No, we’re not going to make any investment decisions in 2005.’ I find that very negative. I think it is much better to maintain the sort of momentum that has been established in the industry to date.

ACTING CHAIR—Thank you also for drawing our attention to some issues that needed clarification as a result of earlier comment. An earlier witness did refer to the need for Australian industry to have critical mass. For example, what would a weaver do if we got down to one spinning manufacturer in Australia? How close are we to these scenarios of losing critical mass, which would mean the industry could almost fall over?

Mr Edgar—I think we are dangerously close. Going all the way back through yarn spinning, weaving, dyeing and finishing, garment manufacture and so forth—and there are many peripheral processes which occur around the principal processes—those links in the chain could disappear. If the spinning disappears you will then immediately get an escalation of imports of spun yarn. What is happening now is that there is a significant increase in the amount of what is called greige fabric, which is fabric prepared for dyeing that is imported into Australia. It may be dyed and finished here and then it will find its way into garment manufacture. But what it is doing is removing the links in the chain, so all of a sudden we end up with a disjointed TCF industry. I think that is obviously a prime concern of the TCFUA, the TFIA and all industry members. To be truly competitive we do need a balanced industry.

ACTING CHAIR—You have expressed support about a couple of other industry groups that have been excluded from stage 2, I think. Would you care to comment on Mr Wes Taylor’s submission? It seemed a bit unusual to me.

Mr Edgar—As I said, we are very sympathetic to the comments he was making about the need for research and development and the fact that that was seen as a key to ongoing development and in fact growth in employment for his particular industry sector.

ACTING CHAIR—That would apply to all manufacturers, wouldn’t it?

Mr Edgar—That is correct. We would, however, say that it is not the exclusive preserve of technical textiles but a very important part of their business. But research and development is an important part of clothing, carpets, textiles, dyeing and finishing, whatever. If any manufacturing industry is going to survive in Australia, it has to be innovative. As I was saying to Senator Carr, if longer term programs are developed as part of industry policy that encourage that, well and good.

ACTING CHAIR—I am afraid time has beaten us. Thank you for appearing.

Mr Edgar—Thank you for your time.

[8.07 p.m.]

COPPE, Councillor Ed, Mayor, City of Greater Geelong

MacPHERSON, Ms Elizabeth, Union Organiser, Textile Clothing and Footwear Union of Australia

MILLER, Mr Lawrie, Executive Officer, Geelong Chamber of Commerce

ACTING CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Ms MacPherson—I represent the workers in Geelong and have worked in the industry for over 20 years.

ACTING CHAIR—You have given us a document that you obviously wish to speak to. Is it the wish of the committee that this document be accepted by the committee? It is so ordered. We invite you to make an opening statement or statements.

Councillor Coppe—The Geelong region welcomes the opportunity to present its views about the Textile, Clothing and Footwear Strategic Investment Program Amendment (Post-2005 scheme) Bill 2004 and the Customs Tariff Amendment (Textile, Clothing and Footwear Post-2005 Arrangements) Bill 2004. The following position has been derived through consultation with the local industry, particularly through the Geelong Manufacturing Council, the Geelong Chamber of Commerce and directly with local TCF firms, community groups and unions. In this presentation, we will highlight the significance of the TCF industries to Geelong, reiterate the city's position in relation to tariff reductions and industry assistance, discuss the proposed legislation, highlight the importance of industry assistance, particularly for smaller TCF firms, and discuss the critical importance of a regionally focused and adequately funded labour adjustment program.

The significance of this industry sector to the local economy cannot be underestimated. There are over 60 TCF firms operating in Geelong, along with world-class research and education organisations. There are over 5,100 people who live in Geelong with jobs dependent on the TCF industry, and the industry contributes about \$70 million in wages and salaries to the local economy each year.

The Geelong region's position on tariff reductions and future assistance arrangements for the industry post 2005 was clearly made during the Productivity Commission's inquiry during 2003. Council, on 25 February 2003, adopted the following position: tariff levels in the TCF industry must stay at their current levels until at least 2010 and any further reduction after this time will be subject to a review process in 2008. The strategic investment program and the Expanded Overseas Assembly Provisions Scheme must be continued at least at current levels. The SIP must be modified to allow greater access to it across the TCF industry and the procedure for applying for funding must be simplified. The fundamental reason why council adopted this position is that, if tariff levels are cut and financial assistance measures reduced, firm closures and significant long-term job losses will result.

The key stakeholders in the Geelong region are supportive of the proposed \$747 million TCF assistance package for the industry post 2005, although the planned tariff reductions are not supported in principle. The continuation of financial support that focuses on innovation and the development of niche market opportunities is welcomed. We recognise that the future of the TCF industry in Australia rests with greater innovation and creativity, but we do not necessarily believe that it is appropriate for the strategic investment program amendment bill and the customs tariff amendment bill to be linked.

The Geelong and Region Trades and Labour Council and the Textile Clothing and Footwear Union of Australia in particular are steadfast in their view that tariff reductions should not be the trade-off for continued industry financial assistance. Nevertheless, it is acknowledged by local firms that in the past the continuation of industry assistance for both the TCF industry and the automotive sector has been linked to a reduction in tariffs in line with Australia's international obligations to the Asia-Pacific Economic Cooperation forum and the World Trade Organisation. Local TCF manufacturers have made it clear that they are looking for certainty as the current SIP arrangements draw to a close at the end of 2005. Industry requires certainty to make future capital investment decisions.

After carefully considering the issues, the Geelong region proposes an amendment to the SIP bill that includes additional funding of between \$25 million and \$50 million over 10 years for a regionally focused labour adjustment program. This extra funding is in addition to the government's planned \$50 million structural adjustment fund. Whatever course parliament decides to take, I encourage it to act quickly, although it should be noted that we in principle do not support further tariff reductions.

I would now like to hand over to Lawrie, who will talk briefly about the importance of industry assistance, particularly for smaller TCF firms, and then to Elizabeth to discuss the importance of a regionally focused and adequately funded labour adjustment program.

Mr Miller—Access to the strategic investment program is just as important for smaller businesses as it is for the larger players. The vast majority of Geelong's 60-plus TCF firms are classified as small to medium enterprises. During the Productivity Commission inquiry, concerns were raised by these small local operators that access to SIP is too restrictive. We are pleased to see that the government is now proposing to set aside \$25 million for a 10-year grants based program for small business, and Geelong's small manufacturers support this initiative.

Programs need to specifically address the needs of manufacturers, particularly small enterprises that show strong growth potential in niche markets. A number of the region's larger TCF companies started out as small firms and have since developed a major global presence. Two examples of that are Quicksilver and Rip Curl. They are very strong in the supply of surfing and snow apparel.

The CSIRO Textile and Fibre Technology division, based in Geelong, is an internationally recognised leader in textile and fibre research. There is considerable potential to increase its value by further developing its role as a centre for innovation, technology transfer and training support for the TCF industry. The CSIRO division has the ability to play a much bigger role if resources were allocated specifically to building skill and competency amongst TCF workers. In addition, Geelong's International Fibre Centre sees a possibility of establishing an international centre for training in wool and textiles which would be unique in the international market.

The Geelong region supports the proposed strategic investment program, as the introduction of specific assistance programs for small business will encourage improved performance. These programs have the potential to realise significant outcomes with relatively small outlays.

Ms MacPherson—I am going to speak about the labour adjustment program. A large percentage of TCF workers are women from non-English speaking backgrounds aged 40 years and over with skills not readily transferable to other industries. I would like to briefly talk about Monash University's research into retrenched TCF workers. The Centre for Work and Society in the Global Era, WAGE, studied over 300 displaced TCF workers in August 2003. They found that the average time unemployed since retrenchment was more than three years; almost 50 per cent of TCF workers retrenched were not able to find another job; one in five had found work comparable with their former TCF job in terms of hours, pay and conditions; the average weekly earnings of all respondents before retrenchment was \$409, and after retrenchment it was \$360, with the upper income range greatly reduced; and, although 96 per cent had worked full-time before retrenchment, only 21 per cent now work full-time, with the mean number of hours worked per week after retrenchment being 27.

The study also found that 81 per cent of TCF workers had received no instrumental assistance from their past employer, the government or any agency since retrenchment; 66 per cent had received no financial assistance from the government since retrenchment; of those who had received financial assistance, 29 per cent had received unemployment benefits; people who found new work did so through friends, the newspaper or sending out applications; only three per cent were re-employed through Centrelink; and four per cent were re-employed through a job agency. The report also shows that the impact of the TCF job losses is particularly harsh in regional Victoria. To properly assist TCF workers who may be displaced, the Senate needs to ensure that a properly funded labour adjustment program is legislated. The federal government's current TCF package is inadequate.

Councillor Coppe—In closing, the Geelong region is opposed in principle to further tariff cuts, as they would inevitably result in a loss of jobs in our region. If parliament is of the mind to support the proposed legislation to provide certainty for the industry then we propose an amendment to the SIP bill that will secure additional funding of between \$25 million and \$50 million over a 10-year period for a regionally focused labour adjustment program. It is important that parliament acts quickly to provide certainty to the industry. On behalf of the Geelong region I would like to thank the Senate Economics Legislation Committee for the opportunity to present our views.

Senator CARR—Thank you very much for your submission; it was very helpful. Your submission to this inquiry and your submission to the Productivity Commission highlight the importance of the TCF industry to Geelong, or to the Barwon—is that more accurate?

Councillor Coppe—The Geelong region and the Barwon region, yes.

Senator CARR—Did you hear the evidence of the previous witnesses?

Councillor Coppe—No, unfortunately we only arrived at the tail end.

Senator CARR—It has been put to us that this package is essentially the last support package the industry can expect—there will be no further assistance for textiles after 2010 or for clothing after 2015. What do you think the implications of that proposition are for the people currently employed in the TCF industry in your region?

Councillor Coppe—While we have not done detailed econometric studies, the last time that tariffs were substantially reduced saw the loss of 21 per cent of the textile and clothing work force in the Geelong region. We think the application of these sorts of tariff changes are likely to result in similar levels of job reductions. Some of those job reductions could be ameliorated by the SIP type programs. We would obviously be very concerned if those SIP programs ended in those time periods. We would hope that they would ultimately be continued beyond those time periods.

Senator CARR—But that is not what is being proposed.

Councillor Coppe—No, it is not.

Ms MacPherson—We are saying that there should be a review in 2008.

Senator CARR—I understand your position, but I am saying to you that this is the government's position. I certainly do not accept it. The opposition does not accept it. I think that there is a very important place for the Commonwealth in industry development.

Councillor Coppe—There is, and our position is that in principle we are opposed to tariff reductions. The history of tariff reductions in our area, as I am sure senators are aware, is that Geelong was a very prosperous community until the mid-1970s, when the then Labor government made an across-the-board 25 per cent reduction in tariffs. The Geelong region has a very large manufacturing base and it has seen sequential reductions in support, and as a result unemployment for many years was well above Australian averages. It was well into double digits up until the mid-1990s. Geelong has recovered somewhat from that position, but our history is that reduction in tariffs costs jobs. From 1996 to 2001 there was a 21 per cent reduction in jobs. We are obviously concerned about what the future prospects might be. In an area where there are about 5,000 direct and indirect jobs, a 20 per cent reduction is a further 1,000 jobs. As you heard from Elizabeth, many of those people will then struggle to find alternative employment.

Senator CARR—It is not just a question of reduction in tariffs; it is reduction in industry support as well. That is what the prospect is post 2010 and 2015 for different sectors.

Councillor Coppe—We understand.

Senator CARR—As I said, I think it is a very good submission. I want to ask you about one aspect of it. The CSIRO textile labs at Belmont recently have had redundancies announced of 22 or 24. There is a further lot coming through, I am told. Are you familiar with those figures?

Councillor Coppe—You are more aware of further lots than perhaps we are. Lawrie?

Mr Miller—The chamber is certainly aware that the numbers employed at CSIRO division have dropped because they work on fairly tight budgets.

Senator CARR—Are you aware of a round of redundancies about to be issued?

Mr Miller—No, I am not.

Senator CARR—What is your expectation about job losses at the labs in Belmont?

Mr Miller—We will be very disappointed if that is the case because that has been one of the linchpins in terms of the TCF industry in Geelong. The CSIRO division has been instrumental in keeping the TCF sector alive in Geelong to a large degree by being able to improve quality, standards and techniques and make technology improvements. We will be very concerned if that is allowed to be whittled down so much that there is not as effective a unit as it currently is or has been.

Senator CARR—I am told it is between 50 and 60 jobs to go in total out of the staff there. You are not familiar with those figures?

Mr Miller—No. I know they do have some hundreds employed there but I do not know about the redundancy.

Senator CARR—It is a total staff of about 200, so they are losing perhaps as much as 25 per cent of their scientists and research assistants.

Mr Miller—Yes. I am not aware of that.

Councillor Coppe—That would be very concerning if that were to occur.

Senator CARR—What representations have you made about it?

Councillor Coppe—We have just become aware of it.

Senator CARR—This is the first you have heard of it?

Councillor Coppe—Yes.

Senator CARR—I understand there is actually a further review under way. You have not been made aware of that?

Councillor Coppe—It has not been brought to my attention, no.

Senator CARR—I am astounded. The submissions for the review panel close on 24 September and the issues under consideration are the heavy reliance of the labs on one customer, the Wool Corporation, or AWI I think it is currently called; the dominance of overseas companies in the textile industry in this country; the changing staff numbers and capabilities in recent years; and the need for capital injections. You are not aware of any of these terms of the inquiry?

Councillor Coppe—We will take the time to find out.

Senator CARR—I am told that David Corners, Chris Langslow, Jeremy Burton, Evan Thornley, Tony Turkin and Ken Pettifer are on the review panel. They are to examine if the current divisional strategy identifies issues confronting the division, whether it suggests a path forward and whether the plan is reasonable and delivers the necessary turnaround in a reasonable time frame. This is from documents I am getting from inside CSIRO, so perhaps I can enlighten you. There was just recently quite substantial investment in the laboratories, wasn't there?

Mr Miller—There was, yes.

Senator CARR—How much was that?

Mr Miller—Quite some millions when they got heavily involved in the fibre technology side of it, when they moved away from wool to some degree.

Senator CARR—How long ago was that?

Mr Miller—That would be about 10 years ago—something like that—

Senator CARR—So they have not invested for 10 years?

Mr Miller—I am not aware of the investments. CSIRO division keep fairly closely to themselves. Even though they are part of a member group of the chamber, the Smart Geelong Network, they tend to keep to themselves. They do not tell us too much.

Senator CARR—I thought they were big on industry collaboration, but from your response you are not suggesting that there is strong evidence of that. You obviously do not have a close working understanding of what they are doing at the laboratories.

Councillor Coppe—They are collaborating strongly with industry in terms of the research that they are doing and the products that are likely to come out of that research, but how they go about doing that organisationally is what I think Lawrie is referring to, Senator.

Senator CARR—It is just that your submission tells me that there is a great opportunity to increase the value of the research division—

Councillor Coppe—Yes.

Senator CARR—but you do not seem to have been told that they are cutting it by 25 per cent. They are cutting the guts out of the place, and they have not told the local council or the Chamber of Commerce or, presumably, the union locally. It is a state secret.

Councillor Coppe—We will take the time to inform ourselves.

Senator CARR—Will you make a submission to the review?

Mr Miller—Certainly.

Senator CARR—How is the International Fibre Centre going?

Mr Miller—It is not doing a great deal currently.

Senator CARR—Has it been established yet? How far down the track are you to actually getting it off the ground?

Mr Miller—There are discussions with Deakin University, the Victorian government and the Gordon Institute of TAFE in terms of further development in that area.

Senator CARR—It just seems to me that textiles are incredibly important to the Barwon. The main government infrastructure in the region is slipping. You are probably the strongest in terms of local government. You are the people who are making representations most strongly on behalf of the industry. But these basic infrastructure arrangements are not being made. That is not exactly great evidence of cause for optimism. How do you respond to that?

Councillor Coppe—Cause for optimism in the sense of our confidence in CSIRO—is that your question?

Senator CARR—Yes.

Councillor Coppe—Many of those things are subject to government funding. We certainly work with CSIRO in terms of encouraging their growth in our community. But if there are reviews in place that we are not aware of then we will certainly inform ourselves.

Senator CARR—Corangamite is a marginal seat. I suggest you take a keen interest in it because, frankly, there needs to be a bit of a shake-up if this is the way that the region is being treated. Are you quite happy for us to decouple the bills, to separate out the tariff issues from the SIP program?

Councillor Coppe—Our position is as I have described in our conclusion. We are opposed to tariff reductions in principle. If the parliament is of a mind to support the legislation we would encourage you to increase the amount of money available for regionally-focused labour adjustment programs. And whatever parliament does it should act quickly to provide certainty to the industry.

Senator CARR—Thank you very much.

CHAIR—Thank you, Councillor Coppe, Ms MacPherson and Mr Miller.

[8.30 p.m.]

MINTER, Mr Andrew John, Managing Director, Fashion Clubwear Pty Ltd

CHAIR—Welcome. In what capacity do you appear before the committee today?

Mr Minter—I am representing a group of companies of which Fashion Clubwear is one.

CHAIR—I now invite you to make an opening statement.

Mr Minter—Even though I am only 44, I have been in the industry some 23 years. I started when I was 22, straight out of university. I had no idea of what I was going to do in life and I committed myself to the textile industry and am still very committed to the textile industry. It is pleasing to hear that some people in this room think there are some positives in the industry, because I am a firm believer in it and, as I say, I am committed to it. If you can find the right market and the right niche, there is certainly some value going forward in the textile industry. However, there are some provisos on that. My basic view is that there should be no further reduction in tariffs going forward. The two bills should be uncoupled, as you say, and there should be a lower SIP threshold. I will state some reasons for that.

I am from the lower end of town; the TFIA are from the upper end of town. They are obviously bigger companies and bigger employers than I am, and they have a lot more political clout than I have, but I am fairly representative as I have been a long-time player in the industry, a medium enterprise. I have purchased companies and we have grown and been committed to the industry. I put it to you that perhaps one of the reasons the TFIA did have 300 members some five years ago and now have only 150—I think even that is a bit optimistic—is that the leadership is probably out of touch with the members, and I think the members have come to realise that. That is a point you want to take note of. I think there is also another reason as to why they have only 150 members: I think that government policy has made it a lot harder for businesses to survive and the sooner they realise that the better off they will be. I think they have a vested interest in the stance they are taking, and we should make a point of that today.

As they are the bigger end of town and they have political clout, they have a vested interest in the status quo. There is no doubt that they do not want the SIP threshold lowered from \$200,000, because that would mean that other people would have to share in the money. The pool is only so big, and why let any small or medium players anywhere near it? I am a strong believer that there should be a threshold but that it should be lowered. We are currently a registered participant in the SIP scheme. We have been in it since its inception, but we have not received any money—and it has been a costly exercise. We have not reached the \$200,000 threshold yet, but I am prepared to participate in this scheme because I know that we will reach that \$200,000 threshold.

I find it interesting that these people want the new SIP program to come into place straightaway, because they need the money for investment. They stated earlier that they need the money for investment. They were asked how much money they were going to invest in the industry going forward—and they had obviously thought very closely about this—but, unfortunately, they were not able to tell us. I find that disappointing. I am sure they are committed to the industry. I am committed to the industry, and I certainly will invest in machinery—I have already—even if I do not get the SIP program and I do not receive any government money.

Likewise, I would like to state that we are very close to being a signatory to the Homeworkers Code of Practice, and I am a firm believer in that. I think that should be linked to any government money. These people should make a commitment to making sure that there are fair standards within the textile industry.

As I said, I would like the threshold of the SIP lowered. I think there is a problem of critical mass in the industry today. There is no two ways about it. That has been alluded to by not only the union but also the managing director of Yakka. He said that we were ‘dangerously close’ to reaching a problem with our critical mass. I find it quite surprising that they do want the tariff protection off. I would have thought that the tariff protection would allow certain players to remain in the industry and perhaps help that critical mass. We do not want people disappearing from the industry. I believe that the tariffs did have to come off many years ago, but I think they have reached a level where they have to be sustained. The industry has become much more productive over the years. In fact, it was a very inefficient industry back in the sixties and seventies. It is tremendously more efficient and a much more productive industry today. I think one of the reasons for that is that people have had to work hard on their businesses and get organised and face the reality of tariffs coming off. That is the essence of my beliefs and my going forward. I have been fairly blunt.

Senator CARR—You have dropped the big grenade in the middle of the room. I am very pleased to hear it.

Mr Minter—We probably will not get any more orders from them, but that is the way it goes.

Senator CARR—Thank you very much for coming. Have you appeared before a Senate committee before?

Mr Minter—No, I have not.

Senator CARR—So this is the first time. It is really good to have citizens coming here and putting their views strongly, particularly given what you have said. It is refreshing. The thing about Victoria that I have noticed is that there are quite a significant number of people like you who share a passion for the industry and do not necessarily fit within any particular organisation. I can tell you that I have had a range of representations not dissimilar to yours. I congratulate you for making a submission and taking the time and effort to come here. You may not congratulate me after I finish asking questions, but that is all part of the process.

Mr Minter—If you ask the right ones, we will.

Senator CARR—It is very rare for me to ask the right questions. But I just thank you very much for coming and it was very good to see that happen. Have you been a member of any industry association?

Mr Minter—We are a member of the Australian Industry Group.

Senator CARR—As I said, I have had representations from a number of manufacturers in Victoria who expressed views similar to yours. They are members of AIG. Obviously you discussed this within AIG. Do you feel that there are many other employers in your direct experience who share your views?

Mr Minter—I think there are. It is very important that we get some sort of industry body together. That has been mentioned in the hearing today. It has to be representative of not only the big end of town but the small end of town and the workers. I think it is very important to develop some sort of strategy—it will never be a communal strategy—which will be beneficial to the industry going forward. I think the AIG and also the union movement have become a lot more mellow. Both sides have become a bit more realistic in their expectations, and there is no doubt that the union movement did have to become a little more realistic. I am sure they have become more realistic. And I think the big end of town has to be a bit more realistic too in their expectations. I am sure we can accommodate enough views that the industry does remain reasonably viable in Australia.

Senator CARR—What do you think about the proposal for a manufacturing industry council to provide a forum whereby people can come together in a tripartite way to develop industry plans, to give the sector greater assurance in terms of having genuine support and commitment from government, unions and employers?

Mr Minter—I think that must occur. That has to happen; it has to be a given. I am sure that, with the right people, sensible people, on the panel or in the group, we can go forward and make some inroads. There is no doubt that you can survive if you have a niche market. Another point we must make is that people have to be made more accountable for their SIP money. There are some terrible stories going around the industry about the rorts that are going on with the money. I do not want to get into them at the moment. I am sure that I could set up in China and I would really be happy with that, because I could have 50 per cent of my capacity based offshore and 50 per cent of my capacity based in Australia. I am only talking hypothetically here. I would then qualify for SIP money and I would have a vested interest in bringing the tariff rates down because, when I imported my goods, I would pay a lot less money for them, a lot less duty. I could sit on both sides of the fence.

Senator CARR—Is this hypothetical situation you refer to very common?

Mr Minter—We are only talking hypothetically.

Senator CARR—That is what I mean. How widespread is that sort of occurrence, in your experience?

Mr Minter—I think if you had the money, the facilities, the will to do it and the direction to do it, you could do that. There are smarter people than me in the textile industry. It is a bet each way. There are no problems.

Senator CARR—What is your relationship with the department like? Have you had much contact with the Commonwealth department?

Mr Minter—No, none.

Senator CARR—None at all?

Mr Minter—No.

Senator CARR—Were you made aware of any of the consultations that were being undertaken?

Mr Minter—No.

Senator CARR—Were there not advertisements in industry association newsletters and the like?

Mr Minter—There may well have been. I may have been negligent not to look at them. But they have not been brought to my attention, I am sorry.

Senator CARR—Did they write to you?

Mr Minter—No.

Senator CARR—You were a participant in SIP. You may not have got any money, but surely you would have got a letter from the department to say that this is going on.

Mr Minter—No.

Senator CARR—None whatsoever?

Mr Minter—No.

Senator CARR—You currently employ 50 people?

Mr Minter—About 50 people, yes.

Senator CARR—You are based in Canterbury?

Mr Minter—And in Brunswick. We operate in the two.

Senator CARR—What is the nature of your work?

Mr Minter—We do very low-run, high-turnover garments. That is a niche if you do it well. We are very vertically integrated. We import yarn from overseas. That is something that we do; everyone knows that. But we knit here; we manufacture here; we do a lot of processes here in Australia. We can be very, very competitive. We can be surprisingly competitive.

Senator CARR—I am sorry to dwell on this, but what you are telling me is quite disturbing. How many of your competitors or people you are working with in Melbourne would share your experience of not having any contact with the department?

Mr Minter—If you go and look for it yourself you can get it, and when you talk to them you realise that there are some schemes and there is some assistance available to you, but you have to go and inquire—knock on doors and chase. That is from my experience. I am probably that sort of person. But I think there are a lot of people who are totally unaware of the benefits they could get.

CHAIR—Thank you very much.

[8.45 p.m.]

COLEMAN, Mr Alan, Manager, Textiles, Clothing and Footwear Group, Manufacturing, Engineering and Construction Division, Department of Industry, Tourism and Resources

JUMPERTZ, Mr Detlef, Manager, Textiles, Clothing and Footwear Group, Manufacturing, Engineering and Construction Division, Department of Industry, Tourism and Resources

PETTIFER, Mr Ken, Head of Manufacturing, Engineering and Construction Division, Department of Industry, Tourism and Resources

WOOD, Ms Cecilia, Assistant Manager, Textiles, Clothing and Footwear Group, Department of Industry, Tourism and Resources

CHAIR—Welcome. It is not my practice to invite departmental officers to make a general opening statement but if there are any issues of clarification or explanation you want to make arising out of any of the evidence that you have heard, now is a good time to do that. Are there, Mr Pettifer?

Mr Pettifer—There are. My division has responsibility for textile, clothing and footwear policy matters, amongst other things. I have at the table the key people who were associated with the development of the package and the subsequent legislation. I would like to make the point that the department administers the current TCF arrangements and has had a long involvement with the industry and has an extensive knowledge of it. In developing advice to the government on the package we drew heavily on this knowledge and we consulted very closely with industry. I was a little surprised when I heard tonight a number of people saying that they were not consulted. There were a number of processes for that consultation to go on; perhaps we could come back to specifics later on. We were also informed by the Productivity Commission report, which involved extensive consultation with stakeholder groups and major analysis of the issues over a considerable period of time.

Perhaps I could make three broad points that go to the principles of our thinking about this particular issue. The first is that in providing advice one of the key things for us was the importance of providing long-term certainty to the industry. This is extremely important, in our experience, in enabling the industry to make the investment decisions that are necessary to position themselves in a changing environment. This was a very important consideration also in developing our approach to the car industry, which is the other major sectoral policy that the government has come forward with in the last couple of years. It is also very consistent with what we have done in the past with the textiles, clothing and footwear industry. The industry has had a lot of certainty in terms of the tariff settings going forward and the government has put a package of measures in place to help them adjust to the changing environment. The importance of providing certainty was one of the key drivers in our thinking about the issues.

The second major issue was the importance of providing an integrated package. The tariff cuts are important. They are important because they drive competitiveness at the firm level and they are an incentive for the industry to move from industries which clearly cannot be competitive now. In an environment where the wage rates in labour intensive areas are so low in, say, China compared to Australia—\$1 compared to \$20—you just cannot compete. In that environment, you would need to move into other areas no matter what the tariff level was.

The third issue is the significant cost that the tariff imposes on consumers—about \$1 billion a year under the current arrangements. A lot of that cost falls on those in the community who are least able to bear it. Those were important considerations and along with those was a recognition that this industry has been highly protected over a long period of time and needed help to adjust out of the activities that it cannot be sustainably competitive in to other areas where it can. So the integrated nature of the package was very important.

The final point I want to make about the broad principles is the importance of a seamless transition from the current arrangements to the new ones. We looked very closely at the levels of support that are provided under the existing arrangements and we used that quite extensively in modelling the new arrangements to enable a smooth transition going forward. That is probably all I want to say. I do have some other points but, in the interests of time, I do need to not pick them up.

There were a number of issues raised in the discussion this evening. Key ones that stand out to me include the importance of an adequate structural adjustment scheme. We could say a little bit more about the work we

have done on that, if you like. The small business issues stood out quite strongly as well, and we could say more about that.

Senator CARR—We will give you plenty of chance to respond to each of those criticisms, I expect.

Mr Pettifer—The other issue was about why certain parts of the industry were not—

Senator CARR—We will get to that in some detail, as well. As an experienced public servant, you will be more than capable of weaving into whatever answer you give what you need to explain to the committee.

Mr Pettifer—I hope so.

Senator CARR—You talk about the need for a seamless transfer between these schemes. When did the minister reply to my letter on the question of a bipartisan approach to these bills?

Mr Pettifer—I do not have the answer to that question.

Senator CARR—Can you take that on notice?

Mr Pettifer—Yes.

Senator CARR—When did you provide the opposition with a copy of these bills?

Ms Wood—As soon as we had the draft bill completed, an exposure draft was made available and posted on the department's web site.

Senator CARR—When was that?

Ms Wood—Approximately a week before the bill was introduced into the House.

Senator CARR—So that was in June? Which date was that?

Ms Wood—Approximately a week before the bill was introduced.

Senator CARR—Yes, but what date? It is late at night.

Ms Wood—The bill was introduced on 16 June.

Senator CARR—You did not send one around to us, so that was the first chance we had to look at the bill—is that right?

Ms Wood—The bill was finalised at that point and we posted it on the web site.

Senator CARR—When was the deal stitched up with the industry groups?

Ms Wood—The industry was also given a copy of the exposure draft at the same time.

Senator CARR—Yes, but we have heard tonight that a number of negotiations occurred. When did you finalise the deal with the industry groups?

Mr Pettifer—The government announced the package late last year, then there was a program of consultation with the industry about the shape of the SIP scheme in February and March—

Senator CARR—So it was finalised in February?

Mr Pettifer—No, there were some more specific consultation on elements of the bill following that.

Senator CARR—As far as you are concerned, when was the package finalised?

Mr Jumpertz—In a broad sense, if you are talking about the broad parameters and elements of the package, it probably would have been in about March.

Senator CARR—March?

Mr Jumpertz—That is on the basis that after we undertook consultations in February we asked the industry to go ahead and provide advice as to the broad government approach. If I recall correctly, we asked for those submissions to close on or around 22 March.

Senator CARR—When were the drafting instructions issued to the parliamentary drafters?

Ms Wood—The drafting instructions were issued in March.

Senator CARR—Before the consultations finished or after?

Ms Wood—No, I would have to go back and double check the exact date if you would like us to provide you with that.

Senator CARR—I would not mind, please.

Ms Wood—I will take that on notice.

Senator CARR—But it would presumably be around the time the consultations ended. That would be reasonable expectation, wouldn't it? You would not finish the consultations after you had issued the drafting instructions.

Mr Pettifer—That is a reasonable assumption.

Senator CARR—So we got the bill in June. When did it pass the House of Representatives?

Mr Jumpertz—It passed on 25 June, if I recall rightly.

Senator CARR—When did it come to the Senate?

Mr Jumpertz—I think it was then subsequently referred to the Senate and then to this particular committee.

Senator CARR—Can you remember the date?

Mr Jumpertz—It may have been very close to 25 June, if not that particular day. It was passed in the morning in the lower house, so it may have come across here in the afternoon.

Senator CARR—When did you prepare the ministerial press release attacking the opposition for delaying the bill?

Mr Jumpertz—We had no input into the minister's press release.

Senator CARR—You had no input at all?

Mr Jumpertz—No.

Senator CARR—It was entirely the work of the minister's office, was it?

Mr Jumpertz—We certainly provided no advice in relation to the minister's press release.

Senator CARR—I am pleased to hear that; that is very good. It is just that the claim made that we have delayed the bill is spurious, isn't it, when you look at those timelines?

CHAIR—I do not think that is a fair question for public servants.

Senator CARR—No, it is not. But the allegation is not fair either.

CHAIR—It is an observation you can make, but you cannot expect them to talk about it.

Senator CARR—I do not expect an answer to that at all. I am interested to get the proceedings right here. I want to go to the issue of consultation because we have had a number of industry groups tell us that they were totally dissatisfied with the level of consultation—I think that would be a fair description. We have had individual employers who knew nothing of the process.

Mr Pettifer—To balance that, a number have said they were very pleased.

Senator CARR—You run the division. It must be quite a difficult experience for you to hear that level of criticism of the department.

Mr Pettifer—Not at all. I have also heard very positive comments about the level of consultation.

Senator CARR—What do you say about the evidence that has been presented to us tonight?

Mr Pettifer—Perhaps if you can just explain the consultation process—

Senator CARR—I cannot. I hope you can.

Mr Jumpertz—The minister wrote to all the key industry associations and state governments and even to his New Zealand counterpart. I believe he also wrote to the union at the time of the particular announcement. The department, via our program delivery arm in AusIndustry, forwarded information in a letter to SIP registrants prior to the February round of consultations that were undertaken around Australia. Similarly, our AusIndustry arm in Melbourne provided an overview of what was in the package in their normal distribution of circulars that they produce to industry. In relation to the February consultations, we also advertised those in a range of trade journals.

Mr Pettifer—And there were presentations and meetings in all states and territories.

Mr Jumpertz—Not in the ACT or the Northern Territory, but there were meetings in all the other states.

Senator CARR—Letters can go astray and people may not pick up every item of correspondence. I know that happens to me. But you will be able to tell me the date on which Mr Minter was sent a letter because you have indicated to me that everybody who registered for SIPs or participated in SIPs got a letter.

Mr Jumpertz—Yes.

Senator CARR—So you will be able to tell me that.

Mr Jumpertz—I will have to go back and see when the letter was sent, but we should have a record of when that round of letters was distributed.

Senator CARR—Thank you for that. I will go to the questions that have been raised from the evidence tonight. Before I do that, let me begin by asking you: what assessments have you done with regard to employment in the leather industry? Have you done any modelling at all, any survey work? Are you able to provide me with any advice on employment levels in the leather components of the industry?

Mr Jumpertz—I have some advice here, based on manufacturing survey data. Unfortunately, we did not have any manufacturing survey data beyond 2001.

Senator CARR—That is a relief—that it is from 2001.

Mr Jumpertz—Yes. At that particular point there were 3,186 people employed in the leather industry. In 1997 there were 3,500 people employed in the leather industry. So there has been a drop of about nine per cent over that four-year period.

Senator CARR—But the last data you have—

Mr Jumpertz—is the manufacturing survey data.

Senator CARR—as the Commonwealth's department of industry, is from 2001?

Mr Jumpertz—That is based on ABS data, yes. That is manufacturing survey data.

Senator CARR—I am surprised, given that you are designing a package like this and that you have gone through all these consultations, that you cannot provide the parliament with more up-to-date information than from 2001.

Mr Jumpertz—We are reliant on ABS statistics, and the ABS has not released a manufacturing survey which indicates employment data beyond that particular time frame.

Senator CARR—You are entirely dependent on the ABS?

Mr Jumpertz—We get data from wherever we possibly can, but the ABS in the main is the official source of statistical data for the Commonwealth.

Senator CARR—So you cannot tell me how many businesses have closed since 2001, nor how many have moved offshore?

Mr Jumpertz—No, not since 2001. I could tell you for the years preceding that, but I would not have the information here tonight.

Senator CARR—What was the rationale for excluding leather from the new SIP?

Mr Pettifer—The SIP is to help the industry to deal with any further structural adjustment that they need to make. The leather and technical textiles industries are on a five per cent tariff, and that situation is not going to change. Like most other industries—there are only two industries that get special support like this—they would need to rely on the existing suite of generic programs that the government has available for industry support. Of course, the leather industry will get something out of the program on top of that. They might get significant benefits for investment, and, as has been noted earlier tonight, we have changed the existing scheme so that they can get some more out of it for the remaining life of the scheme.

Senator CARR—Are you talking about the February changes that were referred to?

Mr Pettifer—That is right.

Senator CARR—What other elements of the post-2005 TCF package can they get in this bill? Are there any other measures in this bill?

Mr Pettifer—They get the SIP benefits that relate to investment and they are eligible for the other components of the package that do not relate specifically to the clothing and textile sectors.

Senator CARR—You have heard the evidence being given tonight. It was proposed to us that there should be a further amendment. What do you think the financial implications would be if that idea for an amendment were taken up? What would the costs be?

Mr Jumpertz—Offhand, if you combine the technical textiles sector and the leather sector—

Senator CARR—Let us just talk about leather, for a start; they are slightly different. I am going to give you plenty of chances to tell me about technical textiles.

Mr Jumpertz—This is a guesstimate—it would probably be around \$2½ million to \$3 million per annum.

Senator CARR—How big is that program?

Ms Wood—That is per annum.

Senator CARR—What is the annual appropriation for the program?

Mr Pettifer—The total appropriation over the 10-year life of the program is \$600 million.

Mr Jumpertz—It is \$500 million in the first five years, and \$487½ million of that is for SIP.

Senator CARR—So over a 10-year period on those figures it may be—

Mr Jumpertz—There will be \$575 million available over 10 years.

Senator CARR—If this committee were to recommend and the parliament were to agree then the additional call on this program over that period may be as low as \$20 million. Would that be fair?

Mr Jumpertz—That is a reasonable estimate. It is difficult to know what the activity will be in the industry going forward.

Senator CARR—Do you think you are being a bit generous? What if I were to say to you that I have been told that it might only be \$10 million? What is the basis of your current number?

Mr Pettifer—We modelled this stuff some time ago. I presume Mr Jumpertz is talking about the numbers we got then. Of course, you have to make a number of assumptions about the level of activity, the level of investment and, if it were to apply to innovation activity, the level of innovation activity there will be in the industry. You have to make certain assumptions. It is difficult to be precise.

Senator CARR—That is the nature of these sorts of estimates. Is there any capping of the total amount of any grant that can be received under this program?

Mr Jumpertz—Yes.

Senator CARR—How much is that cap?

Mr Jumpertz—It is five per cent of firms' TER, or total eligible revenue.

Senator CARR—Do you expect local manufacturing sales to remain much the same?

Mr Jumpertz—There is probably an assumption that there will be a decline in local manufacturing sales.

Senator CARR—So the call from individual companies will decline.

Mr Jumpertz—Yes, it is quite possible that will occur, but the scheme has also been broadened in a number of other areas, which would probably make up for that decline. There are new elements in the scheme dealing with brand support and information technology for clothing companies.

Senator CARR—Is it your estimate that the size of payments to firms will remain basically the same?

Mr Jumpertz—When we have done the modelling with respect to the call on the program, it has been our assumption based on the first two years worth of program data that the call on the program will be roughly \$97½ million, with all the new changes that are contained in the legislation.

Senator CARR—It is actually put to me that the level of brand support is declining under these measures. Would that be fair?

Mr Jumpertz—No, I think that is most unfair, to be truthful. Brand support as it currently stands is what is called a type 2 activity. A type 2 activity means that you can only go ahead and claim that brand support if it is related to an innovative TCF product. The changes proposed within the bill mean that the brand support is now available for all TCF products that are eligible under the scheme, not just those innovative ones. Therefore, it is more widely applicable and available to all sectors.

Senator CARR—But it is also put to me that most of the smaller companies that will be eligible will come out of the new small business package you have. Won't that mitigate the overall effect for any individual firm?

Is that true or not? Will most of the small businesses actually draw upon the small business package rather than the general funding allocation?

Mr Jumpertz—That is not necessarily true. Most of the small businesses that operate in the industry tend to be clothing companies and there are provisions within the new SIP so that they get a range of additional entitlements and claimable activity, including brand support and non-related production information technology, which they can subsequently claim. It is quite feasible that there would be significantly more small businesses making claims under the new SIP as opposed to the current SIP.

Mr Pettifer—The other point I think it is important to bear in mind is that it should not be assumed that SIP is not about supporting small businesses, because more than 50 per cent of the participants in that scheme have fewer than 50 employees. A lot of them are very small operations.

Senator CARR—There is a flaw in the \$200,000 figure, isn't there? It actually limits who can participate.

Mr Pettifer—Yes, but you can accumulate that if you are a finished textiles firm over a 10-year period. You can build up to get that sort of threshold over a long period of time.

Senator CARR—Tell me this: what was the consultation about the changes that occurred in the offsetting arrangements for leather and textiles that were referred to in February? Did you talk to anyone about those before you did it?

Mr Pettifer—Yes.

Mr Jumpertz—As I recall from the particular process, I think the minister at the time of the announcement wrote to all industry associations and to the Technical Textiles and Nonwoven Association and the Australian Association of Leather Industries to make them aware of particular elements of the scheme. I think that letter went ahead and included the information that under the proposed new scheme they would be eligible only for type 1 activity. During the consultation period that was conducted in February, that information was also relayed to the industry participants who attended the seminars.

Senator CARR—How does the modulation process that I have heard so much about work?

Mr Jumpertz—The scheme is currently subject to modulation but it has never been needed or required.

Senator CARR—So it is not actually operational?

Mr Pettifer—It only operates if the demand on the program exceeds the amount of money that is available in that particular year.

Senator CARR—So you have underspent?

Mr Pettifer—Yes, but the money has been rolled forward into future years—

Senator CARR—Yes, but have you underspent every year?

Mr Pettifer—In the current program I think the answer is yes.

Senator CARR—I find it odd that the demand that is being made upon it seems so small and you are underspending the program. Can you explain to me why the leather industry was again excluded?

Mr Pettifer—One of the principles underlying the scheme is that it focuses on areas of the industry that need to undergo further structural adjustment.

Senator CARR—You have not had any data since 2001. How do you know what is going on?

Mr Pettifer—It has to endure no further tariff cuts. It is currently at five per cent. It will stay at a five per cent duty.

Senator CARR—How many people were employed in the technical textiles section of the industry?

Mr Jumpertz—We do not have full figures on that because the ABS does not define technical textiles per se. There are not any particular ANZIC classifications that neatly fit with respect to technical textiles. The breakdown of statistics is always couched in terms of textiles, clothing, footwear, carpet and leather industries, which can be easily broken down. But, as I understand it from what one of the previous participants here indicated, there were several thousand people employed in the technical textiles industry.

Senator CARR—I heard the evidence but we look to you for advice. That is what the departments of the Commonwealth do—they provide advice. What statistical advice can you provide this committee on the number of people employed in what has been described as technical textiles? I guess the information you are putting to me now is that you do not know.

Mr Pettifer—We do not have a figure here. We may have a figure back at the department somewhere. If we can get that we will be happy to provide it to you.

Senator CARR—Thank you. What are the challenges facing the technical textiles component of the industry in terms of restructuring?

Mr Pettifer—I think the technical textiles area is an area where there are some real new opportunities. Companies in that industry are performing very well. There are great opportunities that are going forward.

Senator CARR—But how do you know that? How do you know they are performing well?

Mr Pettifer—We know some of the companies in the industry and we talk to them.

Senator CARR—You talk to individual firms and that gives you a fix on what is happening? I hope you are talking to the right ones. It is a hell of a way to make policy.

Mr Pettifer—It is part of the process. You get a feel for how things are going. We see great opportunities in that particular area. Some of the companies are taking advantage of those opportunities.

Senator CARR—Why were they excluded from the SIP arrangements?

Mr Pettifer—It is the same argument as I outlined previously. They are currently at a five per cent tariff. You do not see them having to cope with a further tariff cut. They will continue to benefit from a lot or most of the elements of the new scheme. In a sense they are in a better position than most other Australian industries which do not receive any special assistance but which have to rely on generic programs. This point came up earlier. There are generic support programs for research and development, and they are the programs that most companies use.

Senator CARR—So how much do they get by way of the 125 per cent concession?

Mr Pettifer—How much do the technical textiles companies get? They would be accessing SIP at the moment so they probably do not—

Senator CARR—We were told they can get access to these other programs. What is the take-up rate?

Mr Pettifer—Theoretically they could but because they can now get benefits out of SIP they would not be interested in those other programs. If you like, I can check with AusIndustry as to whether any technical textiles companies are accessing those other programs.

Senator CARR—I think it would be helpful to know. If the amendment that has been proposed to us by the representatives of the technical textiles industry were to be accepted, what would the draw on the program be? What would the financial implications of that amendment be?

Mr Jumpertz—As an estimate, it would be in the order of \$3½ to \$4 million for type 2 activity.

Senator CARR—And that is over the life of the program?

Mr Jumpertz—No. That is per annum.

Senator CARR—Can you give me a breakdown of how you have reached that estimate? I know it is an estimate so I acknowledge that it is not going to be a precise figure but I would be interested to know what your thinking is. You might want to take that on notice.

Mr Jumpertz—It is based on information supplied in a general sense to us by AusIndustry as to the range of technical textile firms and the previous pattern of usage with regard to SIP.

Senator CARR—So you have quite a precise figure there?

Mr Jumpertz—We have broad figures, because it is difficult to go ahead and neatly classify a firm as a technical textile firm. Some firms cross the boundary between being described as a technical textile firm or a textile firm et cetera. We have to make some assumptions about apportionment, about how much of their activity relates to technical textiles and how much to textiles. But as a general principle it is probably, as I said, between \$3½ million and \$4 million per annum.

Senator CARR—When were the Australian leather industry and the Australia technical textile industry advised that they were not going to be part of this brave new world?

Mr Jumpertz—As I understand it, the earliest advice that they would have received would have been at the time of the announcement, back in November, and subsequently they were advised as part of the consultation process.

Senator CARR—Could you check that for me?

Mr Jumpertz—I can, yes.

Senator CARR—It is quite a serious problem if people think that they have not been told and you are saying they have. There has been an allegation that the SIP program is biased towards the large companies. What do you say to that proposition?

Mr Pettifer—I do not think I would agree with that proposition. As I said a couple of minutes ago, more than 50 per cent of the SIP grants go to companies with fewer than 50 employees.

Senator CARR—Okay. What is the average turnover for SIP participants?

Mr Pettifer—We will have to take that on notice.

Senator CARR—Thank you. And could you compare that with what you believe to be the average annual turnover of the TCF industry participants more generally?

Mr Jumpertz—What we can say is that, by our reckoning, the SIP recipients account for 75 per cent of the industry value add and 63 per cent of total employment within the TCF sector.

Senator CARR—But that may well give us a fix on the large employers, not necessarily the number of companies. The issue that has been put to us is that small employers, small companies, which may well be very innovative, are not getting a cut of the action. That is the allegation that has been put to this committee. These are people that are serious about a long-term future in the industry, and I reckon they are entitled to ask why they are not getting access.

Mr Jumpertz—Small businesses—that is, those employing fewer than 20 people—account for about 25 per cent of the SIP claimants. Those with fewer than 50 people account for approximately half of the SIP claimants.

Mr Pettifer—And as I said, Senator, you can accumulate the threshold over a period of years, so that would suggest that it is not a big hurdle.

Senator CARR—I will ask you some questions on the threshold in a minute.

Mr Pettifer—And, finally, we do have the small business element, which is designed to supplement the existing arrangements.

Senator CARR—Which we have heard a lot about—the \$25 million. Over how long is that?

Mr Pettifer—Ten years.

Senator CARR—\$25 million over 10 years. That is the sort of money the leather people are looking for, isn't it?

Mr Pettifer—Yes, but you are talking about a different kind of support with that program. It is important not to mix the two up. I think the small—

Senator CARR—I can hear this one coming!

Mr Pettifer—business element is about assisting with business planning, benchmarking themselves, those sorts of things, which often do not cost a lot of money. So we think that with that amount of money we can actually help quite a lot of small businesses.

Senator CARR—What is the number of companies that currently have access to the SIP program?

Mr Jumpertz—Approximately 325 to 330 people have received funding. There are significantly more that have registered. About 400-odd companies have registered, but only—

Senator CARR—Yes. How many companies are there in the industry in total?

Mr Jumpertz—About 4,900.

Senator CARR—So there is a bit of a gap there, isn't there?

Mr Jumpertz—There is a gap in terms of the number of companies but, as I said earlier, the proportion of companies that are assisted by way of industry value add is 75 per cent and they account for 63 per cent of employment.

Senator CARR—What do you think will be the number of companies under the new SIP scheme? What is your expectation there?

Mr Jumpertz—We would probably go ahead and anticipate that there would be an increase, because we have broadened some of the eligibility requirements in relation to brand support and also non-production

related IT for the clothing sector. It is probably fair to say that we would anticipate across the life of the program maybe another 100 to 200 companies.

Senator CARR—Where did the threshold figure of \$200,000 come from?

Mr Pettifer—It is the figure in the existing scheme.

Senator CARR—So you just rolled it over. Where did it originally come from? What was the great mathematics behind that figure?

Mr Coleman—I am manager of the TCF policy group—

Senator CARR—I bet you are pleased to be here too.

Mr Coleman—More than happy to help. From my recollection, the \$200,000 threshold derived from the official figures at the time which looked at the level of investment, and it was indicated—I can get back to you and confirm the figures—that I think in the order of 96 or 97 per cent of the investment was below \$200,000. That level was picked as a threshold to try and lift the game for the participants. I do not recall the figures but I can certainly provide you with the rationale as it was back in 1998-99.

Senator CARR—I appreciate that. It is just that, since there are so many firms that are not participating, I am wondering how adequate that \$200,000 figure was at the time of the original introduction of the scheme.

Mr Coleman—A difficulty we have in trying to measure the number of firms against the activities which might be supported under SIP is that it is complicated by the corporate arrangements many businesses entertain. For example, you asked earlier whether we had information on the number of businesses that closed. Often there are operations of businesses which would close, which would frequently attract media attention, but the business itself, which under the SIP legislation is the tax entity, will continue. Within that business there might be any number of companies, corporate entities, but the SIP registration recognises only one. So, whilst there could be groupings for purposes of tax and under the Corporations Law, that is not recognised under SIP. It is not easy to do a direct correlation between the number of businesses or the number of companies which are undertaking TCF activities, which is picked up through the ANSIC data, and directly relate that to the number of participants under the strategic investment program. What we are able to do is look at the threshold and examine to what extent that threshold acts as a bar to companies who do register who believe that over a three- or five-year period they will be able to entertain expenses, either in an innovative activity or investment in new plant and equipment or buildings, that will, as Mr Pettifer has indicated, reach that \$200,000 threshold, which we hope would be achievable over the five-year life of the scheme.

Senator CARR—Were any other options considered when you were drawing up that threshold figure? Did you, for instance, consider a lower threshold figure of, say, \$50,000?

Mr Coleman—I would have to go back to the record.

Senator CARR—Okay. What other programs can TCF small businesses access at the moment, operated by your department?

Mr Pettifer—There is a raft of them. I am not right across all those programs because they come from the small business area, but the small business enterprise culture program—

Senator CARR—If you could tell me that I would appreciate it.

Mr Pettifer—The list would be on the AusIndustry web site presumably. We can certainly get you—

Senator CARR—Thank you. How many companies receiving money under this existing scheme are not Australian companies?

Mr Pettifer—My understanding is that they need to be carrying on manufacture or design activity in Australia.

Ms Wood—Under the TCF SIP scheme, the current scheme, to be an entity you must be an Australian entity.

Senator CARR—So registered here.

Ms Wood—Registered here.

Senator CARR—Do you have to have a percentage of your operations based in this country?

Ms Wood—The expenditure that is eligible expenditure for which you get paid a grant must be undertaken in Australia.

Senator CARR—We had a hypothetical situation drawn to our attention a while ago where a company might have 50 per cent of their operations offshore. Would they still be eligible for funding?

Ms Wood—For the activities that are undertaken in Australia. There is some provision for research and development activities that are undertaken offshore, but they are under very limited circumstances. The basic rule of thumb under the scheme is that it is expenditure that is incurred in Australia and related to Australian manufacturing.

Senator CARR—So which companies undertake R&D offshore and have accreditation for that?

Ms Wood—I would have to actually go back to the records to find out.

Senator CARR—Can we have that on notice? So there will be a requirement under the new scheme that companies will have to be Australian entities?

Ms Wood—Yes.

Senator CARR—And they will have to undertake all their activities for which they are seeking moneys in Australia?

Ms Wood—It will have the same provision for research and development but, again, that is very limited.

Senator CARR—How many people will LAP assist?

Mr Pettifer—The structural adjustment program?

Senator CARR—The labour adjustment program.

Mr Pettifer—We are talking about that as the structural adjustment program.

Senator CARR—Let us make sure we are talking about the same thing. I am told that you are running a 10-year program of \$50 million to assist workers affected by large plant closures. Is that right?

Mr Pettifer—To assist workers who lose their jobs.

Senator CARR—It says here ‘large plant closures’. Is that not right?

Mr Pettifer—No. I might get Mr Jumpertz to take you through that. What we are talking about is the structural adjustment program, which is a \$50 million program.

Senator CARR—Is that different from LAP?

Mr Pettifer—Well, there is not a LAP. The TCF unions and some others have talked about a LAP.

Senator CARR—I thought you had a provision in here for labour market adjustment, but you do not?

Mr Pettifer—That is the structural adjustment program. It is probably worth spending a little time on this. We have done some—

Senator CARR—Unfortunately, we only have a limited amount of time tonight.

CHAIR—Mr Pettifer, you obviously want to explain this. We are a little flexible with the time because you are the last witnesses. I invite you to explain it now.

Mr Pettifer—Under the structural adjustment program, support will be provided for workers who lose their jobs. We are in the final stages of designing that, together with the Department of Employment and Workplace Relations. It has virtually all the elements that have been talked about by other witnesses tonight in relation to LAP. It may be worth Mr Jumpertz briefly explaining the key components of that, because this did seem to be a fairly fundamental issue in the evidence given tonight.

Mr Jumpertz—It is intended that the structural adjustment program will provide assistance through the government’s Job Network services. As part of that particular process, retrenched TCF workers will be able to have streamlined and immediate access under Job Network for something called the intensive support customised assistance. They would normally have to wait 12 months for that particular type of support, but they will be entitled to immediate access to that. Likewise, if there is a case where a retrenched TCF worker still has their partner in employment and normally would not be able to meet the income test in relation to Job Network services, that will be waived and they will have immediate access to that. As part of the intensive support customised assistance, retrenched TCF workers will have comprehensive one on one services and have training tailored to the particular applicant’s need—whether it be literacy and language training, vocational training or job preparatory training. Those particular benefits will apply for retrenched TCF workers under this structural adjustment program.

Senator WATSON—Irrespective of the size of the operation?

Mr Jumpertz—Yes, and irrespective of where they may be located. It is open to metropolitan and regional areas.

Senator CARR—How many workers are you talking about? You must have done some costings.

Mr Jumpertz—In relation to that—and this goes back to one of the previous comments—there has been a range of modelling undertaken, both by the Productivity Commission and by the Victorian government. We have gone directly to the modelling agencies that the Productivity Commission utilised and asked them to go ahead and update their modelling based on the government's formal announcement et cetera. Based on that, the revised modelling has indicated that the long-term employment consequences could be up to approximately 6,000.

Senator CARR—So it is to assist 6,000 people. You are obviously expecting retrenchments of that number. Over what length of time?

Mr Jumpertz—That uses a long-run model, and they are projected employment losses for the period 2005 to 2020.

Senator CARR—In 15 years, you are only expecting to lose 6,000 people from the industry?

Mr Jumpertz—That is what the best analysis with respect to the modelling has indicated.

Senator CARR—I am wondering how many people can keep a straight face with that sort of proposition as I look around this room here. You are not seriously telling me that that is what you regard as a reasonable estimate, are you?

Mr Jumpertz—I am not an economic modeller. I cannot go ahead and give you an estimate of what my opinion on the employment outcomes is.

Senator CARR—What was the employment decline in the last five years? Do you know that?

Mr Jumpertz—The employment decline in the last five years in the industry has been approximately 18,000.

Senator CARR—In the last five years we have lost 18,000 people and in the next 15 years you are thinking we will only lose 6,000.

Mr Jumpertz—That is what the modelling has said.

Senator CARR—There has been this tremendous watershed, has there? This is it; we have reached the plateau. Is that what you are saying to me?

Mr Pettifer—The best we can do is update the models that have been done on this. We have done that, and that is the figure that the models tell us.

Senator CARR—I do not like being rude, but it strikes me that you cannot be serious when you put that proposition to the committee like this.

CHAIR—Senator Carr, do not be rude. There is no point in being argumentative. You have asked the question three times now, and it has been answered in an unambiguous way. If you do not like the answer, you can comment on it in the Senate.

Senator CARR—I certainly will. I appreciate the point you make. It has been answered in an unambiguous way and I appreciate the candour of the officers. I am just surprised—shocked, frankly—that that could be the basis of government policy. Let me ask about small business. But I want to come back to that because I am staggered, frankly. Can you give me a breakdown on how you get the figure of 6,000? What is the basis for the calculation? You say it is over 15 years. Give me a bit of an understanding of what areas are likely to be affected and in what years you expect those sorts of job losses to occur.

Mr Jumpertz—It is a long-run model, so basically it models from the start of a particular period to the end point. It does not go ahead and take into account annual losses or break it down by annual losses. But we can disaggregate some of that information and provide you with details of the various sectors that the modelling indicates are where the job losses might be.

Senator CARR—Okay.

Mr Jumpertz—I would also like to point out that in the Victorian government's submission to the Productivity Commission they predicted that the number of Victorian job losses for the period 2005 to 2020 is roughly 3,900.

Senator CARR—And you have used the same model?

Mr Jumpertz—That is a different model again. That is one that the Victorian government went ahead and utilised.

Senator CARR—I have seen some of their modelling in recent times. It is obviously a good game to get into, isn't it, if you can get paid for that. With regard to the tariff reductions, it has been put to us that in your presentations you said that the assistance measures are contingent on the legislation of the tariff reduction schedule. Is that true? Did you actually put those propositions to the industry?

Mr Jumpertz—It is an integrated package which provides incentives for ongoing industry support and for the industry to go ahead and meet those particular tariff cuts. It is the same principle and policy that applied to the 2000-05 package and to a lot of the preceding TCF assistance arrangements.

Senator CARR—On what basis did you propose that there be a funding link between the SIP program and tariff reductions not due for five years?

Mr Pettifer—It is the same principle as the current scheme. We are providing the industry with some certainty about what is going to happen on the tariff front and then providing some fiscal support to help them make the structural changes so that they can deal with that when it occurs. I think Andrew Edgar said that it is not all doom and gloom. There are bits of this industry that can be sustainable and competitive. The aim of the policy is to try and move the industry into those areas and give them plenty of time to do it.

Senator CARR—I am not going to suggest to you that it is all doom and gloom. I am just staggered by the government policy framework, which does not seem to be one to facilitate the long-term prosperity of the industry.

Mr Pettifer—That is what the SIP scheme is about. It is designed to support what we would regard as the key drivers of competitiveness: investment and innovation.

Senator CARR—So in this consultation process where you outlined this linkage, what regional areas did you visit?

Mr Jumpertz—As part of the consultation process I visited Launceston, if you are talking about regional centres. If I recall rightly, I also went down to Geelong on one particular occasion to provide an overview of the post 2005 TCF package.

Senator CARR—Launceston and Geelong—are they the only two regional areas?

Mr Jumpertz—Yes.

Senator CARR—Did you not consider going to other regional centres?

Mr Jumpertz—There was some consideration given to that but a lot of the employers in some of the regional centres are firms that are headquartered in metropolitan areas—for example, Bruck. While it might have its operations at Wangaratta, it has its corporate HQ in metropolitan areas and would have attended sessions there.

Senator CARR—What consultations were had with the representatives of the people who actually work in the industry?

Mr Jumpertz—We had no discussions with any organised worker group per se and had no, if you like, personal contact from those particular individual workers.

Senator CARR—Did you invite the unions to be part of the process?

Mr Jumpertz—The unions received invitation letters to the consultation process and, indeed, attended three out of the five sessions, as I understand it.

Senator CARR—So they attended the public sessions?

Mr Jumpertz—Yes. I think they attended in Perth, Adelaide, if I recall rightly, and Melbourne.

Senator CARR—What discussions were had with representatives of the work force in regard to the design of the scheme?

Mr Jumpertz—Those consultations were about the design of the scheme.

Senator CARR—Were they?

Mr Jumpertz—Yes. It was basically going ahead and providing details of what the new post 2005 scheme might look like and what some of the individual elements of the post 2005 SIP might incorporate.

Senator CARR—I am surprised. I have got a copy of the overheads here from the Melbourne session. I take it there were six overheads. Is that right, or were there more than six?

Mr Jumpertz—I think there were more than six overheads.

Senator CARR—Would you mind giving us a copy of those?

Mr Jumpertz—Yes, no problem.

Senator CARR—The ones I have got here in front of me go to the presentation outline, and it looked to me as if you were telling them what they were going to get, not that they were telling you.

Mr Jumpertz—We had a broad framework of, if you like, anticipated changes to the scheme and we asked industry to go ahead and comment on various elements of what was being proposed.

Senator CARR—At what point did you tell them that the assistance measures are contingent on the legislation of the tariff reduction schedule?

Mr Jumpertz—During the course of the presentations I would have outlined to the industry that it was an integrated package of both tariff reductions and a range of direct budgetary support.

Senator CARR—So it was not actually about a negotiation session, was it; it was about you telling them that that was ‘contingent upon’—that was the policy direction.

Mr Pettifer—The government had set the framework for this already.

Senator CARR—I just want to clear it up: the government sets the framework and then you tell industry what they are going to get—

Mr Pettifer—This was about the details of the implementation of it.

Senator CARR—From the impression I am getting, some industry associations were involved, others were not. The unions clearly were not involved.

Mr Pettifer—Mr Jumpertz said they were at these sessions.

Senator CARR—They attended an information session where you told them what they were going to get. Why is that wrong?

Mr Jumpertz—As part of the consultation process, individuals, organisations and companies were asked for their views and asked to make submissions at a later date to the department.

CHAIR—Mr Jumpertz, were there two stages—a consultation phase and then an information phase?

Mr Jumpertz—It would be fair to say that there were two stages. There was certainly a range of consultations that took place with regard to various industry associations in the lead-up to the government finalising a response and an information and further consultation process post the government’s announcement.

Senator CARR—We are told by the Council of Textile and Fashion Industries in their submission that they played a large role in negotiating your package. Would you agree with that?

Mr Jumpertz—They had a key input with regard to making their views known to the department, the Productivity Commission, the government and the minister.

Senator CARR—So they had a key input in making their views known, but they said they were negotiating the package. That is a slightly different concept, isn’t it.

Mr Pettifer—I do not know whether it is productive to try and pick different words here. They were certainly closely involved in discussions of options and those sorts of things.

Senator CARR—At what point did you discuss with the Technical Textiles and Nonwoven Association the details of the scheme?

Mr Pettifer—The details of the scheme?

Senator CARR—Yes—actually, before you made announcements at these presentations, at what point did you sit down with Mr Wes Taylor of the Technical Textiles and Nonwoven Association and say, ‘This is the proposal. What do you think?’ and tell him where you were going and give him an opportunity to actually comment on changing the program before it was formally—

Mr Jumpertz—If I recall rightly, a meeting took place prior to the announcement.

Senator CARR—What date was that?

Mr Jumpertz—I could not tell you offhand, but I will check. It was maybe a week to two weeks prior to the announcement. It was conducted with the Technical Textiles and Nonwoven Association and included a ministerial adviser and members of the department.

Senator CARR—So you will be able to give me a date for that.

Mr Jumpertz—I will find that for you.

Senator CARR—Was there only one meeting?

Mr Jumpertz—I believe there was one meeting, but there possibly could have been a range of other discussions that the minister's office had.

Senator CARR—And you are not to know that—I appreciate that. I got the impression tonight that they were advised pretty late in the piece. What about the Australian Association of Leather Industries? When did you meet with them?

Mr Jumpertz—We as a department did not formally go ahead and meet with them, I understand that they met on occasions with the minister.

Senator CARR—Ministerial advisers or the minister?

Mr Jumpertz—It may have been both. I was not at the meeting, so I cannot confirm.

Senator CARR—So their claims that they were not seriously involved in the process of designing and consulting about this program, as far as the department is concerned—given that you did not formally meet with them at all—would have to be right, wouldn't they?

Mr Jumpertz—They did go ahead and make their views known, both to the minister and via the Productivity Commission in their submission, so in some sense there was an understanding of what their views were. Individual leather companies also have had contact with the department indicating their views and reactions.

Senator CARR—Did you ever meet with FairWear or Asian Women at Work?

Mr Jumpertz—No.

Senator CARR—Do you think they have a right to be involved in these sorts of designs of programs? Did you meet with any group like them concerned about ethical employment practices within the industry—and sweatshops and that sort of thing? You would think that is a pretty serious question.

Mr Pettifer—A lot of these issues are being dealt with at state level—the code of practice and those sorts of things. One of the issues in designing a scheme like this is how much you try and hang off it. There is always a great push to keep these things simple, and we have certainly tried to do that with the design of this scheme. If you try and hang a lot of other things off it, it can become unworkable. I think that is an issue that needs to be borne in mind.

Senator CARR—I have a series of questions that I am obviously not going to be able to conclude tonight. I think I will have to put them on notice. What discussions have you had with CSIRO about the rundown of the laboratories in Belmont?

Mr Pettifer—I am part of the review panel, so I am fairly close to that.

Senator CARR—Did you have any discussions with them before they put the redundancies through?

Mr Pettifer—The review panel has met once, and it has had some detailed consultations with the division. A week of consultations is planned for later this month. As you have seen, there are terms of reference and they have called for submissions on those terms of reference.

Senator CARR—Yes, I have a copy of the terms of reference.

Mr Pettifer—But decisions about what CSIRO does are really a matter for CSIRO. As I think you mentioned before, the issue is that they are heavily reliant on one revenue source—AWI—at the moment.

Senator CARR—They are actually reliant on the Commonwealth; that is the revenue source. I hope you do not think they are relying on private income, because they are actually a Commonwealth agency.

Mr Pettifer—They have appropriation revenue, of course, through CSIRO.

Senator CARR—Appropriations are what funds CSIRO.

Mr Pettifer—They have appropriation revenue, but they also get revenue through Australian Wool Innovation. What they do not seem to have is a broadened base of support, and I think that is an issue for the review.

Senator CARR—I am puzzled by why a strategically important facility like the textile laboratories in Belmont, in which I believe there has been considerable public investment in recent years, would now have a circumstance where up to 25 per cent of their staff are being removed. I am wondering how that would fit with the industry development objectives that the industry department would presumably want to pursue.

Mr Pettifer—That is why we are part of that process. But the running of CSIRO and what they do with the various divisions is really a matter for CSIRO.

Senator CARR—What progress has been made on the Geelong International Fibre Centre? Do you have any involvement with that?

Mr Pettifer—I think the Commonwealth did facilitate some structural change there.

Mr Coleman—Yes. Some years ago the Commonwealth contributed some money, along with the state government, following an audit by the state government. Since then we have not had any direct involvement.

Senator CARR—Have you had any involvement with the Geelong Textile Network?

Mr Coleman—To my knowledge, we have had some previous involvement in some grant funding for some of the development work to establish the textile network. I am not aware of the full extent of other funding that might have been involved. That is the limit of my knowledge of our involvement with that network.

Senator CARR—Thank you very much. I will put the rest of my questions on notice.

CHAIR—Gentlemen, thank you very much. That concludes these proceedings of the Senate Economics Legislation Committee.

Committee adjourned at 9.49 p.m.