



**TRANSCRIPT
OF PROCEEDINGS**

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PRODUCTIVITY COMMISSION

INQUIRY INTO TEXTILE, CLOTHING AND FOOTWEAR

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

TRANSCRIPT OF PROCEEDINGS

AT GEELONG ON THURSDAY, 5 JUNE 2003, AT 9.28 AM

Continued from 4/6/03 in Melbourne

DR ROBERTSON: Good morning. I think we should kick off because, to put it mildly, we have quite a timetable today and it is just coming up to 9.30. My name is David Robertson and my fellow commissioner is Philip Weickhardt, on my right.. Thank you for inviting us to Geelong. I think it's sort of breaking new ground. I don't think the commission has held hearings here before. We've been here twice to visit people; in fact, have intimate knowledge of a very long, straight road just to the north-east of the city, where we drove up and down for quite a long time to find Austanners, thanks to some roadworks. So it's nice to be back.

Now, let's get down to business. I'll just fill in a few details before we get started. First of all, welcome to the public hearings. We run these things pretty informally as far as possible, and that usually works, and this Productivity Commission hearing of course is about assistance arrangements for textiles, clothing, footwear and leather industries after 2005.

The inquiry started with a reference from the treasurer that we got last November, and I'll just make it clear what we're looking at, because some people in Melbourne just sort of took off in all directions. We're directed to evaluate the effectiveness, efficiency and appropriateness of current assistance programs in pursuing structural change and an internationally competitive TCF industry. We have to identify and analyse impediments to the long-term viability of TCF and to identify and analyse policy options consistent with our intentional obligations which will promote a viable and competitive sector, bearing in mind regional impacts and workplace relations. In undertaking that inquiry, we also have to bear in mind two things the government wants us to do in the broad. One is to encourage the sector to adjust to become internationally competitive at lower levels of assistance, and the second one is to improve the overall performance of the Australian economy.

Our position paper, the review of TCF assistance, came out in April, and that was after extensive consultations. Philip and I, together with staff, have met with more than 70 organisations in both capital cities and in the regions. Almost 100 submissions were received before the position paper and we've received something like 30 since based on what we said. So you can see that we've had a lot of reading to do as well as a lot of travelling.

The position paper, I emphasise, is in fact our preliminary assessment, and you'll notice that there are lots of questions in there, that we make proposals and say we'd like to hear what you think about these things. So I don't want anyone to think that this is necessarily the course we're going to take, and we invite comment, which is what we're here for today.

The purpose of the public hearings is to provide an opportunity for interested parties to speak on these terms of reference and our position paper, and these discussions will be taken into account and we invite also further written submissions,

which we will also look at, but we'd like to have them by 20 June because we have to report by end of July. So in order to take account of those things we'll need to have them on time. We held hearings in Melbourne, as you know, on Tuesday and Wednesday, we're here today, and next week we're in Sydney for a couple of days. So they're the places we're holding public hearings.

We have a very tight schedule, so I'd say to all people speaking, if you want us to discuss things with you, you've got to leave time, so it's up to you to really pick out the main points you want to make from previous submissions or maybe indeed comments on our position paper. We have read your submissions. It's been a task for all of us because there are so many, but we have read them, so although we may not be able to immediately conjure up exactly what each one of you has said, we have a general idea of what's in each paper.

As I said, we conduct these hearings as informally as possible, but the Commission Act does of course require that people tell the truth, and it would not be very helpful if people didn't anyway. A transcript is taken of the discussions here, and that of course will be published on our web site, and if there are any things we don't quite understand, I guess we'll try and sort that out with whoever was speaking at the time. But what that means is when you start to speak it's a good idea to introduce yourselves so that we can identify exactly who said what. But that means comments from the floor, of course, are not useful because they're not going to be on the transcript. At the end of the proceedings today - and this might be a long haul today - if there is time I will say, "Does anybody else want to say anything?" but it is going to be a tight schedule.

With those introductory comments - I think that sort of paints the general picture - I'd like to welcome the Council of Greater Geelong and Councillor Abley to open the proceedings. Thank you.

MS ABLEY: Thank you very much. Commissioners, a very warm welcome to the city of Greater Geelong. We are delighted that the commissioners have seen fit to actually provide an opportunity for us, because this will have a huge effect on our regional community and, we believe, on regional Victoria as well as right across the industry across Australia. I'm Barbara Abley, I'm the mayor of the city of Greater Geelong, and to my immediate right is Terry Hearne. Terry is the acting manager of economic development, and to his right is Darren Gray, who's our industry development officer. They will also be participating in our dialogue with you today. We understand the time constraints. I know you've got to get your car out of the carpark by 6 o'clock, so we'll talk fast.

Before I start I should welcome the gallery. There are people here representative right across the community, including workers within the industry, industry leaders, owners of business, education, research, development. We have a

local member, Ian Trezise, who I warmly welcome into our chamber. We also have members of social justice groups from the Uniting Church, the Catholic Church, the Salvation Army, and others I'm sure will be coming and going during the day. So I hope that's not of distraction to yourselves.

The city welcomes the opportunity to present its views about the Geelong based TCFL industry and its future development needs to the Productivity Commission in relation to the inquiry. While our presentation is being made by and on behalf of the city of Greater Geelong, it does reflect the views and needs of the industry in Geelong and the broader based community that interacts with the important segment of our regional economy. We can't stress that enough. The position has been derived through extensive consultation with local industry, particularly the Geelong Manufacturing Council, the Geelong Textiles Network, the Chamber of Commerce, and directly with local TCFL firms, community groups and the unions.

In this presentation we'll briefly outline the significance of the industries to Geelong, we'll reiterate our view on the Geelong industry assistance needs for the future as highlighted in our original submission to yourselves, we'll address the specific issues raised in the commission's position paper which was released in April and which are pertinent to the industry here in Geelong. We'll also highlight priority actions for the Geelong based industry to ensure its ongoing development and viability. We'll also outline assistance required to ensure that the industry can fully achieve its potential here.

The significance of the TCFL to Geelong is highlighted in our initial submission. Geelong has had a long and noted history of extensive activity in this industry. It's the most significant regional cluster of TCFL manufacturers in Australia and it's the only cluster with a major education, training and research and development infrastructure at its centre. That's very important. There are almost 70 TCFL companies operating in the Geelong region, ranging from small family-owned companies servicing the local market to major internationals with a clear global focus.

As is the case for the industry worldwide, the Geelong landscape is highly diversified, with companies engaged in early stage wool processing and leather tanning, production of intermediate stage yarns, fabrics and technical textiles through to a wide range of consumer products, including carpets, blinds, awnings, and of course apparel, most notably surfwear, having a fantastic coastline. The significance of this industrial sector to the local economy can't be underestimated. There are currently around 5100 people who live in greater Geelong with jobs dependent on this industry, and there are about 4777 people who work in greater Geelong with jobs dependent on the industry. They comprise over 14.2 per cent of the manufacturing workforce, compared to 8.9 per cent for Victoria as a whole. The total TCFL

turnover contributes some 440 million to the local economy each year, and that accounts for 4.5 per cent of greater Geelong's gross regional product. The industry generates in excess of 70 million in wages and salaries annually.

Our position on future assistance: the city of Greater Geelong articulated the following position in future TCFL assistance arrangements in our initial submission to this inquiry, which was in March this year. The tariffs must stay at their current levels until at least 2010, and in our view any further reduction after this time must be subject to a review process in 2008. The strategic investment program and the expanded overseas assembly provision scheme must be continued at least at current levels for the next 10 years. The SIP must be modified to allow greater access to and across the TCFL industry and procedure for applying for funding simplified.

The main reason for adopting this position is the fact that the industry will continue to undergo a major transition over the next 10 years as all countries move to reposition their industries as global support measures for the sector continue their process of change. In this environment it's important that we manage the change process for our own industries to ensure that we don't undermine the necessary critical industrial mass that has developed in our region and that we develop a strong, viable and internationally competitive industry, building on the very real strengths already evident within the Geelong community. I'd like to now hand over to Terry Hearne to take you through the next stage. Thank you.

MR HEARNE: Okay. There were many issues raised in the commission's TCFL position paper which require a response. On some of these issues council concurs with the commission's views, and for others we believe that alternative conclusions are warranted. We address both sets of issues as well as those where the commission specifically sought some comment.

At the outset though the city of Greater Geelong would like to congratulate the commission on a very positive contribution to the debate. While we do not fully agree with all the recommendations suggested in the position paper, we do note that the commission has been very cognisant of the continuing pressure that will confront TCFL industries and of the potential for key segments of the sector to be internationally competitive in a freer trading environment in the future. As such we welcome the thrust and directions of the Productivity Commission's preliminary recommendations, even though we believe the endpoint falls short of the best outcome to ensure the most desirable future development of the industry.

We would like to address some of these issues more specifically, the first one being the assistance package. We note that the Productivity Commission supports the dual approach to transitional budgetary assistance during the period of tariff reform. Council fully concurs with the need for a balanced approach between tariffs and positive assistance for the industry. Both measures are necessary to ensure the

most appropriate ongoing development of the TCFL sector in Australia.

Tariffs: the Productivity Commission has recommended that tariffs be frozen at 2005 levels until 2010 and then cut to 5 per cent in 2010 with the exception of clothing, towels and bed linen tariffs, which are cut to 10 per cent and then further to 5 in 2015. Of all the options presented in the position paper, this is clearly the most preferred, but we consider this is still too severe in the market confronting Australia's TCFL companies over the next decade.

The city of Greater Geelong has previously argued that the scheduled tariff cuts for 1 January 2005 should not be implemented, as our major trading partners have not yet reduced their trade barriers to the same extent and nor have the expected microeconomic reforms been implemented within Australia. We do not resile from this position. However, if the federal government is insisting on going ahead with these cuts, then there should certainly be no further tariff reductions implemented after 2010 unless there are demonstrable matching cuts in assistance on the world scene. We note the commission believes these relativities are irrelevant, but nothing could be further from the truth, as the industry must make its decisions based on its positioning in the global TCFL supply chain.

The duration and extent of budgetary assistance: the city of Greater Geelong notes and fully supports the Productivity Commission's recommendation that SIP-type budgetary assistance be extended beyond 2005, and we commend the commission's foresight in recommending that a five-year program is too short to generate the full extent of industry restructuring required to restore a sustainable and vibrant industry in the free trade environment expected by 2015. However, we are surprised that the commission has decided that the budgetary support should only apply for eight years rather than the full 10 years which will be required by the industry as it undergoes significant change.

Moreover, we cannot fathom why the extent of the funding should be halved in the second half of the program. TCFL industries will be subject to considerable adjustment pressures once tariffs start reducing after 2010, and the final years leading to the position in 2015 will no doubt see a major shift in the nature and structure of the industry. Note the significant changes that occurred in the industry over the last five years as it came to grips with the last series of tariff cuts. The city of Greater Geelong recommends that budgetary assistance be continued beyond 2005 for a period of a full 10 years, with funding allocation based on the current annual levels.

The nature of budgetary assistance: the commission's paper suggested three alternative means for delivering budgetary assistance and has sought feedback on these options, which are SIP with modifications, the bounty based on incremental value added, and the competitive bidding scheme. Whatever the nature of the mechanism for providing the assistance, we agree with the commission that the

scheme adopted must be able to reward incremental new activity rather than subsidise activity that would have been undertaken anyway; secondly, to give firms flexibility to judge what spending will best promote their future competitiveness, including where appropriate reducing dependence on TCFL manufacturing activity. It is essential that the support lead to strategically desirable outcomes; thirdly, to provide support for firms likely to survive and prosper as a result of that support; fourth, provide a sufficient level of support to make a difference to firm behaviour; fifth, avoid discrimination against small firms which otherwise meet assistance criteria; to promote certainty and transparency; to keep administrative and compliance costs low while minimising the risk of gaming and abuse; and, lastly, to minimise the risks to the World Trade Organisation.

The commission suggests that not all of the objectives can be met simultaneously, as some level of trade-off will be required. However, we believe that the objectives can be met through the continuation of the current SIP scheme provided certain modifications are introduced for any extension of the program beyond 2005. These will be discussed by Darren later on, but first we felt we should briefly comment on the other two alternatives raised in the position paper.

The value added bounty approach would create more problems than it would resolve, in our opinion. As the commission itself highlights, the definitional problems alone would make the scheme unworkable. Then there is the issue of firms that generate a higher degree of value added in their outputs but whose overall turnover may be reduced. This would be achieving the desired outcome, that is, increasing the value added share of total sales, but in absolute terms the total value added may have declined as the market contracts.

Alternatively, the prospect for gaming would be high, inducing some firms to alter their accounting systems to generate the required result. The compliance costs and uncertainty about such an approach suggests that is an inappropriate means of budgetary assistance. The picking winners approach would certainly enable more targeted assistance and would ensure that funding was provided for activities that have been determined to foster the desired outcome for the industry's ongoing development. However, the government would need to be confident that it had identified the most appropriate criteria for rewarding that funding to be certain that the assistance was indeed channelled towards the sustainable growth sectors of the industry.

This has proved difficult in the past as it is evident from a review of funding recipients under the former TCFL Development Authority programs. Furthermore, while SIP is an entitlement scheme, it's based on the firm's undertaking spending on various eligible activities. These activities in themselves are based on an assessment of the necessary attributes to be nurtured to ensure a sustainable industry in the future, that is, it would undoubtedly form part of the criteria for determining winners

in the industry. Surely therefore it is better to continue with the SIP scheme but introduce modifications which will ensure that it is the winning characteristics which firms are rewarded. That concludes my part. I would now like to introduce Darren Gray, our industry development officer, to continue the presentation.

MR GRAY: I'll talk firstly about the SIP scheme. The position paper identified a number of areas in which modifications to the SIP scheme may be warranted. It stopped short of making any recommendations on these. The possible modifications included clarifying innovation, providing advance rulings, relaxing audit requirements, prompt payment, reducing the \$200,000 minimum spending threshold, allowing eligibility for second-hand equipment including early stage processing. With regard to innovation, the city of Greater Geelong's understanding is that the definition of "innovation" is well understood and is now working well.

Certainly in the first year of the program there was a great deal of confusion about this matter but AusIndustry now appears to be working closely with claimants to clarify the nature of projects undertaken and the companies concerned have every opportunity to explain the nature of the innovation implemented. Where the difficulty arises is in the uncertainty as to whether certain project expenditures will be eligible. This often hinders firms committing as much time and effort as they should for certain projects, particularly in the early stages until they are more confident about the commercial outcomes.

The problem could be overcome if the delivery agency, whether it's AusIndustry or some other agency, provided advanced and binding rulings. This would eliminate much of the uncertainty that still exists with the scheme. In relation to the \$200,000 threshold this is certainly a disincentive for many of the smaller businesses in Geelong. Certainly we are aware of many of the Geelong based businesses that have found this to be an unduly inhibiting factor of the current SIP scheme, and it is these small to medium-sized businesses that often have the energy and the drive to pursue innovative practices and market opportunities yet they are effectively precluded from the scheme.

It's not just the spending threshold but the sales cap that acts against the interests of small businesses seeking to use SIP. For many of the innovative ideas that the companies wish to pursue, the expenditure will ultimately become significant but the sales generated by such innovation will not eventuate for a period of years, yet the funding the companies can receive will be limited to 5 per cent of their current turnover. Many companies investing in new processes and treatments are finding that the funding entitlements they can generate are well over the allowable amount, given the turnover cap, and this acts as a real disincentive for small businesses to embark on major change.

Firms with an annual turnover of less than 10 million find it very difficult to

maintain the full incentive under SIP for this purpose. Special consideration must be accorded to the smaller sized firms, especially as it is unlikely that the activities of such firms will create even a ripple on the world scene and therefore would not come under the scrutiny of the World Trade Organisation. The SIP type 1 funding should include eligibility for second-hand equipment. The industry is able to source state-of-the-art second-hand equipment on the world market at very competitive prices. It is counterproductive to insist on brand new plant and equipment when the equivalent is available at a fraction of the cost.

We understand that the SIP assistance is provided to facilitate the development of a sustainable industry in the longer term and to help it overcome transitional pressures beyond its control in the short to medium term. The early stage wool processing industry is one such sector that is confronting significant trading pressure at the moment and we believe special assistance is warranted to help it through this period. This need not necessarily be provided through SIP but rather through stand-alone assistance provided for the specific purpose of helping the sector of industry restructure.

On the issue of industry restructuring council also believes that the type 4 and 5 arrangements should be modified to ensure they provide a real incentive for further industry rationalisation. Such funding should not extend to providing exit funding for people leaving the industry but it should enable restructuring within individual corporate entities as well as within the industry. I would like to talk briefly now about market access. As discussed earlier the Productivity Commission appears to have taken a view that international trade barriers are irrelevant to the Australian industry. While the position paper encourages the government to pursue improved market access in other countries it argues that there is no case for the TCFL's specific market development programs, especially as generally available programs exist.

However, barriers to market penetration overseas are a real issue for the industry. Often these barriers are not just regulatory impediments imposed by government, be they tariffs, licensing requirements, technical standards, port procedures or whatever, but the openness of accessing the distribution channels that can be a real impediment, especially for the smaller businesses, even if they're just an awareness of a relationship issue. This is particularly important for the TCFL sector comprising of a high percentage of small businesses as it is of paramount importance that it establishes a foothold in export markets as the domestic market, already small, continues to contract.

Thus it is imperative that special attention be accorded to the sector; firstly, to help raise its awareness about prospects in international markets; and secondly, to help it develop research new markets. This can be achieved by either allowing such activities to be eligible under the SIP replacement program or by implementing a dedicated TCFL and market development program. The former would be of greatest

value to the larger firms that will undertake such activity with their own resources, while the latter will be more sustainable for smaller firms that may need to collaborate to get the best results from their efforts.

The city of Greater Geelong notes that the Productivity Commission has agreed with its recommendation that the enhanced overseas assembly provisions should be continued in its current format. We commend that position. A final note from me on labour adjustment. We note that the commission's position paper suggests that further consideration needs to be given to adjustment support for displaced TCFL workers including outworkers. As highlighted in the city's initial submission, social issues are an integral element in need of consideration in this debate. The commission itself has recognised the implications of the fact that a large percentage of TCFL workers are women from non-English speaking backgrounds with skills not readily transferable to other industries.

Previous research clearly shows that these people have difficulty gaining alternative employment yet since the time of the previous inquiry in the TCFL industries employment in this sector in the greater Geelong area has declined by 21 per cent. This is based on 96 and 2001 census statistics. Unfortunately the effects of this displacement is not always readily apparent and the available unemployment figures as many of the displaced workers have ceased to seek new positions because of the difficulties confronted and the negative perceptions of TCFL workers in some instances.

Government has a moral responsibility to address the social consequences of any policy decision it makes to the extent that undue hardship is imposed on individual TCFL workers that are displaced. A program to help them readjust and find new work is warranted. A labour adjustment program to help retrench TCFL workers, especially in TCFL dependent regions such as Geelong, should be a major prerequisite for any future policy program of this sector. I would now like to hand back to Mayor Abley to conclude our presentation.

MS ABLEY: Darren, thanks. I just want to touch on other issues of relevance to Geelong in my closing statements, commissioners. The industry structure in Geelong is unique in that it's the only area in Australia where the sector is so heavily clustered and concentrated within such a clearly defined region. This provides both opportunities and threats. The city of Greater Geelong together with the Geelong Manufacturing Council and the Geelong Textiles Network has initiated the development of a strategic action plan for the local TCFL industry to help build its existing strengths and to address inherent weaknesses evident in the industry.

A major strength of this structure is that it is well served by a highly developed and focused training, education and research infrastructure. It's provided through the CSIRO textile and fibre technology, Deakin University, the International Fibre

Centre and the Gordon Institute of TAFE and there are representatives here today. Their interest is very high. However, a weakness of the existing industrial configuration is that it is highly diverse; comprises many small singly focused businesses that sometimes lack the resource and knowledge base to readily respond to changing market conditions.

There are two areas that we are specifically seeking to address in the action plan. However, the federal government programs could help significantly in the achievement of the desired development of this industry. For instance, programs to encourage the industry's use of research and development facilities at the various institutions would help build a greater interaction between the two parties and foster a greater focus on innovation within the industry. Similarly, programs to promote greater collaboration between firms would help the development of the industry-driven clusters to realise competitive advantages that exist for the industry collectively.

The former TCFL market development program had the potential to assist in this regard but this was for a specific purpose and similar outcomes could be achieved through a more broadly focused, in terms of outcomes, small business or regionally oriented TCFL program. The city of Greater Geelong strongly advocates the reintroduction of sector specific programs aimed at encouraging improved performance for the industry overall. These have the potential to realise significant outcomes with relatively small outlays, for example, in the order of 2 to 3 million dollars a year.

In conclusion, the city of Greater Geelong reaffirms the significance of the TCFL industry to our region's economy. It's extremely important to the wellbeing of the local community and I can't express that enough. It is a vibrant sector with considerable potential to continue to be a key plank in Geelong's region's economic development. However, the sector will undoubtedly undergo significant structural change over the next decade, and to facilitate this change we require a combination of support and nurturing to achieve the desirable outcomes, and at the very least this will require the retention of the tariffs at their current levels until at least 2010, and with any further reduction of this time, subject to review process, in 2008, and contingent upon the demonstrable matching reform by our major trading partners; the extension of the SIP and the OAP schemes for a further 10 years, at least at current levels, with the following modifications for SIP, a provision for advanced rulings, the elimination of the \$200,000 threshold and the 5 per cent cap for small businesses; the eligibility for state-of-the-art second-hand equipment under type 1, and greater incentive for industry restructuring and consolidation both within and between the firms, and the introduction of special sectoral TCFL programs for early stage wool processing, market development, small business and regional development.

In conclusion, the Victorian state government has completed economic

modelling based on the regional economic impacts of the Productivity Commission's preferred option. This work was carried out by the Department of Treasury and Finance and the National Institute for Economic and Industry Research, and no doubt our colleague, our member of state parliament who is in attendance today, Ian Trezise, will be touching on them as well. The modelling shows that there are currently around 5010 people who live in greater Geelong with jobs dependent upon the TCFL industry and there are about, as I said before, 474,777 people who work in Greater Geelong with jobs dependent on the TCFL industry.

This industry again contributes significantly to our local economy, accounting for 4.5 per cent of greater Geelong's gross regional product. If the Productivity Commission's preferred option is adopted then it's estimated that 651 jobs will be lost within this area including 342 direct TCFL jobs and the industry's contribution to the gross regional product would decline by .02 per cent per annum by 2020. Thank you for the opportunity to present council's case to you and I want to thank you for holding this hearing in Geelong giving the local industry and its workers the opportunity to participate in the debate. Thank you.

DR ROBERTSON: Thank you very much. There are a number of questions raised by you that link to further questions. For example, the SIP. If we do everything you suggest then the SIP is going to get much bigger. By opening up the SIP, if you leave it at the same level, then the access for people that currently draw on SIP will be reduced so we would have a problem there of reshuffling the given amount of money.. At the moment we could say double it but then you've got to find where you get the money from. So a lot of the suggestions you have made on SIP certainly have gone through our minds and other people have raised them too, but we do have to be aware that it would raise the cost. Either that or it would spread the stuff more thinly. So we appreciate those comments and we certainly have most of them in mind already.

One other thing; the figures you used at the end there, yesterday I had to tell everyone, and I'll tell you too, that we have not seen those figures. We have not seen the modelling. We invited the NIEIR to attend our workshop on modelling. They didn't show up. The model has not been shown to us. We understand from the department that they haven't even got the real workings; they've just got the outcomes, and so we can't give a lot of credence to those numbers until we can actually look at them and see where they have been derived from. You know, we can conjure up numbers from anywhere, so we're hoping that we're going to get that in time for us to be able to take it into account, so that means 20 June.

MS ABLEY: Can I respond?

DR ROBERTSON: Yes.

MS ABLEY: We're happy to share the information with you, that information which has been given to us if that would be of any assistance, and perhaps we can get that to you before the close of business today.

DR ROBERTSON: All right, that would be a beginning. It's really the question of the modelling. I mean, we had the seminar back in March and that was a fairly heated sort of debate over the modelling. We're not entirely happy with the modelling either. Indeed, I have had some further meetings within the Productivity Commission with the modeller to try and sort out the problems. These models don't give you the answer because, you know, it depends on what goes in and what's there to start with and until you can assess that you can't actually be sure what the numbers mean.

MR WEICKHARDT: I stress it's not just the numbers. We've seen the numbers. It's the underlying assumptions and the methodology behind the model that really I guess allows one to either have some confidence. I don't think anyone is sort of relying or recommend relying on these models as being other than a way of throwing up questions but it's hard to even ask the questions if you don't know what the assumptions are.

MS ABLEY: We're happy to share with you. What will happen, I'm sure our local member today will assist you in any way that he - well, I know he will - assist you in any way that he possibly can too.

MR WEICKHARDT: Right.

DR ROBERTSON: The department did tell us yesterday off the record that they'll let us have it when they get it but that's not really good enough. I mean, if they let us have it before 20 June, that's fine, we can use it, but after that we're going to be pushed to deal with what we've got already so I just query those numbers. We can't really comment on them.

MR HEARNE: Can I just make a comment in regard to your comments on the SIP scheme? That the commission asked for responses or suggestions in regard to budgetary assistance, one of those being the SIP, and following our consultation with local industry, the Manufacturing Council and the Textile Network, they're some of the suggestions that they put forward.

DR ROBERTSON: Sure.

MR HEARNE: So we're merely putting forward those suggestions. I mean, we don't have the resources to cost those different ranges of SIP assistance so we're merely putting those forward as suggestions for your consideration.

DR ROBERTSON: Yes, and we appreciate that.

MR WEICKHARDT: Can I just ask one quick one because we don't have a lot of time but in listing the criteria that we sort of suggested should perhaps be borne in mind in devising any new industry assistance scheme. You repeated and reaffirmed all the criteria we articulated except one. That one was that SIP was first put in place as a method of trying to help the industry adjust to lower tariffs and one of our criteria was therefore that it should be distributed to those people who were, if you like, undergoing the most significant pressure as a result of the reducing tariffs.

Now, I know your recommendations say that you don't want to see the tariffs reduced at the moment, you think there's enough pressure in place for the time being. I guess my question is do you ever envisage a time when this industry is capable of being internationally competitive and standing on its own feet. Is the difference between us the amount of time that's needed or don't you think this industry will ever make that transition?

MR HEARNE: I'm sure the industry will make the transition but I think it's just a period of time that will be required to achieve that international competitiveness depending on our overseas market access arrangements. If they continue to maintain those tariff and non-tariff barriers that are in existence at the moment then it makes it increasingly difficult for Australia to be internationally competitive, so I think it just means a longer lead time before we reach that stage.

MR WEICKHARDT: Thank you.

DR ROBERTSON: Just one last comment. We had the TCFUA in Melbourne and I suggested then that the labour adjustment program had a number of serious failings in our view in the sense that it didn't encourage people to go back into TCF. It said they had to go somewhere else, for example

MR WEICKHARDT: The historical one.

DR ROBERTSON: The historical one, yes. We were looking at some of the work that the TCFUA had done in Bradmill when Bradmill went under and it struck us there were features of that that could be added to any kind of adjustment program that would improve the old scheme, so it's not that we're not aware of that problem. We do have it in mind and we're continuing to look at it. Okay. Thank you.

MS ABLEY: Thank you very much.

DR ROBERTSON: The Geelong Manufacturing Council and the Textile Network, are they here? Okay, we'll press ahead straightaway. I don't know whether you were here at the beginning. We would like you to summarise your views rather than repeat all the stuff that's in the submissions, because we've read those. I've just been asked to say would you make sure you speak into the microphone, and I'll try and not kick mine over this time. So as you speak would you announce yourself so that we can identify you on the tapes. Thank you.

MR PEART: Thank you. My name is David Peart. I'm executive officer of the Geelong Manufacturing Council and Geelong Textile Network. With me today I have representatives of Deakin University, Gordon Institute of TAFE and CSIRO, who are heavily behind the Geelong Textile Network and three of our world-class training, research and education facilities in Geelong.

Thank you for the opportunity to put our response to your recent position paper. We acknowledge your position paper is genuinely a thoroughly researched document that contains good information. We congratulate the Productivity Commission for agreeing to conduct the Geelong hearing and see it as due recognition of Geelong's unique position as a centre of excellence in textiles. We would like to acknowledge the Productivity Commission has certainly dispelled the myth of TCFL being a sunset industry. Indeed, the commission has acknowledged examples of internationally competitive TCFL industries in Australia. We believe this is due recognition and that we have a strong group of these organisations operating in Geelong. Two of these companies, leading carpet manufacturers Godfrey Hirst and Brintons Carpets, were recently inducted into the Victorian Manufacturing Hall of Fame as acknowledgment of their contribution to industry.

In addition to an impressive group of industry in Geelong we have world-class research and development, training and education providers. We agree with your comments regarding the need to open up export markets for Australia's TCFL industry. The strategic investment program has allowed companies to increase their long-term competitiveness. We do, however, strongly disagree with several of your conclusions and the rationale for arriving at particular viewpoints. Rather than seeing the TCFL industry in a negative light as being uncompetitive, we see this as an opportunity for the industry in Geelong. We call this our TCFL cluster.

Foremost among these disagreements is your position on tariff cuts. We believe that from the information presented in the report the only reasonable conclusion would be to recommend a tariff freeze from now until at least 2010. To do otherwise would seriously risk the future viability of the industry, due to the numerous reasons raised in the report. For example, the commission acknowledges the labour cost disadvantages and yet believes a 5 per cent tariff cut is feasible. This position is irreconcilable. Indeed, presently Australia ranks as one of the world's least protected areas for TCF industries, and the tariff cuts proposed will elevate

Australia to leading the world in this area. World leadership is admirable, but not at the cost of our TCFL industry base and thousands of people's livelihoods and the other economic and social dislocation it will cause. We have questions on your economic modelling, since we lost over 1000 jobs between 1996 and 2001, which was not predicted in the modelling. So we are dubious about the merits of this type of analysis.

Other factors which are referred to in your report include: Australia's export barriers are too high; investment attraction is difficult given the lack of export access and the already low tariffs in existence. These are very good reasons for not imposing further challenges on industry through a reduction in tariffs. History has shown that consumers will not reap any benefit from lower tariffs due to stickiness in prices and the ability of importers to adjust prices to maximise profits. The Productivity Commission's own modelling suggests that the resource allocation gains from reducing tariffs to 5 per cent after 2005 would be very small. After adding in terms of trade effects, the projected community welfare gains would become even smaller and possibly negative. This is a stark argument and one which begs the question: why drop tariffs if there is no anticipated gain?

We disagree with the Productivity Commission's assertion that little can or indeed should be done to stop further adjustment out of labour intensive standardised TCF production in Australia. This economic rationalist view fails to consider the workers, their families, the companies who have survived in this industry. Rather, assistance should be provided to help these companies adopt world best competitive practices and they should be given the message that their industries are not wanted or valued.

Geelong is a manufacturing region. It's an area where things are made, where people and industries contribute to Australia's GDP more so than any other region of its size in the country. This is why we are very concerned about the future tariff and assistance regime in the TCF industry. Each day Geelong industry produces around 20 kilometres of carpet; 450 motor vehicles, engines and other components; 7500 metres of automotive and technical textiles; 100,000 kilograms of wool; 50,000 kilograms of carpet wool is processed; 70 per cent chickens are processed; 550,000 tonnes of alumina; 16,500 tonnes of petroleum; and 250 tonnes of polypropylene, which is made into basic commodities; and a myriad of timber, engineered products, food and consumer goods.

Geelong has traditionally been a manufacturing region. In the 1970s over 30 per cent of the workforce was employed in this area. The drop to below 20 per cent has been largely driven by reduced tariffs, advances in technology and increases in capital intensity and international competition. The key manufacturing sectors remain automotive and components, TCF, metals, food, timber, chemicals and petroleum. The region has 14,000 people employed in manufacturing, covering

almost 600 companies. Research by the National Institute of Economic and Industry Research has found that 51 per cent of the region's GDP and 41 per cent of regional employment is derived from the manufacturing sector. It follows from these figures that the health of manufacturing is vital for the ongoing stability of the region's economic and social foundations. Geelong's strong manufacturing base is complemented by its overall industry structure and transport infrastructure.

The Geelong Manufacturing Council is a not-for-profit regional industry group established in consultation with key stakeholders to promote and encourage manufacturing in Geelong. The Geelong Manufacturing Council has recently developed a strategic plan for the future of industry in Geelong. This strategy refers to the need to add \$2 billion to our export base within the next 12 years. To do this we need to develop new markets, support existing markets, create innovative supply chains and clusters, achieve technology transfer, develop skill capacities, promote import replacement culture and gain a positive community attitude to manufacturing.

The Geelong Manufacturing Council and the Geelong Textile Network has worked hard to change the image of manufacturing, with recent activities such as features in local business magazines and a range of other publications, and I have copies of these here for the commissioners' information. The GMC believes that manufacturing offers growth potential in general and the TCF industry represents an important part of the regional industry base and provides opportunities for this growth to occur.

Geelong is a major TCF centre. Indeed, as you have heard this morning, we are heavily reliant on our industry base. Geelong was once known as the Bradford of the south due to its impressive TCF industry base. The range of diversity of industry, research and development capability, training, education and support services have developed over the last 150 years. The coming together of all these has developed a centre of excellence in textiles, and indeed we have recently been informed by the federal government that the Geelong region is the only TCF regional cluster in Australia. We have documented the cluster in the following document, and I will tender this to the commissioners. It clearly illustrates the range and diversity of the TCFL industry and training and support services.

We believe that this gives us the necessary critical mass to open up all sorts of opportunities to grow this in the future. The establishment of the Geelong Textile Network by the Geelong Manufacturing Council and other stakeholders was acknowledgment of the importance of the industry. The GTN has focused on a number of steps in the evolution of Geelong as a pre-eminent textiles location. These include marketing material, evidence of the publication that I just presented; things like web sites; assistance to industry. We have conducted seminars on energy, e-commerce, we have lobbied - and today is an instance of that lobbying, bringing industry together - and also, as the mayor made comment, a strategic plan that will

look at Geelong's textile future for the next 10 years. One theme that has arisen is that this cluster is very diversified and self-reliant, but has much to gain from building on each other's strengths.

Geelong is a centre of TCF excellence. 15 per cent of Victoria's TCF industry is located in Geelong, making the TCF sector a significant generator of regional prosperity. The industry generates direct employment of some 2200, turnover of 440 million and salaries of 70 million annually. In addition to this some 300 people are employed in research, education and training in TCF, taking the total to around 2500 people and directly affecting some 5 to 6 thousand people and their families. Geelong as a TCF location is moving forward. This is evidenced by recent multimillion dollar investments in the area, including Melba Textiles, Heich Australia, Godfrey Hirst, CSIRO, two centres of excellence established recently.

This R and D education and training expertise present in Geelong make Geelong a unique location and this should be further developed through stronger collaboration with industry. Recent research has reaffirmed that the CSIRO Textile and Fibre Technology, Deakin University and the Gordon Institute of TAFE are world class in the provision of services for the TCF industry. An exciting development is Deakin University's \$25 million Geelong technology precinct which has an important textile and fibre component. This project seeks to force a strong alliance between education and industry and is vital for the future of leading-edge manufacturing in Geelong and indeed Australia. It is precisely for this reason that we believe the region has the opportunity to develop its cluster of textile excellence into a world class centre following the examples of several areas around the world. The terms of reference ask the Productivity Commission to give particular attention to impacts on regional areas with significant TCF activity.

The Productivity Commission's own modelling predicts Geelong, part of the Barwon region, would incur the greatest negative employment effect in Australia from the recommended tariff cuts. I'd just like to talk briefly on tariffs. We disagree with the notion that tariff levels should not be linked to what other countries do. This does not stand up to close scrutiny as the reality is that industry is exposed to international trade and the assertion that this should not be taken into account is clearly wrong. The commission's own modelling says that removing support for TCF production would provide little overall efficiency gains for the economy. Why recommend these cuts when the costs could be so high and the benefits negligible? The negative impacts on people's lives and the loss of employment demand that this approach be reconsidered.

The Productivity Commission has stated that it has concerns with the effect of 2 to make a decrease in tariffs. For these same reasons we argue that the 2005 cuts should not be pursued and the proposed 2010 cuts should not be undertaken before a further review in 2008. This will allow the full effects of SIP to be evaluated and

hopefully more than 5 per cent of companies will be using this program as is presently the case. We agree with the Productivity Commission that the federal government should secure better access to overseas markets as for manufacturing as a whole and full and thorough evaluation of this should be conducted to determine how effective and what better market access entails.

The level of exports has doubled in real terms over the last 10 years. Many Australian participants believe this trade has been restricted by a variety of trade barriers in other countries. The Productivity Commission report states that trade barriers remain high in both developed and undeveloped nations alike. Surely this is irrefutable evidence that to drop our tariffs further from what we are already in comparison with the rest of the world low levels would be at the peril of the local manufacturing industry. The Productivity Commission maintains that to a large extent structural adjustment in Australia's TCF sector is a response to global pressures. The low profitability of the industry cited in the Productivity Commission report is another argument that tariffs should not be reduced in the foreseeable future.

The Productivity Commission maintains that while labour cost disadvantages cannot be offset by high productivity the general view is that there is now little if any productive difference between Australia and many suppliers in China. If this is so, why are we about to decrease tariffs? Surely this is a recipe for an import based TCF sector and against the best interests of local manufacturing. This is surely evidence that tariffs should not be further reduced. The position paper outlines the various challenges for the TCF industry in Australia and makes a case for no further reduction in tariffs until this situation improves. These challenges include market access, labour cost disadvantages and world protection levels compared to the rest of the world.

We disagree with the Productivity Commission's assertion that there is little that governments in developing countries can do or indeed should do to stop labour intensive standardised TCF producers migrating to developing countries. All TCF industries worldwide are protected and certainly this view is against world trends and practices. What governments can and should do is assist their industries to restructure so that they can be competitive and remove export barriers that exist for Australian manufacturers. If the Productivity Commission's own modelling shows that the economy effects on tariffs and SIP reduction would be very small then the question must be asked: why is the Productivity Commission recommending tariffs reductions at all?

Some comments on the Strategic Investment Program: I note that comments have been made earlier this morning so I'll try to keep this brief. SIP has been operating for such a short time that its effects cannot be measured. This is another good reason not to reduce tariffs further until we can further evaluate the effects of SIP and the fact that only 5 per cent of companies have access to this scheme is

evidence that this has not had time to be taken up across the whole industry. The inability of early stage processes to access SIP or another funding program is unfair. We propose that some form of assistance be made available to this sector, similar to SIP but not reducing funding for SIP assistance.

These companies, like the rest of the world, are similarly exposed to the vagaries of international competition. Indeed we are seeing the brutal nature of international competition at the present time where Geelong Wool Combing, a modern state-of-the-art \$85 million facility located in Geelong is currently being forced to rationalise its operation due to a market downturn. This company is prevented from accessing programs such as SIP, the very program that is used to assist companies achieving international competitiveness. We believe that early stage processes should be able to access programs to assist them achieve and maintain international competitiveness.

The textile strategic plan will ensure that the region continues to develop further. We agree with the Productivity Commission that dialogue between firms, research and development, education and training providers are important, and taking steps to encourage us through the activities of the Geelong Textile Network. We agree with the Productivity Commission that there are opportunities in downstream processing. Geelong TCFL companies have been pursuing downstream processing and have come to some success in this area with Riverside Textiles, part of the Godfrey Hirst group, expanding into this area. Melbourne Textiles have expanded their operations. Heich have commissioned new machinery. Companies such as Care Essentials have expanded their range of technical textiles and there are many more fine examples that exist in Geelong to indicate this.

CSIRO has recently established two centres of excellence in textiles in the Geelong region. They are in technical textiles and advanced wool products. These centres are aimed at stimulating advanced training, education, research and product development in TCF industries. We look forward to increasing collaboration with these groups to ensure that the industry has access to leading edge research and development. It is a view of well-respected textile consultants, Kreitals Consulting Group, that if the GTN were to take leadership in implementing strategies that are designed to drive TCF activities within the region then this is likely industry will become more engaged and new entrants could be attracted to Geelong. The funding model of the GTN will continue to be a partnership of industry and government.

The strategy lists the number of areas that could be further developed in Geelong. These include strategic partnerships, information sharing, research, and access to new markets, integrating supply chains, training and education research and development. This scope for collaboration is important and gives us great hope for the future providing that the environment is not undermined by the proposed tariff reductions. The Productivity Commission has acknowledged the importance of

linkages in areas such as R and D, education and training. We are very optimistic about the prospects of growing these linkages with the location of world-class facilities in Geelong. The commission has acknowledged the contribution that TCFL make in terms of employment, technological development, innovation and design, and this is no more evident than in the Geelong region. Concluding comment: we believe that the significant reductions in tariffs have already been achieved and should be halted at this point and the reasoning for this is very well demonstrated in your own position paper.

The economic modelling does not support a reduction in tariffs. The Productivity Commission's own modelling shows resource allocation gains from a decrease to 5 per cent after 2005 would be small and after adding in terms of trade effects the projected community gains would even be smaller and possibly negative. The 1997 report did not predict that Geelong would lose a thousand jobs to this point so that we must base our perception on past results and therefore we have grave concerns about the reliability and accuracy of economic modelling. We also believe that investment attractiveness of Australia is a significant consideration in light of our position as a relatively low tariff country.

We believe that we are a world-class manufacturing industry location here in Geelong. However, the world view which says all companies support their TCF industries means that we require certainly no less support than the rest of the world. This situation of worldwide protection of TCF industries is a reality and while this situation exists Australia is forced to protect its TCF industry or have no industry. Geelong has a bright future in TCF providing that tariff cuts are not pursued for this will threaten the industry and the critical mass that presently comprises the industry. The industry should be congratulated, not punished, for their efforts to increase productivity and competitiveness and the real and important role they play in the community and the lives of the 600 families it supports in the Geelong region. Thank you.

DR ROBERTSON: You're so confident about Geelong's industry, I can't think why you're worried about losing protection but - it's obviously doing extremely well. The argument about the modelling follows on from what I said earlier which is that we aren't happy with the modelling but at least the modelling that was done for us, it's not our modelling, has been made available to the public and so we have put it out there even though it doesn't completely support what we're doing; mainly because models can't do everything. So you can't really use the model to say, "You can't do this thing because it doesn't show it," because the model does include a lot of things, and if you want a long lecture on terms of trade effects and why they chose particular terms of trade effects I'll give it to you, but you don't need it, I'm sure.

Modelling is only ever indicative and to say that our modelling shows we shouldn't do anything with tariffs means completely ignoring what has been

happening in this country over the last 15 years. I mean, other industries have taken very substantial reductions in tariffs and they have become healthier so, you know, you have to be careful with that argument, especially when you paint such a good picture of Geelong, which I'm delighted to hear about. Sorry, you want to speak back?

MR PEART: With respect, commissioner, the modelling that you've used and is demonstrated on page 200 of the report is your modelling and I guess it doesn't indicate any - it indicates a potential negative or adverse effect so we're not proposing any other models. We're just responding to the fact that you've included information in the report and it does not build the argument for reducing tariffs.

DR ROBERTSON: No, sorry, I thought - were you here when we had the previous session?

MR PEART: I was referring to your modelling.

DR ROBERTSON: Yes, I know, and I was explaining that at least we put ours in the record. So, I mean, if you want arguments about the modelling, in terms of trade effect depends entirely on what you choose as your export elasticities and in order to make the model work they chose elasticities that gave us very bad results, but if you look more practically - look and see that tariff reductions have brought enormous benefits to this country and you have to say, "Well, why is TCF different?" You know, it's not a if it's going to happen tomorrow. It's another 13 years that we're talking about. I mean, some of us won't even be alive in 13 years, I don't expect, so to paint the picture that it's all to do with tariffs is a bit misleading.

For example, you raised the question of unemployment being higher in Geelong than you expected in TCF but I don't think it had much to do with tariffs. It had much more to do with changing technology, changing world markets. Other things that are not included in just looking at the tariff as being the cause of all evils, okay?

MR PEART: I was responding, I guess, to the fact that the modelling that was done previously in 97 didn't indicate the thousand jobs so as I mentioned, we're not relying on any modelling, although I think the modelling that you've used in the report, we have got. We're rightfully allowed to respond to that, I suppose, otherwise why did you use it, but the fact is that a thousand jobs disappeared and whichever way you look at it, we don't want that to happen again.

DR ROBERTSON: Nor do I, but on the other hand you can't just say, "We'll hold everything where we are." Philip.

MR WEICKHARDT: Can I just raise some issues to do with your comments

about the adjustment out of labour intensive standardised TCF production in Australia. I think everything that we have seen and heard about this industry suggests that there are examples in Australia of companies using innovation, advanced technology, high school levels among employees here, to compete on grounds other than simply being a cheap labour cost country. I don't think I want to live in a country, and I don't think I want my children to live in a country where basically our grounds of competition are, "Can we pay our employees as little as possible?" I want to live in a country where we pay people based on their skills, on their knowledge, on their innovation, on their creativity, and we think it's futile to try to compete head to head in areas where you're competing with China who are paying people 50 cents an hour and we're paying people, probably with direct labour costs added on, very significant multiples of that; 20 times, 30 times that. So we have a fundamental difference of philosophy if your view is that in any labour-intensive standard we must hold tariffs at a level that protect those people indefinitely.

Our philosophy is that there is sign that Australian industry, not only in TCF but in many other forms, can adjust to areas where it competes on grounds other than competing on the basis of labour costs. I think many people would argue, and indeed, you have brought people from CSIRO here who I suggest don't believe they should be paid the same as an R and D officer in India or in China. I think you've got people who have got brains, creativity, and smarts that should be exploited in competing on grounds other than labour costs.

MR PEART: We don't disagree with that. The comments made about the labour cost disadvantages we are, I suppose, using some of your analysis in the report but we disagree that - then you make the connection that tariffs can be reduced regardless. You make the point that we can't compete with low labour cost countries, but why then disregard that and say, "Okay, let's reduce the tariffs in view of that." It just does not make sense.

MR WEICKHARDT: I think the arguments presented in the report - which you have every right not to agree with but which we attempted to present, and perhaps we didn't do as well as we should have - are that over time, and it's important that the industry be given time and our recommendation suggested that, people can adjust and there are good examples; some of which we have had appear before us in the hearings. We had Australian Defence Industries from Bendigo who talked about the fact that they've added three or four times the number of employees they had before. They're not competing on the basis of labour costs. They're competing on the basis of quick response and innovation and new technology.

We had yesterday Textor; exactly the same. It's this sort of industry that Australia wants and needs. It's not people who are being badgered and beaten around the head to sew another hundred garments at low costs in a garage in Brunswick. We all feel concern about exploitation if it occurs with outworkers and people trying to

compete in that sector of the industry quite frankly are unfortunately going to be subjected to relentless pressure to do more and more for less and less. I don't think that's the sort of industry we want here.

MR PEART: I don't think we're saying that, with respect, Philip. We're saying that we disagree with the Productivity Commission's assertion that there is little that governments in developing countries can or should do. I think they're different arguments, and as evidenced all TCF industries around the world are protected so we're saying, "Well, what's that telling us? Every other country does it. Why are we going the opposite to every other country in the world?"

MR WEICKHARDT: I think there are very different magnitudes of that. There are distortions in all areas. Lots of other countries would argue that the fact that we give SIP support as a form of protection; we certainly have tariff support but there's a clear trend of increased market access around the world. The WTO was put in place to try and encourage that and I think that there's every evidence - recent reports suggested that countries that try and avoid that form of globalisation and opening their markets and trading other markets are countries that end up being worse off as a result.

As David has pointed out many times Australia has undoubtedly at individual levels suffered a lot of pain and there has been a lot of adjustment and a lot of hardship but overall the Australian economy is much better off with the fact that we're now a much more international country; that we do trade with other countries. So as I was pointing out before, I suspect that the issue is a matter of time and adjustment. I can't imagine that fundamentally you are suggesting we should go back to arranging for quotas and that we should never ever subject ourselves to international competition and trade. Our consumers would be worse off as a result and we would be worse off.

MR PEART: It's okay to argue that market access has been reducing around the world but unfortunately Australian manufacturers haven't seen the benefits of trade liberalisation.

DR ROBERTSON: Of course that depends on their efforts too. We have had this, not just from groups like yours, but also from industries who say, "You know, if only we could get into Thailand we would be all right," but that doesn't tell us how hard they tried, and usually they don't have any evidence for it. They just say, "Oh, that's too difficult," and we know that's not the way the system is going to work. One of the things that surprises me is that people don't recognise that in the last 10 years Australia has gone from being one of the laggards in terms of the developed countries, the OECD, to being top of the list, and I'm sure that didn't happen on its own. It happened because we adopted industry policies and trade policies that opened the country up to competition. We should be proud of that fact and not

saying, "Oh, you know, we must protect ourselves against foreigners." We can live on our own.

It's not as if we're saying we're going to reduce tariffs tomorrow. We've got 15 years to decide how to deal with it. You know, there is a lot of confidence in this country that - just as you've shown, I mean, the positive side of your paper is very encouraging but you're picking holes in us because we want to increase the competition to make it work better and it's working very well. I mean, Geelong hasn't gone downhill since the last round of TCF. There have been some losses of jobs in TCF but the Geelong economy seems to me to have gone incredibly well over the last five years.

MR PEART: Just to comment on that, commissioner, I think tariffs were at very high levels a decade ago and up around the 80 to 90 per cent levels. They're now down to very small levels. What we're saying is to go any further is out of step with the rest of the world and will expose us and expose our industry. We're not disagreeing with the benefits that trade liberalisation have brought. They have brought some benefits, considerable, and particularly to certain industries. We're just saying we're at the point now where enough is enough.

DR ROBERTSON: There were some industries that had high protection levels even at TCF in machinery, for example, and those sectors have just thrown that off. They're producing competitively in world markets. I think if you took your paper, redrafted it as a positive one and said, "We can see how we can use what you're suggesting over a time period of 15 years," I would have said, "Terrific," you know, "Geelong has got a great future." I think it has anyway, because we don't make the decisions; we only make the recommendations. It's the government who has got to make the decisions.

MR WEICKHARDT: I think the other comment I would just like to make is you suggested that there is no evidence the consumer gains a benefit. I don't think that's supported by the facts. I think if you look at the cost to consumers of clothing, footwear, you would find that in real terms consumers are getting a much, much better deal now, there's a much better choice, and the prices in real terms have gone down very significantly. So I don't think you can justifiably assert that if tariffs are reduced there is no benefit to consumers.

MR PEART: There will be some comments made about that later on this afternoon through the Geelong Chamber of Commerce and some evidence presented but I think that's dispelling the notion that when you become a price-taker you accept whatever the market determines and I think experience shows that the large organisations will milk the market in terms of importers so I guess we would have to agree to disagree on that one.

MR WEICKHARDT: We will because I don't think your argument holds water because if prices don't reduce there's no pressure on the local industry as a result. So you can either say, "Well, if we lower the tariffs there'll be no effect on consumers but there's also no effect on local manufacturers." The only effect on local manufacturers is that additional competition from lower tariffs lowers prices. So you can have it one way but you can't have it both.

MR PEART: What we're saying is when you don't have the local manufacturing base don't expect cheaper prices because they will milk whatever they can out of the consumer.

MR WEICKHARDT: Okay.

DR ROBERTSON: We might take a 10-minute break there to stretch our legs and become more comfortable so we'll restart at 11.00 if that's okay. Thanks very much.

MR PEART: Thank you.

DR ROBERTSON: Can we get started, please. Welcome, Ian.

MR TREZISE: Thank you, David.

DR ROBERTSON: If you would like to address us and then we'll see if there's time for any comments. We understand your timetable.

MR TREZISE: For the record, I'm Ian Trezise. I'm the state government member for Geelong and I also should point out I suppose that I do not speak on behalf or for the state government today. I'm here as a local member representing the best interests of my constituents I suppose to the best of my ability. As the state government member for Geelong I would first like to thank and commend the Productivity Commission for taking the time and the initiative for coming to Geelong and allowing this community to put its position and various concerns directly to yourselves as a commission. I appreciate the opportunity to present first-hand my submission to the commission today. As I pointed out, the parliament is sitting but I've managed to gain leave of absence because this is a great issue of importance to this community.

In saying that, I think it is an indication of the importance of this issue to Geelong that many organisations within our community have worked hard and have put in a lot of time and effort to ensure that the commission did in fact come to Geelong to hear our positions first-hand. Organisations like the city of Greater Geelong, the Geelong Regional Trades and Labour Council, the Chamber of Commerce, the Textile Workers Union, the Geelong Manufacturing Council who we've heard from this morning and the Geelong Advertiser, many of whom - who sometimes don't see eye to eye, have come together on this issue because they do understand the importance of a healthy TCF industry to this community and now into the future. I can assure you that this community can have some pretty much hard stoushes and drag them out, punch them out type of stoushes, but when it does come to an issue of great importance, such as the TCF industry, we do come together and we do stand up and fight for this community. This issue is a prime example.

I think the commission must appreciate that as a community we do work hard to create employment opportunities for our region and we will fight tooth and nail any threats that would do exactly the opposite of that; actually eliminating jobs. As this commission would realise and as has been pointed out today, Geelong very much is a regional manufacturing centre with a history tied closely to the TCF and L industry. Of course the Australian economy rode on the back of the wool industry and Geelong was the gateway for the Western District of Victoria's wool industry from the 1800s. Wool was shipped through our port into the British and European markets and many textile processing businesses thrived along the Barwon River which of course is still the case today, and Godfrey Hirst comes directly to mind with 700 employees, and have been in Geelong on that site since 1865.

Today, as far as I'm concerned the TCF industry is just as important, if not more important, than what it was in years gone by and I don't say that flippantly. One only has to look at the size and the extent of the TCF industry in Geelong today and, for example - and this is just an example - the enormous investment research and education sectors have put into the TCF field to appreciate the importance of the industry to Geelong and how inextricably linked it is to the prosperity of our future. Therefore just briefly I'd like to take a minute to touch on some of the stats as they relate to the TCF industry in Geelong and I'll also describe the research and development and education sectors in Geelong as they apply to the TCF. I do appreciate that some of these stats have been already made this morning but for the completion of my submission I'd ask if the commission could bear with me for just a couple of minutes.

Geelong has a total workforce of approximately 100,000 workers, with 15,000 of those being directly employed in the manufacturing sector in Geelong. Of those the TCF sector of which there are around 60 companies employees 2150 people directly. Predominantly the vast majority of the TCF businesses in Geelong are small businesses, with the nine major companies employing something like 66 per cent or two-thirds of the local TCF workforce, the point being I suppose that the TCF industry in Geelong is a very significant employer of local people, without even taking into effect the flow-on effect of their contribution to our local economy through, for example, the service sector or the retail sector. The other point I would just briefly like to touch on is the importance of the TCFL sector to our education and research and development sector in Geelong.

Institutions such as the CSIRO, Deakin University, the Gordon Institute of TAFE and importantly the International Fibre Centre are part or in whole focussed on and dedicated to the research and development and education in the textile industry. I will just skip over those couple of points there. In relation to the inquiry being conducted by the commission and from a local perspective I therefore submit that the TCFL sector is vital to the future prosperity of Geelong and importantly its people and thus the industry must be provided a future operating and trading environment which will encourage it to remain on-shore and internationally competitive through embracing innovation, research and development, new technology and very importantly commitment to its employee development.

In saying that, as a member of the state government I do support the position of the Victorian government to this inquiry, that being that there be no future unilateral tariff reductions unless the federal government adopts policies and programs to (1), support labour market adjustment; (2) maintain a critical mass of manufacturing base; (3) improve export market access; (4) provide incentives for increased innovation and research and development; (5) develop a highly skilled and collaborative workforce and (6) encourage inter-firm collaboration. In endorsing that

position I note that although not identical by any means the position of the city of Greater Geelong is in principle similar to that of the state governments. So what we have here in Geelong is both the state government and the local government speaking in essential agreement and unison on this important matter.

In supporting this position I would briefly like to address some of the key points of the government's position as they relate to the Geelong TCF industry and I'll not go through all of them, but unashamedly focus on the points as they relate to the human side of the issue, the workers within the sector who of course are also important members of our community. Development of a highly skilled workforce of course is an important issue to this community. Again, I would like to focus on the human side of the review and address the issue of developing a highly skilled and collaborative workforce. As the industry continues to focus on innovation and research and development of course much so to ensure that its workforce keeps pace with change, thus training and educating of the TCF workforce is imperative as is interesting and rewarding jobs. Therefore I contend the federal government must in partnership with industry develop programs to ensure that the TCF workforce remains skilled.

Of course locally we in Geelong are well positioned with our education and training institutions to ensure that our local workforce remains highly skilled. In saying all that, Philip and David - I had another page in and I seem to have lost my way to some degree so if you would just bear with me for another moment. The other point I was going to make, that's right, is the support for labour market adjustment and since 1997, as David Peart pointed out before more than 1100 TCF jobs have disappeared in the Geelong region. That is, 1100 people who were employed in the industry in 1997 no longer work in the industry. From the studies that I've seen they've shown that people exiting the TCFL industry, only one-third find full-time secure employment, one-third find intermittent and insecure employment and whilst the other one-third do not work again.

From my point of view I must say I believe that in reviewing the industry the commission should take into account not only economic factors but also the human face of the industry because no doubt as the industry continues to change so will its labour requirements. The federal government, as far as I'm concerned anyway, must ensure there are adequate programs in place to ensure any redundant employees are given a real opportunity to secure similar employment. In addressing the issue of people as workers I would also like to highlight the need for the protection of outworkers. As a state government I'm proud to say that we have put in place legislation to protect basic rights of these vulnerable people but I believe it is also imperative that research be undertaken across Australia, across our nation, to see the extent of the outworker industry and what further initiatives can be taken federally to protect these people.

Just in summary, I believe that the TCFL industry does have a viable future nationally, statewide and importantly here in Geelong, but to ensure this future the federal government must adopt policies and programs to assist and encourage the TCF industry in becoming more internationally competitive through innovation, research and development, and a highly skilled workforce, and such issues I believe must be addressed and policies put in place successfully before any consideration is given to reducing tariffs. Thank you for your time.

MR WEICKHARDT: Ian, thank you for those comments. Can I make a comment and then ask a question. You quoted, as have a number of other people, these statistics of a third, a third, a third, which originate from some research that some people at Melbourne University did back in the early 90s, Sally Weller and her colleagues. Since then I think the experience of some of the good programs, and David referred earlier to the Bradmill experience, where a very targeted labour adjustment program was put in place, the statistics have been much, much more optimistic.

Indeed, I think in the Bradmill case where early intervention with employees, helping them write resumes, training them, prepare them for interviews and things of that sort, something like 80 per cent of the employees from Bradmill within six months were re-employed.. So I think you've got to be a bit careful just, you know, sort of believing this one third, one third, one third is an enviable, you know, rule of thumb because certainly there have been more optimistic outcomes where people have acted proactively, and I think we have got to learn from that because we have not shirked away from the fact that there will be continued pressure on employment in this industry. As companies become more competitive they're almost certainly going to have fewer employees because they will become more productive, and some won't make the journey and they will therefore shed employment in the process, and we've got to try and make sure that this is done in the most sort of painless way to the individual as possible and make sure they're redeployed in their new jobs.

MR TREZISE: I must say when I noted those figures it really stood out in my mind and I look at our own experience, my own experience in Geelong, where we've lost something like 1100 jobs in the TCF in the last five years, and I would suggest that the experience in Geelong is that we have seen a lot of people lose quality full-time jobs; perhaps have gone into what I said before, intermittent insecure type of jobs, and I know there are numerous examples in Geelong, and I know a number of persons where they have not picked up any employment at all. So although I understand what you're saying I would suggest that in Geelong for my own personal experience and the dealings I've had with our local community, they may not exactly reflect one third, one third, one third, but, gee, they're not too far out.

MR WEICKHARDT: I would just hate us to sort of be sending a message to anyone displaced from an industry that, you know, "Two-thirds of you have no

hope," because I think with good endeavour and good programs that's not the answer. The question I was going to ask related to entitlements. We made a recommendation in the report which was, I guess, an outcome of finding that in this industry there is still a lot of frustration between employees and unions about the issue of entitlements. There seems to be unfortunately a lot of evidence that some employers have left employees without entitlements in this industry and therefore employees have rightly been, I guess, concerned and suspicious, and yet large employers express frustration that much of the debate they have between them doesn't relate to, "How can we together work to make this a more competitive internationally progressive company?" It relates to the issue of, "Well, if we go bust what's going to happen to me," which is a sort of a negative debate. We made a recommendation that there be an overall independent investigation into the issue of entitlements. Do you have a view on that?

MR TREZISE: I think that's a very good point because of course at the present time, and it was alluded to before, we have an example out of the Geelong Wool Combing Co at the present time where, through the current federal industrial relations practices, and legislation or laws, of course companies and employees are pretty much at each other's throat to resolve their issues as it comes about by annual or biannual enterprise based agreements, and at the present time as you can see out at North Geelong, we have employees being locked out of their workforce, or out of their workplace, and have been now, I think, for probably more than a month, so I would support any type of inquiry that would look at federal industrial relations policies and legislation as they are at the present time, including ensuring that employee entitlements are protected from companies that perhaps do go to the wall. I would support that call.

DR ROBERTSON: I mean, we're in a difficult area but we are aware of this labour adjustment problem. You probably noticed yourself there are a number of contradictions in what people say in the sense that the argument is if you take off tariffs, which is the argument everybody uses, I think it's much broader than that. It covers technology and changing markets and so forth; people lose their jobs, and the people who lose their jobs tend to be the unskilled ones, and yet at the same time we're saying we want to train more skilled workers to TCF. So you obviously have to have two programs; one which is the ones who want to go ahead and become more skilled - can go ahead and become more skilled - but on the other hand you do have the unskilled who may not in fact be able to be trained, and they're a much bigger problem. That's why I think, as Philip mentioned, the Bradmill experience is something that could be incorporated into a labour adjustment program where - - -

MR TREZISE: Being involved in the human resource field, I wouldn't think there would be too many people who, even if they're skilled or unskilled, who would not want to be upskilled, to ensure that they retain their employment. I don't think you can differentiate between skilled or unskilled workers in that instance.

MR WEICKHARDT: I think that's true but the Bradmill experience suggested that the best way of helping employees who are displaced is probably to focus on finding new employment rather than - - -

MR TREZISE: Quality employment.

MR WEICKHARDT: - - - quality employment rather than to take them completely out of the workforce for a year or two years in the training program. Indeed, some of the early labour adjustment programs that were run in the early 90s suggested that the employment or re-employment prospects of people who were put into long-term training actually declined. So I guess it's just that issue of - - -

MR TREZISE: Well, perhaps we are in agreement because I think there was a weakness with those earlier programs and a lot of it was focused on the actual, what I could see, training and not actually putting people into quality full-time work. The focus seemed to be on just training people and getting the stats off the books.

MR WEICKHARDT: Yes.

DR ROBERTSON: So it is a public problem.

MR TREZISE: Yes.

DR ROBERTSON: Look, we don't want to keep you from your train and your other duties. Thank you very much, Ian.

MR TREZISE: Thank you. Thanks very much.

DR ROBERTSON: Right. Over to you, Michele.

MS O'NEIL: Thank you. My name is Michele O'Neil. I'm the state secretary of the Textile, Clothing and Footwear Union of Australia and I'm joined this morning by, on my left, Gerry Kitchener, who is the national officer valuing industry policy officer, and on my right, Beth MacPherson who is the president of the Victorian branch of our union but also a worker and a delegate from Godfrey Hirst here in Geelong and on her right Margaret Lokas who is an employee and a delegate from Candy Footwear until Friday. Thank you for the opportunity for us to submit a second time before the commission.

For those people who aren't aware we also presented to the commissioners in Melbourne on Tuesday, so I want to start at the outset say that the members of the commission may have heard some elements of what I'm going to say this morning, but I am not going to repeat what we did on full on Tuesday, and in particular, I don't intend to go into the issues that we raised on Tuesday in relation to outwork, the strategic investment program, workers' entitlements and government procurement, but it is I think important, given that these are public hearings and that the Geelong community is present, that people here hear the union's position about a number of elements, and in particular we also want to deal with issues to do with regional employment and unemployment, and some proposals we want to add to our previous submissions about labour adjustment programs and what might be done in the future.

The question that we pose as a union to the commission is what worth an industry, a job, a skill, a sense of pride and dignity. The intention of our presence in these hearings is to put a human face on these deliberations and we do that because we think that the premise that the commission has approached this issue on is a flawed premise; that the position paper that has been presented to date has failed to prove a case of the benefit of further tariff reductions or reduced industry assistance to this industry.

We believe that the commission remains committed to an ideological view regarding assistance to industry and is seeking the complete removal of TCF assistance without having presented any evidence to support those recommendations. We have a view that the economic modelling of the commission shows that the gains from a removal of industry assistance are very small, and that their estimates are that it will cost 75 cents per Australian per year to assist the TCF industry. We don't believe that there are any people in the Australian community that would begrudge 75 cents a year. Because the Productivity Commission's modelling is inconclusive in terms of the benefits of these reductions, the commission said in its own words, "No absolute science can be brought to bear in weighing up these considerations." In other words, the Productivity Commission is arguing that the federal government should implement a policy of radically reduced tariffs and industry assistance based on the intuition of Productivity Commission commissioners.

The commission has presented no evidence in the position paper regarding the economic cost of job losses because its own economic modelling has a base assumption that is flawed. That base assumption is that all TCF workers who are displaced find another job. We say this flies in the face of fact and our own experience. The most recent studies undertaken by the University of Melbourne show that a third of TCF workers never find another job, and another third only ever find part-time or casual work if they lose jobs out of this industry. The Productivity Commission has presented no evidence in its position paper regarding the economic cost to regional Australia and to communities like Geelong of further job losses.

Whilst it outlines the modelling done on regional implications, this modelling is based on no net job losses in regional Australia, but the assumption is that if Victoria loses jobs other states will gain. This is not based on reality. Past experience and the best modelling we have to go on suggests that regional workers displaced by TCF closures find it harder to find new employment, especially when TCF assumes a high proportion of the total workforce. There's no recognition in the Productivity Commission to date that women have borne the brunt of job losses over the past decade. Full-time female employment has suffered the most since tariff rates began to reduce in the late 80s.

In 1985 there were 67,000 full-time female jobs in the textile, clothing and footwear industry. This had reduced to 30,000 in 2002. Over the same period male full-time jobs fell from 37,000 to 31,000. You can see the difference in that effect. That's 37,000 women losing full-time employment over the same period of time as 6000 men. The effect of job losses in this industry is not evenly felt. It is different depending on where you live, what your skills are, whether you have English as a first language, and as I have stated, on whether you are male or female. That's not to suggest that it is any easier for a man to find an alternative job than a woman, but it is to show that this industry has particular characteristics that need to be taken into account and considered.

The Productivity Commission has presented no evidence on the question of whether consumers will benefit further from tariff reductions. There's one paragraph in the position paper that dismisses the argument with no evidence given about price reductions. It has been our experience, and I would suggest that we're about to see another example of it in relation to the cost of Candy Footwear, but it has been our experience that when companies close that have products that are sold in Australia that have Made in Australia labels on them, and then move their manufacturing base offshore and continue to sell those products with a Made in China or made somewhere else in the world label on them, that there is no drop in price.

We have tracked these products. We have tracked them both when they were partly made overseas and partly made in Australia, and then when they are fully

made overseas, and it is not the consumers that are benefiting from the lower cost. The Productivity Commission tell us that tariff reductions are good for the community but there is no specific consideration of a number of things that we believe are very bad for communities like the one we're in today. The economic cost of a sacked worker being on unemployment benefits; what does it cost to pay welfare and what revenue is lost through less taxation? What spending power is lost to the economy overall by this reduction in income? What's the flow-on effect of job losses to other businesses through both the closure of businesses and the loss of spending power? And are the resultant social costs through people spending long periods of time on unemployment? These social costs such as sickness, depression and in some cases alcohol and drug abuse ever calculated as a real cost to society?

Is the cost of lost skills ever calculated? If a worker spent 20 years developing skills and they're no longer utilised by the community, is this considered an economic loss? When TCF factories close is there a calculation about the loss of business that other businesses suffer? Are the flow-on effects calculated for those who no longer provide services or upgrade machinery? Is the cost to regional Australia of workers and their families having to move to seek other employment ever calculated?

I want to move on to deal with regional employment and unemployment issues. The official ABS unemployment statistics have the Geelong region with unemployment of about 4.6 per cent. On the surface this is not as alarming as some other rates. However, this historically low number, which is less than the national average of around 6 per cent contrasts with the evidence that we have in our union. We have heard from workers in Geelong and other regions that it's extremely difficult to find new employment when they lose their jobs. The Textile, Clothing and Footwear Union has now discovered why our anecdotal evidence is so different from the official statistics. The reason is that the collection of unemployment statistics has been so altered since 1991 that the current collection method does not properly reflect the true state of unemployment.

In 2002 the National Institute of Economic and Industry Research, National Economics, produced a very comprehensive report for the Australian Local Government Association. This report gives a comprehensive economic snapshot of Australian regions, and part of this report provides a corrected unemployment rate which takes as a base the number of people that the government provides Social Security to, who could reasonably be considered to be unemployed. It's derived using Centrelink data, and it includes all people receiving NewStart allowance, mature age allowance, and excess growth in the disability support pension and the youth allowance.

When you include all of these people it's not surprising that the corrected unemployment rate is far higher than the official rate. This rate is really just

providing the statistics we used prior to 1991 rather than the massaged figures we now receive from the government. Using this corrected rate the Australian-wide unemployment rate is actually 9 per cent, not 6 per cent, and the Barwon region unemployment rate using the corrected figures is 10.2 per cent, not 4.6 per cent. This national economic study provides an answer as to why regional workers complain to the Textile, Clothing and Footwear Union that jobs are hard to find.

This state of the region study also provides a strong argument as to why any TCF decision that impacts on regions will hit those already hit the hardest. Since 1998, the 20 per cent of the Australian population with the highest level of incomes have claimed over 43 per cent of the increases in income. TCF workers who lose their jobs in regional centres often don't have another TCF factory to move to. Job opportunities are more limited in regional areas because of the population size and travelling to other areas is often impractical because of the large distances. These and other reasons make the impact of regional unemployment greater than in metropolitan areas.

Following our submissions in Melbourne where we had some discussion with the commissioners about the previous labour adjustment program, and also a program called Life after Bradmill that was a project that was undertaken when some 500 workers lost their jobs in Yarraville two years ago, we would like to provide some evidence about a further example of a program that can assist workers that lose their jobs. It's a Victorian government assistance program to workers in the forestry industry which is called the Worker Assistance Program. It has within it some very reasonable payments in relation to redundancy payments but I'm going to put those aside for one moment and deal with the issues that deal with training and retraining and the opportunity for workers to have an income while they do so. Under that program the assistance offered includes pre-retrenchment training of up to five days at award pay rate, post-retrenchment training of eight weeks at the award rate of pay, pre-job placement training, reimbursement of training-related expenses of up to \$5000; new job training allowance of \$150 a week for up to 12 months, and on-the-job traineeship payments of \$150 a week or up to 123 months for companies that take on workers who have lost their jobs.

There's a relocation allowance which is up to a maximum of \$30,000 of which a maximum of \$20,000 can be for a home deposit. There's an employment incentive scheme of payment of up to \$5000 to new employers. There are differences between workers that lose their job out of the forestry industry and workers that have lost their job out of TCF but I think it's important to say that there are models that have been successful that we can learn from. The WAP program has been running since October 2002 and approximately 350 workers have registered for the scheme. It's expected that 600 will register. Of those already registered approximately 65 per cent have found full-time employment and the manager of the scheme believes the figure will reach 80 per cent by the conclusion.

The previous similar program which was called the Forest Industry Structural Adjustment Package assisted 117 workers of whom 91 per cent obtained full-time employment. It's regionally based but it's 90 per cent male workers and nearly all of them have English as a first language. This is obviously different from the bulk of TCF workers, although the regional similarities are there. They both have common elements from the old labour adjustment program and the TCF Bradmill program. Some aspects of the example I have given we don't support, but others that we do, and I think it's important to say that the lessons are that it's targeted assistance to workers; that it's vital that the workers have access to assistance before they leave the workplace; that the people who are assisting are known to the workers and are trusted by them; that there is paid training for anyone who doesn't have an income, and we're saying that any new TCF scheme should pick the eyes out of the best of these elements that we have put before you, and there may well be others that we're yet to discover, but to work properly it needs to be specifically targeted to the TCF workforce.

There is a number of statements that we want to make in conclusion but before I do I want to make sure that this commission hears from some people who have a story to tell about their own personal experience of this industry and this industry here in Geelong so I would like to start by introducing you to Beth MacPherson.

MS MacPHERSON: Thank you. I have been working in the industry since the early 70s when I left high school. I started working at Grosbys Footwear. I worked there for a couple of years and at that time that employer had well over a hundred workers. I then moved into the clothing sector, and working in the clothing factory gave me the opportunity to learn a variety of machines and develop skills which enabled me to become multiskilled and high employable at that time. Unfortunately factory after factory closed their doors. Places like Bay City Clothing, Class Weave, Schofields, and most recently as from tomorrow Candy Footwear. This hit the workers and their families hard.

The first port of call for anyone who loses their job in the TCF industry is another TCF factory but there are only a limited amount of positions available leaving many without work. I have lived in Geelong all my life. I have seen the TCF industry slowly disappear leaving a void that has not been filled. The children leaving school who do not move on to higher education feel that void. There are less job opportunities for them. The last six months or so I have been off the job from Godfrey Hirst where I normally work as a warper operator to do research into the impact of job losses on workers and their families and the community. The problems these workers have encountered are real and disturbing. Some of those are financial hardship, marriage breakdown, workers who not only lose their job but all their entitlements as well.

Many workers are from non-English speaking backgrounds or they are at an age where it seems impossible to be re-employed. There are workers who are only able to get part-time or casual work even though they want full-time employment. This prolongs the financial hardship and job insecurity. There are also workers who need to move from their homes to secure employment elsewhere. They are forced to use their savings or sell belongings to do so and the stress and sense of loss to move from their families and friends is horrendous. And others lack the skills necessary to move into jobs in another industry and a suitable training that is affordable to an unemployed worker is non-existent. These workers feel a great sense of hopelessness.

As a worker in the TCF industry I have the same fears and concerns as workers everywhere who have seen factories close and people lose their jobs. From the many workers I have spoken to over the last month they send you this message. "We as workers have a right to a job in this country. This industry has a future. It is of no benefit to us, our families or the community if tariffs are reduced. We have suffered greatly. It's time to say fair's fair." Thank you.

MS LOKAS: Hi, my name is Margaret. At the moment I work at Candy Footwear until tomorrow at 12.30 when it closes and goes offshore. I first started at Candy's 15 years ago where there was 300 employees, now there's 100; the reason being, too hard to compete with overseas. So Candy's will still be around but they will be made offshore. You will be still wearing Candy's shoes but we won't be making them. I myself started at Grosby's, then Grosby's went offshore. I went to Candy's, same thing happened again. My whole life has been making shoes, now there's nowhere else to go to make shoes, so I have to be retrained somewhere else. But back then when I started you just went in, "Is there any jobs?" "Yes or no".

Now, they say, "Hand in a resume." "What's a resume?" So it's going back to being a child again, have to start all over again. This is what you have to do to get a job. But everything I know won't help me get that job because there's nowhere else that does that kind of work for me. So if tariffs don't drop there will be a lot more people in my situation - nowhere to go. Thank you.

MS O'NEIL: We're here today because Geelong provides an important snapshot. Just as I came up to speak to you I was given two things. Firstly I was given some earplugs and the request that I had from the worker who gave them to me was to say, "Do you think you could ask the commissioners to put one in each ear?" and I said, "Why?" and they said, "Well, we want to make sure it goes in and stays in; what you say today doesn't come out the other." The other request I had was I was handed a photo out of the wallet of one of our members and it's a photo of him with his wife and three very lovely children. Again the request was to say, "Could you show the commissioners my photo?" and I said, "Why?" and he said, "Because I want them to see. I want them to see the people that are going to be affected by their decision."

So I would welcome you to have a look at the photo.

In conclusion what we want to say is, we're here because we don't want you to be let off the hook. We don't want you to consider this industry's future cocooned from the living, breathing heart of it. Our union has become, unfortunately, an expert in dealing with trauma, with the slap in your face, cold, hard reality of good, loyal, hardworking, skilled people being dismissed, downsized, retrenched, restructured, sacked and relegated to the scrap heap.

Our industry has its flaws but its role in building in Australia is significant. Its significance in the growth of the Geelong community cannot be overstated. We make great products. You have workers here today who work at Godfrey Hirst, at Heich, at Brintons, at Geelong Wool Combing and make great products if they have the chance to, and at Candy. Many other workers also are with us in spirit. We have changed as an industry and we continue to change and need to change. We innovate, we export and we strive for excellence but the industry needs a breather. We need an industry policy that does not put Australian jobs and this industry out on a shaky limb, while our trading partners have industries that are completely rooted in tariff and non-tariff protection.

We want a clean and a proud industry which doesn't build its competitive advantage on frightened, exploited workers in garages. We want to continue to build a high-skilled, smart, cutting edge industry that provides good wages and conditions and secure jobs. We want an industry that recognises the skill, pride, worth and dignity of its workforce. Thank you.

DR ROBERTSON: Funny, they don't clap when I speak. I don't think our objectives are very different, it's just that we come at them from a slightly different angle. I mean, we're not out to destroy the industry. We want a strong industry. We want a highly-skilled industry. We want strong growth in Australia as a whole. All those things are in common, so we're not in dispute about those things. In fact I hope we're not in dispute at all because we seem to have moved a bit closer on how to deal with labour in the industry. If you could make available to us that Victorian study on the forest industry that's something we can certainly look at and consider in the light of this inquiry.

The other thing I'd like you to do, if you can, is get me a copy of this NIEIR study because they tend to put their figures out and we're never allowed to see how they've got them. I mentioned this earlier today that there are figures around that have been widely used in the press and we can't get access to them. The Victorian government has promised them to us but we've got less than two months to finish the final report. If we don't get them by 20 June we can't use them. So if you can help us with those things it would also be helpful in general to how we finish up the report. The other one thing I'd like to see is that we're not making any decisions.

We're not elected. Our job is to make available a number of options and we've put forward a number in the position paper and they will be modified in the light of what we hear both here and in Melbourne and in Sydney next week, to try and provide a range of options for the company in the way that we think is best to deal with TCF.

The reason for the inquiry is because a decision was made about 2005 and we're reviewing what will happen after that. So I don't think we're too far apart in what we want. There are differences in detail.

MR WEICKHARDT: I would echo that. I think your final words are the vision of where we'd like to be with people working in good jobs who aren't exploited by employers who can afford to pay good salaries, where people are, through skills and innovation and creativity, earning enough money to grow their wealth and feed their children and do all those things. I think our vision is common. How we get there and how much time and whether we can do this in a painless way are the sort of issues that are under debate, I guess. The other thing that would be useful, you've quoted some numbers on your sort of re-estimated and adjusted unemployment numbers. Again, understanding how you derive those would be useful because it's important that - we may get our recommendations wrong but if we don't understand all the sort of inputs, the chances of getting it right are lower still. So if you can provide that data to us that would be useful.

MS O'NEIL: There's no problem providing the basis of both how the calculations were made and the data. We have that and we're happy to provide it to you.

MR WEICKHARDT: Okay, that would be good. I just might say thanks for coming along and we understand there is a human face. It doesn't make the fact that decisions will be made eventually by government that unfortunately will affect people - some positively and some not positively. It doesn't take that away and we understand the fact that individuals do get affected and we understand you represent their interests. So thanks for coming along.

MS O'NEIL: Thank you.

MR WEICKHARDT: Thanks very much.

DR ROBERTSON: We are all very prompt, we're ready to go. We do have a lot of people to go through this afternoon so it's a good idea to get started early. David, would you introduce yourself so that you're identified on the tape and then perhaps you would highlight the main points in your submission and comments on the position paper that we produced and then we'll go from there.

MR KEENAN: My name is David Keenan. I'm the executive director of Business Ballarat which is the economic development arm of Ballarat City Council. Can I firstly put forward the apologies from the mayor, David Vendy. He was unable to make it today but it's an issue that's close to his heart. I'd just like to thank the commission for the opportunity to make a submission and also to provide further comment on the position paper as well. In Ballarat there's approximately 400 people employed in the textile, clothing, footwear and leather industries. Ballarat has suffered over a number of years from downsizing in this industry. We've looked at the original documents and made some initial comments and after the position paper we've reviewed those.

Before entering into some of those comments I guess one of the things I wish to highlight to the Productivity Commission is that in Ballarat at the moment we have record low unemployment which is around 8 per cent. Whilst that's very good news in Ballarat, it doesn't compare to other regional centres where unemployment has dropped significantly in the last two years due to a number of factors, a changing of how unemployment data is collected et cetera. What it does emphasise is that we have a high degree of structural unemployment within Ballarat that's a result of downsizing in the textile, clothing and footwear industry in the past, but also other industries as well and many of those related to manufacturing.

One of the things that the city of Ballarat prides itself on is being one of the largest regional centres for manufacturing in Victoria and we'd like to think Australia as well. We have a diversity of groups involved in manufacturing and for the Productivity Commission's information I would just like to put forward two documents here which outline the large base of manufacturing in Ballarat. At the moment it makes up around about 20 per cent of the regional economy for Ballarat. In relation to the position paper we've prepared our comments (a) as a local government authority but (b) in conjunction with our large employers in the area, so we don't want this submission to be simply seen as local government making the submission, we've done this in consultation with the employers in the area.

We realise that the Productivity Commission has done a lot of research in relation to - you will also find in that document that the textile, clothing and footwear industries are highlighted by themselves as well. Some of those are no longer existing, but there are others that have come in too. We have a diversity of industries in Ballarat in the textile area. They range from large employers to small niche employers as well. In relation to the position paper prepared by the Productivity

Commission we have had information provided to us by the Victorian government but we've tended to do a lot of that by ourselves. We seem to be able to - as a marginal seat we can always weigh up things one way or the other.

In relation to the position paper we want to reinforce some of the issues that we put forward in our original submission they relate to the flexibility of the SIP program. They also relate to trying to provide initiatives to support industries and businesses that want to keep operating in this area. The message from our employers in Ballarat is that if we want to survive we do need the help of state and federal and, to a lesser degree, local government but that environment needs to be created that's going to help us progress into the future. Likewise they would also turn around and say for those companies that aren't going to continue in the future, "Let's get them organised through a proper exit strategy at this point in time," and I guess I'll come to some of that in a moment.

We believe that there's a real need, having suffered problems with the timber industry and redundancies there, there could be a similar problem in the textile industry if there's large scale market adjustment to take place. We believe that the federal government should work closely with those businesses intending to leave the sector if they do. We would prefer to see them stay where they are. We would like the tariff freeze to continue to support the industries at present. We would like the federal and state governments to work cooperatively to reduce the amount of additional costs that are coming through on to some of the major employers through here. That ranges from some of the federal taxes, but also other issues relating to WorkCover and payroll taxes as well, so we're by no means looking at simply state or simply federal in this aspect.

We'd like a recognition that the textile, clothing, footwear and leather industry still have a significant role in Ballarat. People often make a lot of noise about the indirect jobs created and the flow-on effects and the multipliers. I think what we did in our original submission was basically look at the wage injection that comes from the textile, clothing and footwear industry and base that very conservatively on the mean income coming in for Ballarat residents. That in itself supplies a lot of indirect jobs in the transport and retail and housing areas as well.

In addition to the initial recommendations that we put forward in our first submission, we'd like to just highlight a couple of other things that have resulted from the position paper. We'd like to see that no labour market adjustment funds be withdrawn or included in the SIP. We'd like to see that set up separately. The SIP should be there to support those industries that are going to continue into the future with or without tariff reductions.. That should be separated and there should be a clear distinction between those two. Again, we highlight that there should be realistic exit strategies offered to those companies that have indicated that they're not going to participate and there are some of those companies around at the moment. If

those companies do want to exit the sector, let's make it as easy as possible for them whilst also creating opportunities for those companies that are going to stay around to participate in the new economy.

We would like the federal government to examine areas where it could reduce taxes and levies to specifically assist the industries in relation to footwear paths and in relation to imported dyes, chemicals et cetera especially in the post-2005 environment. Not included there, we'd like the Australian dollar to stay down a bit but we realise that for some people - we will get to the difficult ones later - we realise whilst that's good for some industries it's bad for others and certainly two of our employers for one the Australian dollar is certainly causing a fair bit of havoc, for the other it's actually creating opportunities, so in reality that point is probably unsolvable.

We would also like the state government to examine areas where it could reduce taxes and levies, specifically to assist the textile, clothing and footwear industries in relation to payroll tax. That may be beneficial, as I mentioned, in WorkCover. We would like the state and federal governments to provide more staff to deal with existing and future textile, clothing and footwear industries. If I'm not mistaken the state government at the moment provides under five staff for the whole textile, clothing and footwear industry. The federal government, it could be argued, may provide some under Austrade but other than that it's fairly limited and I think I'm probably being fairly generous in what I'm saying here. Many other industries, whether it be in the farming sector or the agri business sector are well serviced by plenty of staff and plenty of resources, that doesn't appear to occur in the textile, clothing and footwear industries.

We would like to see funds made available to textile, clothing and footwear industries that are seeking to continue post-2005 environment made available soon and not post-2005, but well before that. If structural adjustment is going to take place, we want these industries to have the best chance that they can possibly have. Finally, you asked for the hard question, we'd like the Productivity Commission and both levels of government to explain in precise terms how those industries that are viewed as winners in the post-2005 environment have or will be identified and supported. I think we've heard a lot about niche industries and innovation and certainly the employers I've spoken to have come back and said, "Well, how are they going to decide who these industries are that are going to participate beyond 2005 or are winners at the moment who can be identified and supported?"

They are some of the key things that we're putting forward at the moment. Obviously Ballarat City Council and certainly the submission went to an open council meeting and was reported in the press. Ballarat City Council support the tariff freeze and support the industries that make Ballarat one of the major centres for manufacturing. In talking to some of the employers one of them - and I've been

instructed to give you two cards and I'll probably read out what's written on the cards - one of them asked me to pass forward a card that I guess gave an indication of where he sees his business in the future and he's got on his business card here, "No name, no business, no phone, no worries, no money, just tired."

I guess a lot of the employers here are looking at realities and those realities revolving around things such as the Australian dollar, the international competitiveness in the international market there, but they really are looking for some sort of support that sees the industry as a sunrise industry rather than a sunset industry. The companies are very realistic. They also don't want to worry any of their employees and they also see it as vitally important that employees are supported very well. This also occurs at a time the Productivity Commission investigations where many of these employers are going through EBA agreements at the moment so it also makes it doubly as difficult. Any of the media that comes through obviously doesn't support some of the negotiations that are occurring and that often doesn't help the employers or the employees.

Members of commission, I think we've made two written submissions now. I'm happy to answer anything in relation to Ballarat and the industries in Ballarat. Please don't ask me to identify a particular part of footwear, I won't be able to do that. But what I can do is identify that the industries in Ballarat are keen to continue and they're keen to expand their workforces where possible. They are always looking for innovative ways of moving into new markets but they really do need the support of the freeze on tariffs and also further support - so I guess I'm asking for more support from both the federal and state government in building these business to support Victoria's commitment or Ballarat's commitment to manufacturing in Ballarat.

I might just leave it there, I've got copies of those wonderful little cards. I won't identify who produced those cards but, again, I guess I say our consultation is being done in a frank and forthright manner and the concerns put forward by Ballarat are done so in a realistic manner too. I'm happy to take any questions.

DR ROBERTSON: Let me take one or two of your suggestions. I think it's very difficult for bureaucrats to deal with two of them. I mean, one is exit strategies, it's the obverse of picking winners which is not the job for bureaucrats in my opinion. So I'm not quite sure I can see how anyone can help with exit strategies except by saying that if a company is going to exit then presumably there might be some funds available. Is that what you had in mind?

MR KEENAN: If a company is looking at exiting I think the exits need to be done in a proper way where the entitlements of the workers are protected where, if there are opportunities for that company to diversify into other areas that can occur at the same time. Exit strategies have been done in Victoria recently in the timber industry

with sawmills et cetera. Whether there are funds made available, whether there are strategic plans made available that help people, they're two of the areas where that could open doors for other industries to come in. Look, we by no means have the solutions, David, we're simply putting forward what are some of the proposals that have come from industry.

DR ROBERTSON: Entitlements is a very thorny issue. We dealt with it by suggesting an independent inquiry into safeguarding entitlements. It's difficult for us sitting where we are to think up ways of dealing with this. If anyone has got any ideas it would be better - - -

MR KEENAN: It's difficult for us to write these sometimes too.

DR ROBERTSON: Yes. The other not unrelated question is this idea of having more staff to help TCF industries. Again, it's difficult for bureaucrats to do that. I think that's almost a role of private sector consultants or something.

MR KEENAN: I tend to disagree with you on that. There are a number of government departments that work - Austrade is a great example. Austrade worked proactively with the private sector to develop their businesses, to open export markets.

DR ROBERTSON: Yes, that's one, but domestically?

MR KEENAN: Domestically one would argue that the Federal Department of Industry, Science and Tourism through AusIndustry do the same thing domestically to improve innovation, to assist people, assist in marketing as well.

DR ROBERTSON: But you said you thought there should be more. You mean just more staff?

MR KEENAN: More staff dedicated to textile, clothing and footwear and leather industries, that could assist in those industries, that could assist in those industries. That might even come down to creating more opportunities for innovation, it may come down with the cross-fertilisation of ideas between different industries, any of those areas. At the moment we're not overwhelmed with staff in this industry.

MR WEICKHARDT: I guess the dilemma is the one you put forward and that is one way of helping this industry is to lower the cost impost from government, whether it's by payroll tax, by WorkCover, even, dare I say, by council rates.

MR KEENAN: Council rates are usually rather insignificant, they're probably at the end of it.

MR WEICKHARDT: It's always fair and reasonable when you're charging it and unfair when somebody else is charging it.

MR KEENAN: There's still an expectation that they will receive garbage collected and roads to drive on et cetera, so council rates are probably fairly important in that regard.

MR WEICKHARDT: Yes, well, the state government will probably allege that they're providing some roads or something like that too. There's probably a member of state government here who would second, third and fourth your suggestion that there be more staff in that area. But I think the general sort of concern we've got is to ensure that the government does what probably governments only can do and that is provide the right sort of overall environment that will provide opportunities for the winners to emerge. I don't think governments do or should pick winners.

What governments should do is provide as much fertiliser as they can which is probably education in schools and training and create an environment of an overall economy that is active and growing and internationally competitive as it can be in terms of taxes of other things and let then private enterprise get on and winners will emerge. There are examples in this industry of winners. I think we get sometimes depressed by stories of companies closing and I know there are a lot of those in this industry but there are also examples of new companies emerging and employing more people, exporting more people and showing signs of genuinely being internationally competitive.

The question is how can we make that happen faster, how can we create more of those companies that are employing people and training them and paying them well? So as we said to the union who were before lunch, in terms of that vision of where we would like to be I don't think there's very much that separates us. The question is how do we get from where we are now to that new environment as quickly as we possibly can.

MR KEENAN: I think what you're saying is correct and the employers in Ballarat would agree with that and it is a matter of creating that environment and sometimes within that environment state and federal governments have intervened in the past to ensure that that environment is as productive as possible. They've done that through numerous mechanisms and obviously tariffs have been one in the past. What is being put forward at the moment is, yes, we would like a freeze on tariffs. We would also like some other support in there as well and that support comes in the form of some of the things outlined here. It is also in a changing environment. I wishfully stated the Australian dollar there, now that's going to change and no-one has a lot of control over that. But it's a matter of looking at the things that we do have control over and whether that be staffing, whether that be the formulation of some more strategic plans in this area to support these industries or more resources going into

this area, they're some of the things we can actually change.

MR WEICKHARDT: The experience you've had with the program for exit in the forestry industry, can you comment on how successful that's been so far?

MR KEENAN: I guess I'm referring realistically to the Victorian one where the mills have basically been bought out and that's resulted in timber towns funding, if I remember correctly, which has provided additional training for people. It's a labour market adjustment scheme but it's been done in a strategic manner over a period of time so intervention has been there at that point in time. I'm by no means an expert on that area, but I would encourage the commission to maybe look at that area as an example.

DR ROBERTSON: I'm not familiar with the Victorian scheme but isn't that the government actually paying for a change in policy, in other words reducing logging?

MR KEENAN: Changing in policy - - -

DR ROBERTSON: Yes, they changed the policy and said, "We're going to reduce the amount of logging that there can be," and they felt obliged to do something for the mill.

MR KEENAN: To a large degree this is a change in policy as well and both those changes in policy will result in a labour market adjustment and a changed economic environment. So even for those who participate in that labour market adjustment there will be those who choose not to and continue on. So I think it goes back to Philip's comment about creating that sort of environment where industries can exist.

MR WEICKHARDT: We'll have a look at that.

DR ROBERTSON: Yes, sure. It's just that I think this is two stages. One is we're going to take away what you're doing.

MR KEENAN: Yes.

DR ROBERTSON: (2) therefore we have to provide something to compensate you, which is slightly different from TCF. Did you have any specific recommendations on the SIP in particular other than you'd like to see it increased so that it covered things like exit strategies?

MR KEENAN: The employers in Ballarat with SIP - and it was one of the things covered in the position paper prepared by the commission - there were thoughts there, but they thought it wasn't worth pursuing, to go down the path of trying to get the eligibility dropped on the amount of money spent through the SIP program. They

would also welcome - if there is going to be a change in environment where there are industries leaving there, the ability to purchase second-hand equipment or used equipment may be very beneficial, especially if what you're doing is trying to encourage winners.

So, having had direct experience with the Smith Family Woollen Mill in Warrnambool and Fletcher Jones in Warrnambool, if there is the opportunity to keep some of that equipment, which some people would argue may be innovative equipment within Australia, for other people to use rather than bringing it from Italy or wherever and rather than seeing it to off to India or Pakistan, that may be something that supports the industry and creates that environment you're referring to. Also keeping in mind that often with textile machinery it's not just the piece of machinery that's valuable; it's the people who actually know how to operate it as well, so you'd actually be retaining skills at the same time.

MR WEICKHARDT: The real issue with SIP - and we're mindful of a lot of suggestions that individually seem to be very worthy and deserving about sort of broadening eligibility and making it more flexible - the dilemma is that there will always be a quantum of money - I don't know how much it is - and the question is: how do you buy the best effect, sort of get the biggest bang for the buck? Smearing it across the whole industry I think will give rise a benefit of roughly 1 per cent of sales across this whole industry, which will buy nothing. So the question is: how do we target that money so that it does buy genuine change? I'm not suggesting the current program is right by any means, but developing criteria in such a diverse industry really does target those companies can genuinely make a difference with that money. That is the key change here.

MR KEENAN: I would also ask the commission to keep in mind that often when we think of the textile, clothing and footwear industry we also think about large industries and sometimes older industries. One of the examples I think given in our original submission there was a group called Comfy Garments. Comfy Garments make garments for older people who do not necessarily have the ability to dress themselves correctly - I suppose that's the best way of saying it - or people who are invalid in a hospital circumstance. That is an example of a small company that's growing steadily but also meeting one of those niche markets there that they're really moving in. If they were to expand - they're by no means a company that could turn around and meet the eligibility criteria or SIP; they just would be nowhere - for some of the smaller things that they may be interested in that may support their industry that may lead to an increase in employment of three, five maybe over a two-year period and then, two years after that, maybe another three, maybe another five. They're some of the examples of where there is not a lot for them out there at this point in time.

So I agree with you, it's a very difficult one, but there are two bits we're looking at

here: (1) one is the machinery, (2) is the skills of the operators associated with that machinery, and trying to retain that is almost part of intellectual property that one is trying to keep in an environment that's going to remain competitive.

DR ROBERTSON: Okay. Anything else you wanted to say to us?

MR KEENAN: I'd guess I'd just say that the city of Ballarat is very passionate. I hope if you do have some spare time to flick through that book - it's one year out of date at the moment - but that lists the manufacturing industries in there. Textile, clothing and footwear, off the top of my head, make up around about 8 or 9 per cent of our manufacturing workforce in Ballarat. Having come from a Warrnambool experience where the Smith Family Woollen Mill shut - and I think that employed, off the top of my head, round about 80 to 100 people - the transferability of the skills of those people when their jobs were lost was not high. A similar scenario also existed for myself when I worked in Warrnambool with Fletcher Jones, which used to employ 2000 people. I think it employs 36 now and the average age there is quite high. I think the average age there would probably be 45 to 50.

I think there are a number of actions that the Productivity Commission could recommend that may support the industry at the moment. Obviously a tariff freeze is of a high priority, but also preparing the industry if there are going to be major changes in that environment is probably a key factor. The city of Ballarat also has a number of people that live in Ballarat that commute to places such as Creswick - there are two facilities through there - and Daylesford. We see ourselves as a regional hub in the textile, clothing and footwear industry, by no means as large as Geelong but probably on a similar scale to Wangaratta, but also with more complexities there because we have a much more mature transport market and also peripheral service market that services these industries.

The real message coming from the employers in Ballarat is that they would really like to keep going. They believe that they are now operating in niche markets. They believe they're operating in a highly competitive environment. Their main goal is to keep operating, to keep employing people and to keep providing a product out of Ballarat. So I think everything we've covered is pretty well in both papers we've put forward. We're more than happy to supply further information if requested. Members of the commission are welcome to come to Ballarat and tour any of the factories that are there.

DR ROBERTSON: Thank you. It would be nice if we had the time.

MR WEICKHARDT: Thanks very much for coming in.

DR ROBERTSON: Okay. If you introduce your arguments and if we get time we'll take you up on some of them.

MR KRANZ: Thanks very for firstly coming down to Geelong. I really appreciate the opportunity to talk to the Productivity Commission. I nearly couldn't actually come here today because I lost my glasses and in looking for the glasses in the car, was bending over and dropped the mobile phone down the drain and popped down a manhole cover.

DR ROBERTSON: We'll try and compensate.

MR KRANZ: So you know, it's not a good day for me. It's a bad hair day for me. It's very, very important that you've come down to Geelong and I'll talk about that in a tick but I'll just explain who we are and what we are. I work for the Geelong Trades Hall Council which was formed in 1890 in Geelong and it's interesting when it was formed and the sort of industry that was around Geelong and the reasons why there's a bit of history to this is that the unions that actually formed it were the woollen mill operatives, the Tanners and Courier Union which incidentally was the first union that was actually formed in Geelong - because all the other unionists ran away and worked in the goldfields - and the Amalgamated Millers and Rope Worker Employees, just to mention a few of them.

We're here because we're supporting the textile, clothing and footwear workers here in Geelong. The Textile, Clothing and Footwear Union is a major affiliate of ours and a major union and it's a very robust union in Geelong and it's got a fair bit to contribute. The industry itself is a huge contributor to a whole range of organisations in Geelong - charities and so on and so on. I won't bore you with that. Our Trades Hall Council is a member of the Manufacturing Council - you've got a copy of that. David Peart gave you a copy of that. We're very much in support of those sort of initiatives from our Manufacturing Council. We're one of the very few regions in Australia that has actually got a thing called the Manufacturing Council and it's quite unique.

Our Trades Hall Council has campaigned for manufacturing jobs to be protected and they're the sort of publications that we've put out - and I'll give you a copy of that - that was supported by us, done by one of our affiliates - the metal-workers - about manufacturing in Victoria. You may have seen it. So we're not new to trying to present an argument to politicians or Canberra or out in the community about manufacturing jobs in a climate that essentially is the new jobs that are developing are part-time casual work. We're proud in Geelong, we've got a thing called a manufacturing industry, coupled with textiles, clothing and footwear, which are full-time jobs. We agree with Michele O'Neil that I don't think many Australians behave the impost of shelling out 75 cents a year per person to keep the industry going and people off the dole.

Workers in Geelong are very proud people and they are very productive people and they are producers. We produce cars. We produce carpets, cement, petroleum, aluminium and also ideas. The textiles, clothing and footwear industry employs about 2150 people direct, about 2838 people indirect, and it's about 14.2 per cent of Geelong's manufacturing workforce. The industry turnover is - as in the submission - that we've got about 60 businesses but the huge employers are Godfrey Hirst, Heich's, Brintons, Melba and Geelong Wool Combing. So a fair few families are reliant on pay packets each week coming out of those industries.

We're really concerned about this inquiry into the textiles, clothing and footwear industry and in fact so much so - and we are not the only ones. I've just included there what's been in our local paper over the last week. There's been about seven stories which that's in the midst of the newspaper trying to compete with the footy club. It's not good news. I think the newspaper articles actually reflect the view of most people in Geelong because in 1997 when we went through this - and I'll show you a copy of the flier - that was produced by all the unions and including the Geelong City Council where we had huge rallies to sort of highlight the fact that these jobs actually meant something - Your Jobs at Risk. It's an old one but you can almost frame that and sort of put it beside a Sidney Nolan, I suppose.

We were really concerned about what would happen to the industry back then, not only us but most of the business community, it would be fair to say - the City of Greater Geelong, all the people in our region which the population of Geelong then was about 187 and they tell me that it has increased dramatically. We rallied and we were really concerned and nothing has led us to allay our fears. I'll show you another little thing. I went back to the office and I was sort of scorecarding the submissions that come up today and sort of who give five out of 10 and who got six out of 10 and so on. I walked back into my office and thought, "What am I going to say to these commissioners that are going to actually come out with a real good recommendation that would stall the reduction of tariffs," allay the fears and stop sending the signals out to the rest of Australia and also our region on, you know, like, "We are the Productivity Commission. We really care about your jobs and we are going to make some recommendations to politicians to make them sit up and think," because as you know, Canberra is a fairly dry place, so much so it got hammered by bushfires. The Canberra politicians aren't rushing down to Geelong and asking the workers how they're going to fare.

This is a cartoon that was produced roughly back in 1997. It's a very interesting cartoon. I'm sorry, the United States is not there, they've probably just gone off the map.. But it was produced roughly about when Keating was about - yes, 1992. I don't reckon anything has changed. We talk about a level playing field, we tend to think that workers' jobs will suffer. I'm sad to say that the Productivity Commission is not good news for Geelong. Whilst it's fantastic to sort of spend an afternoon

meeting you and engaging with you but really we'd like to be out there doing what we do best, is producing carpets; is the people at Candy Footwear not having their company go offshore. We would like to see workers productively employed and continuing to try and find solutions on how best to grow business, to do the things that the Manufacturing Council in Geelong are trying to do is to bring companies - network them, cluster them and all those good things and engage the region.

I really implore the Productivity Commission to spend a bit of time in the regions and actually - whilst this is a very good opportunity to hear spruikers such as myself to come along to your commission but to actually talk to the other side, the workforce, because they are very talented people. I just want to make one note too. In regards to the unemployment statistics it's a real concern to us. On the surface you would say, "Yes, Geelong has come a long way" - and it certainly has - but I don't think unemployment is really 4.6. Given the fact that they change the data collection that if you work for one hour in a month you're counted as employed. Now it would be very interesting to see the growth of casual and part-time work and real jobs. Textiles, clothing and footwear in our region represents real jobs and real opportunities for people.

Since 1997 we've had a whole range of closures. We've lost over a thousand jobs and no-one said that we were going to lose lots of jobs. We think and you say that the regions most adversely affected by a reduction in textiles, clothing and footwear assistance are those where TCF industries are located, and I agree. In Kimberley, Western Australia, on some graph that you've got in there is that they're not affected. The most affected place on this graph on page 207 of your book says that Barwon is, so that's us. What we want you to do, what we'd like to see you do is to actually recognise the fact that we've got a lot hanging on this. It isn't the Canberra politicians or sort of whether George Bush wakes up one day and decides to come to some sort of a treaty with Australia in terms of trade - and incidentally, I don't know whether you heard the radio this morning or last night, in terms of trade that the so-called leather seat, cigars and the whisky at World Trade Organisation but Bush has already vetoed at the meeting of the G8, that he's not going to agree to end subsidies to send food into Africa. That's probably a payback on France.

So some of these decisions are political, they are involved in politics and not straight out economics. I think that cartoon that I gave you that was produced in 1992 still applies today. We know you don't make the decision and like we said we know this will be a political decision. It will be made by people elsewhere out of this room. But we believe you should take more time to look at the impacts on people in the industry. Just before I wind up, there's one issue out of all the labour adjustment packages and so on that's happened in Geelong, whether it be cars or textiles, clothing and footwear, the only one that really worked was one where a group of workers were retrenched from Ford Motor Co. They were retrained by the Gordon in partnership with ASTAS or ASTA out at Avalon and there's about a hundred of them

that picked up sheet-metal working skills or aircraft frame fitters because they had comparable skills.

That was fairly unique. I come from the metal industry myself. I just think that there needs to be a lot of work in terms of adjustment packages, in terms of transferring skills. Now, it's going to be very, very difficult if you guys come down and say, "Look, we're going to reduce tariffs, we're going to reduce assistance," and people are just sort of thrown what used to be thrown to them as either government funded surveys, government funded officer labour market adjustment programs, which a lot of them didn't work, or real serious labour adjustment packages that actually benefit those workers so that they are linked to new jobs. I think Sally Weller - what she suggested in her report from her surveys will ring true again. So that's just an observation and a sort of a finger in the air from an old fitter and turner to you blokes. Without any further ado, we certainly support the workers' desire in Geelong to maintain the current freeze in tariffs and we call on you to make those recommendations to those politicians in Canberra. Thank you very much.

MR WEICKHARDT: Thanks, John. I hope you don't lose your glasses or your mobile phone on your journey home. But I appreciate you coming forward and providing some material which we'll need to read. Certainly your comments about the labour adjustment program that worked and the ones that have been made previously are important to us because I think one of the things that we do not shirk from is that we believe continued change is inevitable in this industry. Australia can't isolate itself from that. The question is, is it a change for the better eventually and is it change that we can facilitate in a way that's as painless as possible for the people concerned. So upskilling, retraining and identification of opportunities in providing the environment for those opportunities to take root is very important to us. Apart from that, I don't really have any other questions. You've provided us some data and some material to read and some clippings and I'm happy to take those away and think a bit more about it all.

MR KRANZ: Thank you very much. Just in regards to that, I could get the Gordon Institute to actually provide you better information about that experience, the workers transferring from Fords to the Gordon and then onto that other industry, whether that would help workers in textiles, clothing and footwear. But it's just a general observation because most of them end up in surveys or making consultants richer.

MR WEICKHARDT: We're concerned with making sure that the people who are really being targeted here are helped most effectively, so that would be useful.

MR KRANZ: Thank you.

DR ROBERTSON: Yes, if you'd like to make your major points and, if you want to, ask us questions or whatever. Introduce yourselves as you speak so that we can identify you. Thank you.

MS JOHANSON: I'm the only one who is going to be speaking. My name is Jeanette Johanson and I'm speaking to the submission of the Geelong West branch of the Australian Labour Party. Sitting with me is Chris Couzens. She is the secretary of our branch. Other speakers today have described the history, the demographic and social/economic characteristics of the Geelong region. For us the major issues are as follows: the regional impacts of tariff cuts.

Geelong, as we've heard, is traditionally a manufacturing city. It is Australia's most important textile, clothing and footwear centre. The impact of tariff reduction on this region would be significant in terms of job losses and consequently would have a severe adverse social impact on families. Lower tariffs have resulted in a massive increase of imports and consequent falls of employment. Workers who lose their jobs due to tariff cuts would not necessarily be re-employed in new jobs. Since 1997 when the last tariff freeze was implemented in excess of 11 TCF factories in Geelong have closed their doors and more than 1100 workers have lost their jobs.

The effects on families have been drastic. These losses not only impact on those individuals who have lost their jobs, it also impacts on their family members and the local economy. We've heard from the union people that for many such job losses have resulted in significant disadvantage to themselves and their families in areas such as the need to relocate to more affordable housing - not necessarily better - due to the inability to meet housing costs. This also creates additional, up-front costs related to removal and transport costs. Children are often forced to relocate schools due to a forced relocation which can impact on their education and established networks. The general welfare of a family is put at risk and can result in family breakdown to these pressures.

Non-English speaking and older workers are also adversely affected. Finding new employment is often a difficult task, in particular for women of non-English speaking background. Geelong has a high proportion of migrants, including refugees, and for many of the migrant women work in TCF industries is the only employment avenue open to them. The Geelong advertiser on May 29 quoted a 42-year-old female textile worker from Croatia. She said:

I have a big mortgage. My job is very important. I think it would be very hard to find another job. They are looking for younger people.

Workers in the older age range are also at risk. It is likely that many in their 50s will never work again and will remain on Centrelink benefits until their reach retirement age, placing added stress onto welfare resources. To date, no adequate

resources have been put into supporting workers who have lost their jobs. Therefore these workers have been left to fend for themselves and rely on the resources of the welfare system.

Why, we ask, is the federal government wishing to further erode tariff protection to the TCF industries? The position paper put out by the Productivity Commission, entitled, Review of TCF Assistance, states, on page 200 that:

The economy-wide effects of tariff and SIP reductions would be small because the TCF industry is a comparatively small component of the Australian economy.

It may well be a small component nationally, but, as you've already heard, the TCF industries form a large part of Geelong's manufacturing base. The effects on the local economy of tariff cuts would therefore be correspondingly large. To refer again to The Advertiser, a mere \$150,000 per annum, a measly two cents per week or less from each Geelong citizen would protect our local TCF industries. I've never loved The Advertiser more.

Why then, I repeat, for these paltry gains, reduce tariffs and SIPs at all? The position of the Geelong West branch of the ALP is as follows: (1) maintain the current freeze on tariffs until it can be demonstrated that any reduction is in the interest of Australian workers and until such time that our major trading partners reduce their tariff and non-tariff barriers to a level equal to that of Australia; (2) continue to fund an industry assistance program similar to strategic investment programs but ensure that any new program ties business assistance to the ongoing employment of Australian workers; (3) fund a retraining program similar to the labour adjustment program that is specific to the TCF sector and pays workers for the period of retraining; (4) clean up the TCF industry by ensuring that all workers, including home based outworkers are paid award wages, work in safe and suitable conditions and, by causing Corporations Law to be amended, ensure that all workers' entitlements are given priority above all other creditors so that in the event of company collapses workers receive 100 per cent of their entitlements. This was promised prior to the 2001 federal election.

Concluding, with appropriate tariff levels and government support, the TCF sector can thrive and be a viable industry with high levels of employment and high value adding. It can have increasing exports, be innovative and have a focus on research and development. However, it cannot happen if the critical mass is lost and contracts to a level where manufacturing is seen as a niche and not as a core focus for the industry. While there may still be some sectors of the industry which will be overtaken by imports the fact remains that TCF still employs a large number of workers, it still makes a significant contribution to the Australian economy and in particular to the Geelong economy and it has an increasing share of exports. In order

for the TCF industry to prosper and survive in the Geelong region we seek the commission's support of the four major points raised in our position. Thank you.

DR ROBERTSON: Outworkers - you're the first person to have raised the subject of outworkers really. I have a lot of sympathy with the problems of outworkers. But what do you think would be the consequences of ensuring that all outworkers were paid the same as people that worked in factories?

MS JOHANSON: I don't think that's actually our position. I think they should be on comparable salaries, and not, you know, a small proportion of what they're paid in factories. I take your point that if they're paid the same perhaps it would be inequitable as they don't have travel costs and - - -

DR ROBERTSON: No, that wasn't the point I was getting after at all, actually.

MS JOHANSON: Okay.

DR ROBERTSON: I think you're quite right to suggest that award rates maybe should be paid to outworkers, and of course there are other things they don't get. They don't get WorkCover, for example - - -

MS JOHANSON: No, that's true.

DR ROBERTSON: - - - and unemployment benefits and so forth.

MS JOHANSON: Or superannuation.

DR ROBERTSON: But let's stick with the simple increase in the wages to outworkers. What do you think the consequence would be?

MS JOHANSON: The consequence of increasing their salaries and not the salaries of the workers in the factory?

DR ROBERTSON: Yes, paying them, if you like, 60 per cent of the award rate in a factory.

MS JOHANSON: I think you're telling me that they'll lose their jobs.

DR ROBERTSON: Well, I mean, the reason that outworkers have increased in such numbers in the last few years is that the clothing industry simply can't afford to pay those prices.

MS JOHANSON: Yes, to be employed.

DR ROBERTSON: If you put those wages up they go offshore.

MS JOHANSON: Yes.

DR ROBERTSON: It won't have anything to do with the tariff, because I'm not changing the tariff, all right? So there are second-round effects that you have to think of in these kinds of perfectly humane and, you know, socially responsible policies. But you can't alter the consequences of those things.

MS COUZENS: But aren't outworkers being underpaid and shouldn't we - although they may lose their jobs - be opposed to that?

DR ROBERTSON: I'm not - - -

MR WEICKHARDT: In some cases, I mean, that's right. I mean, it's very hard to get statistics on outworkers. The union have provided some pretty chilling examples where people are being underpaid and exploited. We met some people who, as much as one could gather by talking to them, were decent, sensible and honest people who assured us that it wasn't in their interests in running their businesses to be exploiting any of the people that were making product for them. They were trying to sell product. It was their reputation that was on the line and in some cases, high fashion, you know, sort of women's garments and the last thing they wanted to do was to have somebody sewing them who felt disgruntled or wasn't prepared to put the right quality in.

But the point David made is that in some cases - and I don't think this is necessarily in all cases because there will always be parts of this industry where quick response and, you know, sort of being close to the market is important - and so that sort of work will almost certainly, I think, go on, probably either with outworkers or in small facilities in Australia and, yes, we've got to be concerned that people are properly working in a safe environment and properly rewarded and all those sort of things.

But there's another part of the industry where I think people are working extraordinarily marginal rates and you've got to feel very sorry that they're just being increasingly screwed because the amount of money available to go around is just going down and down and down.. This is part of the industry where, to a degree - and I think it's inevitable - that it will disappear over time, and we've got to feel concerned about the people because, as you say, there are a lot of people who are female who are non-English speaking and in some cases that's the only skill they've got and in some cases they've invested in sewing equipment. It's an extremely tough issue. Reaching those people and helping to re-educate them is tough too. What we do know is that 10 to 15 years ago most of those people were, apparently, ethnically of Greek or Italian origin. Now they're of mostly Asian origin.

So I suppose the positive part of that is that there is one generation that has moved on and probably their children are now working in, you know, sort of other industries and high school environments. But the current generation of people who are outworkers, as David said, there's not an easy answer. If all sorts of regulations were brought in to ensure that they're being paid, you know, sort of full award rates it may be simply that their jobs disappear altogether.

MS COUZENS: Well, rather than be exploited though, I think.

MR WEICKHARDT: Yes?

MS COUZENS: Yes.

DR ROBERTSON: It is a very complicated question, because we can't get at all these people. But some of the women, for example, would rather work at home. I mean, they've got small children and they can work when they have an opportunity.

MS COUZENS: I understand that.

DR ROBERTSON: I mean, it's all that kind of thing.

MS COUZENS: But they should have the same opportunities as a worker working in a factory or anybody else that should - you know, paid under an award rate and have all the protections that workers should have.

DR ROBERTSON: Well, that's okay, as long as you recognise the cost of what you're doing. The cost is that the unemployment rate will go up. I mean, maybe they won't register but the fact is that those jobs will go offshore if you put the prices up. Now, I know a lot of people in this room don't like economists and you think we're always wrong. But, you know, life is about economics. Each of us applies economic principles to what we do and you know, it's nice to think yes, we'll look after these people and make sure that they get their fair go but then you have to recognise what the consequences are. There's a trade off.

MR WEICKHARDT: It's also not easy for governments to be absolutely, I suppose, prescriptive into what's exploitative and what's not. Somebody who - - -

MS COUZENS: But don't awards set that though?

MR WEICKHARDT: Well, somebody who came before us - and they should be nameless, probably - but they quoted the case of their next-door neighbour and they said their next-door neighbour was an outworker. She sewed on a sort of emergency overflow basis and she received no payment at all. But she was entirely happy

because every now and again through her letterbox she got an air ticket back to Sicily and that was an arrangement that suited her but it's hard to legislate for that sort of thing. The Tax Office might not approve of it but it was, if you like, an arrangement where she was happy and presumably the people she was working for were happy. The problem is where people, I guess, get trapped and they don't have any way of getting out.

MR COUZENS: But I suppose the argument I'm putting is that they're the sort of things that erode workers' wages and conditions, by supporting that sort of industry.

DR ROBERTSON: Well, not necessarily, you see, because of the example that Philip gave, of people in the fashion industry who have a number of women that they use to sew up their very expensive dresses and they're well looked after, because, you know, they're desirable employees. These people have special skills and they're not exploited.

MS COUZENS: But there are a lot that aren't and that's the argument, isn't it?

MR WEICKHARDT: Well, yes, it's a concern but, as I say, we don't know the answer to it. We have, in the position paper, identified that that's a real concern. We believe that the current codes of practice in legislation that's in place ought to be given a chance to work. The major retailers, Coles Myer, for example, have said that they support this and they're happy to work with the industry to try to ensure that it does work. But, as Michele O'Neil said yesterday, you know, you could pass any number of laws in this area - unless you can actually enforce them they're toothless. In some ways - reaching the community is concerned, through sort of training people so that they can put their hand up and they can come forward when they're in a situation of being exploited, is just as important as more legislation.

DR ROBERTSON: Okay, do you have any further points?

MR WEICKHARDT: No, I think I'm done. Thank you very much.

DR ROBERTSON: Thanks for that and drawing that to our attention.

MS JOHANSON: Thank you. I'd like to thank you for coming to Geelong and allowing us to put our position.

MR WEICKHARDT: Thank you for putting your position.

DR ROBERTSON: All right. Carol, we're over to you. You know the rules and the objectives and so forth.

MS HANLON: Okay. My name is Carol Hanlon and I'm the manager of the TCF Resource Centre in Western Australia. It's a nonprofit community organisation formed in 1998 to assist the textile, clothing, footwear and leather industry in Western Australia and now assists small businesses across Australia. I'm also the manager of the Belmont Business Enterprise Centre, that's also a community nonprofit association formed in 1994. It assists people with the goals to establish their own business and to assist existing businesses to improve or expand. Probably because of my TCF background, I also established a multicultural business support service in 1998 and that specifically also deals with a number of issues that you've been talking about today and on Tuesday, and as a little sideline, I also started a clothes label, so I help unemployed people borrow clothes for job interviews as well.

So probably over the whole issue of sectors that you're interested in hearing from, I am in touch with all of them, and for those that are unaware, I've actually had 27 years' experience in the TCF industry in Victoria, 20 of those years in Geelong as a designer, small manufacturer, operating my own business, so I actually am able to speak to the commission today from two sides of the fence, one from a hands-on operator in the industry and the other from working in the area of business facilitation and business counselling in Western Australia for nine years.

First off, I'd like to commend the commission on its efforts to date with its position paper. A number of people have also commented to me - and I'd like to share that with you - that to date, your position paper probably has made the best effort to understand the industry and what's going on; it doesn't mean that that's all there is to know, but it's actually a great progression of where things have been in the past with people trying to understand such a diverse industry. My concern with the position paper today, even though it's very large at 200 pages, is that it lacks necessary recommendations in regards small business. Micro small business, there's a lack of awareness of what those terminology mean. Micro business is anyone who employs under five people; small business, technically under 20 employees. I've got some statistics I'll share with you later on regarding that.

In regards to training, I understand with the position papers and the national training packages for TCF are really good, but TCF assistance for the actual small business operator still is nonexistent. There's many, many gaps. Small business people in Australia need training provided to them in a way that they can afford to take it. You're not seeing many small business people appear at this commission hearing, and when I scan through who has had time to put submissions to your Productivity Commission inquiry, there's a lack of small business input. That's because small business people are 24 by 7. They're working 24 hours a day, seven days a week in their business and don't have the time to attend hearings like this or

write long pages of submissions. They're just out there doing it. So there's a lack of small business training in the needs of how people can access it, the types of topics, specifically for small business and TCF to take advantage of global opportunities.

The TCF WA and the Belmont BEC has been running, for over five or six years now, industry-specific TCF workshops. These are delivered by industry people that have qualifications. They are delivered in a way that suits them after hours, in short bursts of two-hour sessions each, and those workshops cover all areas, whether it's pricing and costing, whether it's understanding Asian business etiquette, whether it's understanding marketing, whether it's access to export. These are well and truly before any of the organisations that should have been providing such workshops have just started doing so. So this is five or six years a community based organisation has been doing this work and I can only touch so many people.

The ability to train outworkers in the commission has not been addressed in the way that I see things are moving. There's been much discussion on outworkers and retraining, but there's not a lot of assistance or understanding of the actual outworkers. People in the industry don't even understand the term "outworkers" or what's a subcontractor, what's a contractor and what's an outworker, and that's within the industry itself. There is such a lack of education in people actually dealing with people of when it's a grey area. Only recently did the ATO bring out publications to help people understand that grey area. I was running workshops four or five years ago, actively getting speakers from the ATO to talk to this industry about the grey area of contractors and outworkers, so there is such a lack of awareness.

In many areas, you've talked about retraining of retrenched workers and I can see that in big industries, global awareness and global issues will result in that. One aspect of retraining retrenched workers is make the NEIS program available to members of industries where there's going to be readjustment. The NEIS program provides eight weeks of business training.

DR ROBERTSON: What is it?

MS HANLON: NEIS program, new employment incentive program. It's delivered through Centrelink. It's a national program already in existence. At the moment, to get on to NEIS there is maybe six or 12 months' unemployment required before you're accepted to be on that program. Initially you do eight weeks of business training and if your idea is proved viable by a committee in a submission, then you get accepted on to that program. That provides you for 12 months of assistance, similar to being on unemployment benefits, for the first 12 months of your business. It's been mentioned many times throughout these hearings about the skills being lost to the industry and I can't speak up highly enough about that, because the people here with the small businesses in this industry, need those skills. You can't afford them to be lost to the industry. So people going into small business and then using those

skills to market those skills to other industries or other businesses is vital. So the NEIS program is there. It would be very little cost to the economy to make that inclusion that ex-TCF workers could access it immediately upon retrenchment.

I suppose one of my big bugbears regarding small business and the Productivity Commission position paper to date is the statistics. Many people talk about the varied data, the skewed data; you talk about that in the report yourself. In 1992 here in Geelong, when the Geelong Regional Commission contacted me when the tariffs first were going to be reduced down about running a parade to show the extent of the TCF industry in Geelong, I was appalled that in their list they showed me, they had 35 firms.. I'm really astounded to hear today that they're only still quoting 60 firms. In six weeks in July 1992, I'd gone from 35 firms to 200 firms. Now, I couldn't release that data because I didn't have any funds to get people to sign complicated privacy agreements of releasing the data, but I would have thought things would have progressed from 1992 to today because I had 200 firms and no resources in six weeks. I've actually brought you some photocopies of the TCF awareness week held in 1992 and all the comments and articles, and nothing has changed. The same issues are there. So that's there for your perusal.

Statistics: how does one gather the statistics on people that are all too hard for the organisations to find them? The people that I've heard in Melbourne and today, the small businesses, the micro businesses don't belong to those organisations. They're not captured. Clearly your ABS stats are only capturing factory based organisations. Now, if I'm a designer, I own my own intellectual property, I have a really great innovation, I produce globally, whereas TCF firms should be looking at producing wherever they should be in the world that suits that particular product and who they're going to sell to. I have a sample room, we create our own product, we distribute and we get that product in and we re-export it. Now, there are small businesses, micro small businesses throughout Australia that are selling to the best stores in the world. But clearly from reading your position paper, those people aren't even being captured, so there's now being decisions made upon an industry and support for a huge group of people whose statistics or their benefit to the Australian community is not being captured. That's jobs, that's livelihoods, that's income, that's tremendous future opportunities for the Australian TCF industry.

Now, many of these people very often - and in 1992 they did the same thing, which made me more determined to make the project in 92 showcase the extent of the true industry - many people in large associations considered that cottage industry firms are not important, whereas in actual fact, young people who are the people that started Rip Curl in a backyard situation. They started Quiksilver. Sunseeker, a large swimwear firm in Perth, started in a two-bedroom flat. Fallright International, the firm that does the harnesses for the Sydney Harbour Bridge, now a public company - An ex-SES officer designed and developed his own harness equipment in a garage at home. I started my own business in a garage at home. Many, many true innovators

of this industry start as home based businesses.

I wrote to I think Senator Nick Minchen at the time when SIP was developed, saying then that the true innovators of the industry are small businesses. Their innovation gets picked up by the large organisations when the masses think it's a great idea - so true innovation. I help people start businesses. Many, many people that are hands-on who been involved in in the TCF industry have started on the kitchen table at home, whether it's making a soft toy that's filled with wheat that now has a turnover of \$2 million a year and exports these by the container load to Japan and about 27 other countries in the world - would have been snubbed as a cottage industry person - and has taken that thing from the kitchen table in probably seven years to \$2 million turnover and now employing many people. These are the innovators that the rest of the world now wants to source out.

Australian TCF product is being widely acclaimed throughout the world as being design rich. I take groups through North China, South China, Sri Lanka, and I think that the TCF industry shouldn't be frightened of looking at the world globally. I also see that there's many opportunities for the Australian TCF industry in forming joint ventures because all these other countries that are manufacturing rich are actually design poor. Australia is design rich, it's technology rich, and it's fresh, lively and innovative, and the rest of the world wants that in their products. What there is is a real mismatch. I can't believe it's 2003 and Austrade only just developed a program to help new exporters. 2003 - just brand new - the TradeStart program, to help people access new markets. You get some counselling and some contacts in a different country. But this industry is quite different; you don't need contacts, what you need is grassroots assistance to get over the hurdles of small business when you are the creator of your own product. Those assistance programs just aren't there.

In 2001 there was 1,122,000 small businesses in Australia. In WA alone, there's 126,000 small business and 108,000 of them are micro. The statistics that are known is that there's 778,000 home based business, and that's what they know. The trouble is that no-one is taking the time and effort to actually find out how many people in Australia create income from making a product, whether it's designing, making a pattern, doing the embroidery or a part of the process of a fibre, which is anything to do with textile, or skin, anything to do with leathers et cetera. That work hasn't been done and it hasn't been done since then and it's still sitting here not being done. So I sort of feel that if the commission really wants to help and really wants to be fair to the Australian community and you're really concerned about outworkers et cetera, have a look at what the true extent of the industry is in the human face. The average small business in Australia employs 3.3 people. In Australia, small business is the major thrust of employment. But this industry is being ignored and why it's ignored is because these people don't belong to the normal areas of catching the data.

The TCF Resource Centre, which is a community organisation, has actually been used in the 10-year strategic forum report that was produced in Melbourne last year, the 10-year strategic plan, as a role model that should be replicated in each state of Australia as a support centre. It's not meant to be a lobby group, it's not meant to do anything, except help people with grassroots information. I help big firms and I help small firms. The extent of what the aims and objects of a centre like this have been shows in the demand. Last year alone my centre and the Belmont BEC provided in excess of 10,000 client assists, 13,000 casual inquiries. Those inquiries come from not only my own local area but statewide in WA and now throughout Australia, whether I'm helping indigenous people in the Northern Territory that have got a TCF business, whether I'm helping a small manufacturer in Brisbane; the demand for just simple basic support is there.

If we're talking about migrant people or multicultural people, WA is the highest state in Australia for non-born-there ethnic people. I have written numerous submissions to the federal government department under their small business culture program for a multicultural, home based, focused on female business support program. Initially the first stage is mentoring, the second stage is providing small business assistance. These people - a lot of them - are not underground by choice, they're underground because of ignorance. They don't know what's available. They think it's still illegal to run a home based business. Many people I deal with think they're not meant to run a home based business because of these old attitudes of, "Keep it hidden."

So a lot of it is not because they choose to, because when they're doing it correctly, I truly believe and I know this for a fact, there's a total mismatch of their skills. All these multicultural people who are outworkers have the skills to create the product that many small business designers and creators actually are desperately trying to find to make the niche product that they can sell to a global market. They can't find those same people. Those same people already have the equipment and would be more than happy to start a business, but they don't know anything about marketing, they don't know how to network, they don't even know how to find other people in the industry. Other people can't find other people in the industry, even the industry itself. I'm constantly being contacted by very large organisations to give them information - and government departments - that they should have themselves, but nobody has bothered to capture it.

The federal government started a database a few years ago. It lasted probably one or two years, if that, and now you can't even access anything that was on TCFL. The lack of awareness in this industry, awareness of other people, is the same now as it was in 92. In 92 in Geelong I found a shoe manufacturer that was importing an unwoven textile from Hong Kong that was actually produced two kilometres down the road in Geelong. The same lack of awareness is still there.

The TCF Resource Centre and the Belmont BEC are all about actions and solutions, and the things that we're already doing are things that are providing solutions and are actions that are being carried out. 96 per cent of the WA TCF industry is small business. I've also given you a small business facts sheet and some information on the current projects that something like a TCF resource centre in each state of Australia or in a city like Geelong could be instigated through true support, if that's what you would like to help the Australian wider community.

The SIP program - as I outlined before, I wrote then that it's against small business and nothing has changed. Small business does not have the amount of money to access SIP, and I understand the commission's concern and the federal government's concern that the cost of administration of SIP to go down to a small level will be horrendous. But this is where the federal government should work with state governments to deliver such support programs that can easily be controlled and monitored and can make a difference to people. One of my recommendations is that there should be a small business investment program based on a model that's operating currently in Western Australia through the Small Business Development Corporation called the BIDS scheme.

MR WEICKHARDT: The what scheme?

MS HANLON: BIDS - business innovation development scheme. That's a two-stage program. Initially you get 20 hours free working with a consultant, so that weeks out initially very unpractical ideas of innovation and assists the person to come through that process. If the firm gets accepted under stage 2, they then get a 50 per cent subsidy. In this particular stage it's \$5000, but I think in the SIP program if it could be introduced to small business, a \$10,000 amount can assist small firms to bring their product to the marketplace, which includes trade-marking et cetera et cetera. Small businesses don't need large sums of money; they just need a tiny bit of assistance that will get them over those first hurdles, and they can then market those products to a global market. It's never been easier, ever, to create a global business than it is today, but small business has got the ideas, they've got the innovation, but nothing exists. We talk about Aus Industry and their COMET program, but still that's a medium sized business program. There are no small business assistance programs for this industry.

The market development program is another recommendation that I would like to see the commission re-establish. There were only 14 projects awarded in that MDP program under TCF assistance, and then it was cancelled I think a year ago or so. That was one of the most positive things to help Australian TCF showcase and market themselves to the global market. I won two of those projects, one called the Australian Designer Showcase. I've been taking micro small designers from across Australia to, whether it's Fashion Expose trade exhibition in Melbourne or Hong Kong Fashion Week et cetera et cetera. In three small projects alone, over 40

Australian micro small businesses have participated and have received global orders and many, many hundreds of thousands of orders as a result.

Another recommendation that I would like to emphasise to the commission is the allocation of some funds, whether it's from SIP or whether it's new funds allocated for the establishment of a TCF support centre in each state or each city, and I've suggested it be based on the way the Business Enterprise Centre works. There are already 120 business enterprise centres in Australia. Instead of recreating the wheel, using the best use of resources, business enterprise centres already provide assistance to people to develop and grow their business or to start businesses, but the facilitators in such centres lack any TCF knowledge. There are 37 centres in WA and the other 36 send everybody in TCF to me because they do not have the skills to understand the marketplace or the supply chain. So it would not be an expensive exercise to tap them in Australia-wide to existing small business support services that give a facilitator and the support service a TCF focus.

I can't emphasise enough the problem with providing some sort of support and assistance for TCFL online databases. The data and the people that nobody knows about could be easily collected by the relevant state support centres. I've written, once again, two or three submissions to federal government departments to try to get funds to provide a TCF online information service, but because TCF doesn't fit so many boxes, it's very hard to get these projects up. But the people want that information, the small businesses need this information, to grow and develop. They're the future innovators of Australia. These are the future employers. Many of the baby boomers throughout Australia are thinking people not going to retire. They're going to start a new business. There is an influx of people wanting to start TCFL businesses because it's the passion of something they want to do. There's no facility available for them to get skills and knowledge about this industry. Even consultants come to me wanting to know about this industry. There's a true lack of knowledge. I'm happy to answer questions on any of those aspects.

MR WEICKHARDT: It's an exciting story, like drinking from a fire hose, Carol. A lot of that makes eminent sense to me. I guess the question is: how do we, do you think, best help those small and micro businesses and reach them in an efficient way? This is an industry that has I guess got a reputation by some in government as having been pretty slick at using programs that are put in place, and I guess the greater the number of firms you try and distribute help to, the more chance there is of either rorting or gaming, or alternatively of the administrative costs being very high. You've talked about the states perhaps administering this, but what mechanism would they use to I guess identify those who are particularly going to be facilitated by small grants, 5 or 10 thousands dollars, who would do something positive with that as opposed to 5 of it disappearing in the hands of somebody who was a consultant or wasn't really going to be gainfully helping.

MS HANLON: Okay. That's why I suggested an existing program that already has the mechanisms in place, because that program at the moment is only for technology and innovation, and TCF doesn't come under that.

MR WEICKHARDT: Exactly. That's the - - -

MS HANLON: Our BIDS scheme.

MR WEICKHARDT: The BIDS scheme. That's a Western Australian scheme, is it?

MS HANLON: Yes, and I can get the Small Business Development Corporation to send you - I've given this information to DITR before when they've come round to interview me about SIP and WA. They're well aware that these programs exist and the mechanisms of control are already in place, and that's why I believe in the two-stage program for this, because you're working with someone, "Is this innovative or not?" and "What's your plan to do with your idea?" The support centre, simply by providing support to a central centre in each state, with some support to link them electronically, for them to capture the data on the people that nobody knows about - if the Geelong Regional Commission had 35 firms and in six weeks I had 200 in 1992 in Geelong and in WA had 180 firms, the state government, and now I have over 950 firms, what's wrong?

MR WEICKHARDT: How do you go about identifying these extra firms?

MS HANLON: I don't identify them, they find me. Now the same thing is happening nationwide. So what's wrong? These people are not listed in any groups, and when I read your position paper and the ABS stats, there are literally many, many, many thousands that have not been captured - well-known products, well-known labels. I'm not just talking fashion; I'm talking well-known textile products that are not being captured by the Productivity Commission's stats that you're making judgment on because they don't fit the ABS criteria. But they are innovative, they own the trade mark, whether it's Australian or they have international trade mark licences as well, but they're not being captured. They are of true worth to this country. They are the future in innovation. So what's wrong? You're the expert.

MR WEICKHARDT: No, you've easily demonstrated we're not the experts.

MS HANLON: These are people that are not on the dole. These are people that have got the passion to work 24 hours seven days a week running their own business. I understand the problem of outworkers. I heard issues in Melbourne of people earning \$5 a week. Small business people will earn 1 or 2 dollars an hour to keep their product and their business going, and in some instances I have to point out to

them that they're not even earning anything, or don't take money from their business, in the counselling role I play now.

But the support for this particular industry has not been there for micro small business, and the organisations - it's all too hard. Everybody puts this particular group in the too-hard basket. Micro home-based business, there's three-quarters of a million in Australia that you know about, micro business and small business.

DR ROBERTSON: One of the problems we always have in these kinds of programs is selection, picking winners. I wonder if the reason that the numbers that are registered in the states - take your Geelong case for 1992 - that the sort of official bodies only had whatever it was, 60 did you say?

MS HANLON: In 1992 35 and now and here today, they've got 60.

DR ROBERTSON: Yes, okay. But you then found there were another 200 and something.

MS HANLON: I found 206.

DR ROBERTSON: I wonder if this is more to do with you and the fact that they're not shy about talking to you, whereas officials sort of bring a reaction for many people. They're the frightened that the tax officer is going to get after them or somebody.

MS HANLON: No, these are legitimate small businesses. I'm not talking about people way down the supply chain; I'm talking about people that own a business name, that are producing a product. They could be producing a product and selling it in their own retail store, which in actual fact should be a bonus to this industry - people that are prepared to not only produce a product but also go vertical and market it themselves. In many instances small businesses have to have their own retail operation as well in order to survive and control their cash flow. From your ABS stats, those people are not being captured in your data because they would be deemed to be wholesale or retail. That to me is just ludicrous. These people have got their house mortgaged or their backs to the wall in this industry, so what happens to this industry is important to them. But these same people have the talent to sell globally, and the rest of the world is interested in their product because they are creative. They own their own product.

So I'm not talking about just people producing, manufacturing on a mass scale that is, "How can you compete with the likes of China and Sri Lanka et cetera?" when you're talking. The only way Australia can compete is design. Where does design come from? It comes from the micro small business sector. It doesn't come from the sample room of a large-scale firm. They're only making the mass, large

scale stuff again. The true designer is micro small business. They're the innovators. SIP has never been accessible to this market.

DR ROBERTSON: I ought to read your first submission again, because I took the drift but I didn't take the details. Could you let us have the names of some of these companies, just so that if we do pursue this - and that's what I have in mind at the moment - we could actually demonstrate this by saying, "These firms, which are well-known."

MS HANLON: No problem. I've got an endless amount of people, but they're all running businesses. I'm talking people that have an ABN number. I'm talking people that are running an enterprise. If we're talking about small home-based manufacturing, you are dead right with your comments before. The small niche market, creators of textile, clothing, footwear and leather product, needs quick-turnaround individual CMT producers that are in small locations. Even China is talking about bringing down their production levels to cope with boutique levels of 50 in a run.

So these people are viable and I've got firms desperate for stretch. There's lack, there are gaps in the market. So if we're talking about retraining people with machine skills and we're talking about migrant workers, they have the talent to make the full garment and there's a premium price for that. So we're not talking about \$5 an hour; we're talking about people that could get \$50 to make a product because that's what the people and that's the way and the mechanism in which they need it. so there's a mismatch on the people who have got these skills trying to find the people who need them.. Nobody can find each other.

MR WEICKHARDT: It sounds like you can provide or are already providing a valuable dating service here.

MS HANLON: And, believe it or not, I have had no financial support for this organisation for two years. It runs, doing what it's doing, on thin air because it doesn't fit in the box of any support mechanisms currently available with micro small business.

MR WEICKHARDT: Is there any counterpart to you anywhere in Australia?

MS HANLON: The only one in Australia, and that's why it was used in the strategic report as a role model that should be copied in every state in Australia. Now I've just helped one start in Sri Lanka. There's a TCF resource centre in Sri Lanka. They have problems just the same, but in the meantime the people that I was helping in Sri Lanka want to come here for training. They want to find firms to do ventures with. They want designers. So there's lots of opportunities.

DR ROBERTSON: I hope we can find someone with our enthusiasm and background to do the job.

MR WEICKHARDT: Yes. Can you make that data on the BIDS scheme available so we can get a feel for that?

MS HANLON: The BIDS scheme, yes, I can certainly get you that data, no problem. Do you want a hard copy or electronic.

MR WEICKHARDT: Whichever.

DR ROBERTSON: It doesn't matter, as long as it's before 20 June.

MS HANLON: Yes, no problem. There's current projects, which includes multicultural support. I help Muslim women start home-based businesses. They've also got issues with - you know, they've got skills. Most of the multicultural people do have natural skills in these areas, as you've said. But the micro small business area of Australia is huge and no-one wants to capture the data, and I'm talking people with ABNs. There's nowhere in the right boxes to tick TCF.

DR ROBERTSON: Thank you very much. That's very helpful.

MR WEICKHARDT: Thank you very much indeed. Thanks for coming all this way to tell us the story.

MS HANLON: Okay, thanks.

MR MILLER: Thank you, Chairman. My name is Laurie Miller. I'm the executive director of the Geelong Chamber of Commerce.

DR ROBERTSON: Welcome.

MR MILLER: Thank you. Chairman and associate commissioner, on behalf of its members and the community of the Geelong region the Geelong Chamber of Commerce is pleased to have the opportunity to make this submission to the Productivity Commission's public hearing on post-2005 assistance arrangements for the textile, clothing, footwear and leather industry.

A lot of what I will say you will already have heard today. About the chamber, it's somewhat different to the normal chambers of commerce. It represents all business and industry sectors of Geelong. It's very old. It has 800 members and growing and it is the largest chamber in Australia. Having said that, with 800 members, we keep in very close contact with our members through monthly functions, we were the first chamber in Australia to have a web site up, back in 1996, and our members like us because they come to our monthly functions on an average of 250 at each of those attendances.

The chamber commends the Productivity Commission on its position paper because of its full and frank statements, but more particularly, in the chamber's estimation, the paper really puts forward a solid and cogent argument to not cut TCF tariffs any further. We firmly believe that, based on what you've produced in that paper. We have the subheading, Don't Stitch up Geelong Again. You might be concerned at this subheading. It carries over from the Geelong region's campaign against tariff cuts in 1996 when we were successful in having the federal government freeze the tariffs until 2005. But I can assure the Productivity Commission that the Geelong Chamber is very concerned that the track that the commission's proffered tariff option in its position paper is going down will do just that. It will stitch up Geelong again.

Just as the earlier report of the Productivity Commission in the 1990s put forward that the impact of job losses in the Geelong region would not be great were grossly wrong, whereas the Geelong region lost 1150 jobs as a direct result of those tariff cuts. The chamber firmly believes that the effects from any further tariff cuts, let alone those proposed by the Productivity Commission in its position paper post-2005 will be equally or more disastrous for the Geelong region. It may well put Geelong's TCF industry totally out of business. The Geelong Advertiser - no doubt you've seen their articles - strongly suggests that the TCF industry in Geelong is hanging by a thread, and the Geelong Chamber strongly believes that the thread will be very weak indeed if the Productivity Commission's preferred option of tariff reduction is accepted by the federal parliament and is put into practice. The Geelong Chamber of Commerce is happily celebrating its 150th birthday tomorrow.

DR ROBERTSON: Happy birthday.

MR MILLER: Thank you. But we are disturbed that the prospects for the TCF industry in Geelong, Australia, will not see it celebrating a birthday anything like that in years to come. More tariff cuts for the TCF industry, including those already legislated for and to start in 2005 in the Geelong region will be the last straw. The chamber firmly believes that they will mean the end of most of the TCF industry in Geelong and Australia as we know it. We all recognise that Australian TCF industries employing Australian workers on about 20 to 26 dollars per hour can hardly compete with overseas workers who are paid about \$1 per hour. Our labour rates just cannot compare. We all know that. The economic argument in favour of no tariffs or tariffs reduced to 5 per cent produce very scant savings or benefits to the Australian economy that we can see. Your own position paper on page 201 states the conclusion that the economy-wide impacts are very small - we work that out to be a net 14.3 million Australia wide - nevertheless holds.

Does this mean that the ultimate savings, when the tariffs are cut, equate to just 75 cents per Australian each year? This is the question that the chamber is asking. But with the cuts introduced, with the tariffs going to 5 per cent or zero, Geelong and Australia will lose thousands of TCF jobs in the process, which knocks a big hole in supporting or accepting the argument of saving \$14.3 million annually and, as the Productivity Commission itself has already recognised, the Barwon or Geelong region will be the worst affected region in Australia as a result of its preferred position on further tariff cuts. That's in figure E4 on page 207.

If it was up to figures winning the day the federal government should keep the tariffs where they are and pocket - as you say in the report - a net \$800 million each year after funding SIP, and put that into consolidated revenue from the importers, and that's not to subsidise every TCF job at the rate of \$13,000 each year, as claimed in the report. We can't see quite how that works because the TCF workers or the employees don't get that \$13,000 a year. If you were to do that - and see Geelong's and Australia's TCF jobs stay relatively safe. So we think that's a great proposition. Keep them the way they are. Pocket \$800 million a year and I'll demonstrate in a moment it's not going to affect anyone in terms of prices.

On impacts of assistance options the position paper quotes that reducing TCF tariffs lowers the price of imported TCF products on page 202 and the chamber certainly agrees with the statement. Obviously it would. But the chamber strongly suggests that the reduction in imported goods' prices does not translate to lower prices to the customer at point of sale. The chamber has a fairly good fix on pricing structures though its members and in most of the clothing areas, for example, prices are artificially put at what the market will bear and it can see how the market is dominated by brands and the power of labels. The prices are based on those labels.

They bear no relationship to the actual imported cost, other than to have consistently big mark-ups.

The chamber is aware that the rip-off of consumers being made by Australian importers and retailers in the TCF trade is huge. Some of the prices quoted by importers to chamber members in the retail business, which allow huge increases in the final sales price, in the chamber's view, are obscene. The chamber is told that retailers in the clothing market, for example, used to accept a mark-up of 150 per cent. Some of them operated at 100 per cent. But now it can be literally any figure. For example, a shirt landed from overseas at \$2 does not sell for \$6, it sells more like \$25 or even higher. A shirt costing \$12 will sell for around \$70.

This high quality pleated dress shirt has its selling price of \$79.95. You can go and buy it at the retailer's shop currently on special for \$49.95. \$80 for that, sale price. Costs him \$10. That's the cost to him from the importer and he's a small operator. He's embarrassed by it but he still makes the money. Our members are concerned enough to volunteer this information. They're concerned about the TCF effects from tariff cuts will have in Geelong.

This scarf sells for \$15. It's very cheap. It comes from China. Cost of that, \$3 to him. They have suits there and coats, sports coat comes from the United Arab Emirates - and they're doing a lot of work, I'm told - they're putting a lot of dollars into the worldwide market. They're even subsidising their manufacturers so that they can export. This sports coat here - do you want me to take it out? I won't take it out - it sells for \$250 plus. Its cost to him is \$55. A dinner suit that I have here, it comes from China. It sells for \$300 plus. Its cost to him is \$80. The profit margins are 250 per cent, 300 per cent, 400 per cent, 500 per cent, 800 per cent, 900 per cent, whatever you like. I've got a long tie there that sells for \$35. It's regarded as good value. Cost to him is \$4.95.

The prices are actually set really by the customers. He will tell me that if he has that shirt - one of those shirts, not the dress shirt - and puts it for sale at \$18 the people won't buy it because they don't think it's good enough. They buy on what they believe is their assessment of quality. If he puts it at \$35 they'll buy it and they're thinking they're getting a bargain. But our concern is that whatever the import prices are, whatever they drop to when the tariffs finally go, won't have any relationship or bearing on the actual costs to the consumer. You argue in your paper, in your previous paper, that the prices will drop. They won't drop. They haven't dropped.

If you track the prices through over the years on merchandise, only the very small shops are the ones that have dropped their prices at all. But if you go and ask Coles Myer or Target or David Jones what price mark-up they've got they won't tell you. I'm getting this from the small retailers who are concerned enough about jobs in

Geelong. They say if they can buy those for \$10, what does someone like David Jones or Coles Myer buy them for? You only have to ask yourself the question. So we believe that the prices will not drop as a result of tariffs being cut. I think that's a real furphy.

You observed how the GST was sort of fairly readily absorbed in prices since July 2000 in the clothing area. It's fairly easy to see, from the importers' and the retailers' points of view that the GST is nothing. It's 10 per cent. That's nothing, compared to mark-ups of 5, 6 and 7 hundred per cent.

But these mark-ups also explain why retailers go offshore to buy their products and the selling prices have not changed through the process. The chamber is simply making the point that the supply and sales chain is solidly entrenched. Now we argue strongly that the end prices will not change when further tariff cuts are made or reduced to 5 per cent. Our retailers would like to buy locally made products but the imported prices are virtually impossible to resist. When importers can bring those products into Australia at ludicrously low prices now and see them sell for really high prices the chamber asks, "Where is the argument to reduce tariffs? Where is it? Where is the real justification for this being sought by the Productivity Commission?" In the chamber's view it certainly will not translate to lower prices to the customer. We're sure of that.

I've got schedules of prices given to me by a member at the top end of the market given to a small retailer. The price mark-ups are unacceptable. But with this argument the chamber is really talking about the bulk of retailers, the big department store chains, clothing market chains and major discount operators and not the very small importers and retailers like the chamber members mentioned who make up a very small fraction of the market. We believe that's something that the Productivity Commission should think seriously about.

In terms of barriers of trade the chamber has great difficulty in putting its argument into a nice package of figures because, as we all know, the argument is really not about figures in the end. That has been demonstrated. It is about how the rest of the world is viewing Australia in terms of barriers to free trade. The chamber argued in its original submission that while the federal government puts the case that Australia is bound by international arrangements with APEC and WTO to reduce its import tariff levels, this does not translate to the same action by its trading partners. Both Japan and the USA have not put their equivalent regimes into place or have even approached the tariff reductions already carried out by Australia.

Australia seems to lead the way plus these countries have their own effective barriers to restrict trading operations from Australian exporters. Both China and India, which have been identified as potential markets by Australian textile exporters, still have high tariffs on a range of products which include woollen garments, woollen yarns,

non-wovens and carpets. The chamber mentioned that the argument also put forward by the federal government in its original submission is that Australia must reduce its import tariffs to be truly competitive and to be open to outside markets. It uses the hackneyed term that Australia must adopt a level playing field where imports and exports are concerned, which will allow unrestricted access to all markets world wide.

But the chamber reported that it knows, from discussions with members, this is definitely not the case. There are other barriers or obstacles that are put up by other countries that effectively block this free access. These include quotas, voluntary export restrictions, excessive and costly labelling requirements, minimum domestic content requirements et cetera.. Also many countries have seized these as opportunities to replace import tariffs as liberalisation of global trade has become more recognised and accepted. We are told by carpet manufacturers that the existing tariffs are already impacting on their local market share and if this continues they could be forced to shut down. If this happens to Godfrey Hirst in Geelong we will see 700 jobs go out the door and that would be a great shock to us.

This all leads the chamber to its argument in its submission that to be fair to all involved Australia should not lead the march world wide to reduce its import tariffs. The chamber still believes and strongly makes the point again that Australia should not allow any further tariff reductions unless there is open, transparent and unconditional agreement and a guarantee that its trading partners will definitely do likewise.

On the significance of Geelong's TCF industry, as mentioned in the chamber's original submission - and you've heard this before and again today - the Geelong region's TCF industry has been recognised as a leading TCF centre, with more than 60 businesses operating in this sector. It's nearly 70. The largest of these, as I mentioned, is Godfrey Hirst, which employs 700 staff, and is also the third largest manufacturer in the region - that's of all products. The top nine TCF industries in Geelong employ some two thirds of the total TCF staff in the region. Since the reduced tariff regime was introduced in the 1990s Geelong's TCF industries lost 1150 jobs. Despite this major loss of employment the local industry still employs over 2150 people directly - that's from the census of ABS 2001 - which has an estimated \$440 million turnover and accounts for 14.2 per cent of Geelong's total manufacturing workforce.

When this TCF workforce is extrapolated, is calculated by the Victorian government, a further 5100 jobs are estimated to be involved and interdependent in related industries. So that is an enormous impact if we lose any of those jobs with that extrapolation factor. This compares more than favourably, in terms of its percentage, with both the Victorian and Australian percentages of 8.9 and 7 per cent respectively, and demonstrates the reliance that the Geelong region places on the

TCF sector. Certainly we had more reliance from the TCF sector in the 1980s and the 1990s. It is still quite high at 14.2 per cent.

Further, the Geelong region has been fortunate to see sustained growth over the last five years or so. Its level of unemployment has reportedly reduced from almost 13 per cent in 1997 to 6.3 per cent in June last year, according to the ABS January 2003 figures. Though this is challenged somewhat in a further statement about regional unemployment by the chamber and I know other people involved in the employment statistics - unemployment as well - the chamber is therefore extremely concerned at the likely impact on the TCF and regional industry base if any further tariff cuts are introduced.

In terms of placement of TCF employees the chamber mentioned in its original submission that the Geelong region has seen first-hand the problems for many TCF workers who were retrenched as a consequence of the 1990s downturn as a direct result of the tariff drops then. Many TCF workers found that their skills were not readily transferable to other industries, local or elsewhere. The chamber was directly involved in the office of labour market adjustment program which gave local funding through the OLMA program to provide training opportunities and new business opportunities which together would help overcome those losses in local employment as a result of tariff reductions.

That OLMA program sprang out of tariff reductions or changes in government support programs. I was the secretary of that program and the chamber witnessed first-hand the low tangible results achieved under the OLMA program. We spent a lot of money that the federal government provided and we saw little gains in terms of new jobs created. This was shown out by research in 1999 by the University of Melbourne which found that of 600 retrenched TCF workers over half of them were still seeking employment two years later. The Geelong region has had similar research done that supports this finding. TCF industries - - -

MR WEICKHARDT: Sorry, what's the name of the program again? OLMA, is it?

MR MILLER: OLMA. It's the Office of Labour Market Adjustment. The Labor Government brought it in and obviously the secretary in the chamber was the nucleus of the committee set up by the Labor government. As you know, TCF industries are also big employers of people from non-English speaking backgrounds, particularly females. These have great difficulty in finding new employment when retrenched and if married or with a partner who also works they are not eligible for unemployment benefits and they often give up seeking work or are not even statistically captured. This leads to unemployment numbers that hide the actual situation. So when we hear that unemployment in Geelong is down to 6 per cent we doubt that very much.

In the state of the region's report by NIEIR in December 2001 the Geelong or Barwon's region unemployment was accessed at 12.7 per cent which is very close to the regional unemployment figure in the region in 1997. However, the present official unemployment figure as I said earlier is quoted at only 6.3 per cent. Their research suggests that the official unemployment figures can be corrupted due to shifts of long-term unemployed into other types of social security benefits and relaxation of the income tests for social security benefits which encourages part-time work resulting in those not being counted in the regular ABS labour force surveys. You know that if anyone does any work, paid or unpaid, if they mention they are not counted.

If this is the case, and some observers, as I mentioned earlier including the chamber and some around this room have the same opinion, that the supposed growth in employment has not actually materialised into known jobs. If that's the case then the Geelong region's unemployment situation is worse, or it's employment situation is not as good as claimed. NIEIR also estimated that the Geelong region's income included 20 per cent generated from social security benefits and that the region is ranked in at the position 41 out of 60 region in terms of social security dependents. They're very, very high so at 20 per cent of our money generated from social security benefits gives you an indication that that doesn't reflect an unemployment figure of around 6 per cent.

The chamber believes that this situation is a further demonstration of regional impact which argues against the reduction in TCF import tariffs. The changes have been made in the TCF industry. That has happened in the last eight years and we submitted in our original report that the TCF industry in Australia has made changes to make itself more globally competitive, and we have seen that happen locally, which has led to a broadening of its markets from national to international. It has actively pursued the export market with a gratifying result of an increase in value of TCF exports of some 112 per cent in 10 years and Geelong industries are also sharing in that increased development. We say, "Great work. You've done really, really well to be able to export your products overseas."

Unfortunately the chamber believes that this improvement will be placed in jeopardy and further gains lost of import tariffs are reduced and the SIP program is not continued for a long term. The chamber believes that if import tariffs are reduced below their present levels and the current assistance measures are not continued fully for a long enough term Geelong's TCF workforce will be subject to further drastic cuts bringing with them negative effects that will be felt throughout the region's economy.

In terms of critical mass when the federal government announced this TCF review it said that each policy option put forward by the Productivity Commission would be assessed to determine its impact on regional Australia. The TCF sector and

the Geelong region contributes almost 70 million in wages and salaries annually to its economy. The concentration of more than 60 companies with its 2150 employees which accounts for 42 per cent of its manufacturing operations has been a recipe for the region's success in the TCF sector despite those drastic reductions following the 1990s review.

Much of this workforce which contributes to this expenditure will be lost if tariff levels are further reduced below the critical mass that TCF companies require to make the sector viable. Eventually it will become non-existent. Geelong region's TCF companies have told the chamber that they really question the ability of the local TCF sector to continue to supply raw materials, skilled labour, training programs for technical support at their present levels if tariffs are reduced. All this could result in annihilation of the Geelong region's TCF industry and it's something the chamber certainly doesn't want to see and no-one in this room wants to see.

The chamber believes that the aim of the government's industry policy will be to facilitate the development of industry-driven clusters in regional areas like Geelong where competitive advantages in the manufacturing sector already exist. The recent NIEIR report found that Geelong needed to integrate the region's research bodies into its industrial structure to maintain its success. Geelong has important research institutions that you're well aware of that are dedicated to finding innovative ways of adding value to TCF products with more than 250 staff employed in research, education and training roles. These staff are in addition to those already employed directly and indirectly in the TCF industries previously mentioned.

The Geelong region's TCF industry has a long relationship with these local education and research institutions; the Gordon Institute of TAFE, Deakin University, CSIRO, the TFT division, and the International Fibre Centre. These institutions provide the local industry with state-of-art research capabilities supported by appropriate staff training programs. They assist in promoting opportunities to form alliances and partnerships to facilitate value adding capabilities to increase development and become more globally competitive. You would have heard this morning that the Geelong Textile Network strongly promotes this association.

The end result will see the cluster of TCF industries in the Geelong region benefiting more from this strong relationship and the chamber believes that this is precisely what the Productivity Commission wants to see occurring with TCF industries in general. The chamber believes that this type of opportunity will be less likely to occur if the critical mass of TCF companies in Geelong is lost due to a reduction in tariff levels or industry assistant measures and that the Productivity Commission recognises this added value to a reasonable extent. On industry assistant measures the chamber is pleased to note that the Productivity Commission recommends that the SIP program be extended beyond 2005. The program has been in operation for less than three years but it has already demonstrated that those TCF

industries that can access it have received tangible and valuable assistance. Whichever of the alternatives put forward are implemented the program needs to be more innovative and flexible in terms of rewards to those industries while maintaining transparency and responsibility.

However, the chamber is disappointed that the commission's recommendation goes only for eight years' continuity and stops short of the 10 years' support. The chamber believes that the TCF industry requires at least the fulfilment of the 10 years' program while it continues to undergo its metamorphosis. The chamber is pleased that the Productivity Commission recognises the value of the expanded overseas assembly provision scheme and it's making no recommendation on its change so we're pleased to see that that will stay in, or hopefully that it will stay in.

In conclusion, the chamber still strongly believes and argues that the level import tariff in the textile, clothing and footwear and leather industry should stay as they are. That means no further tariff cuts should be introduced including those legislated to occur in 2005. If any tariff cuts are still contemplated by the government this should not occur until at least 2010 and any further reduction after this time is subject to a review process in five years hence. That means no earlier than 2008. We also believe that the SIP scheme be continued in a form acceptable to the TCF industry and for a longer period, at least 10 years.

I say in apprising yourself in preparing this submission and the previous submission, the chamber has again had extensive consultation with local TCF companies, the Geelong Manufacturing Council, the Geelong Textile Network, the City of Greater Geelong, retail members and other interested organisations and parties, you're aware of what the chamber does. You're aware of how many members it represents. In saying this, the chamber strongly urges the Productivity Commission to heed the comments made in this submission and to report to the federal government that any further cuts in import tariffs in the TCF sector are unsustainable. Please don't stitch up Geelong again.

MR WEICKHARDT: Yes, Laurie. I guess the thing that I find most puzzling about what you've said is your conviction that lower import prices don't eventually flow through to consumers. We had some submissions that are on the public record from people who are in the retail business, both small and large, that suggested quite the contrary. So I guess I find it a surprising observation that would be contrary to most of the experience in any import sector that I'm familiar with that eventually, and I accept the fact that there are stickinesses in some of these areas and it takes a while for it to dribble through, but most of the sort of experience I think and the macro figures suggest that retailers are passing on to consumers their better purchasing outcomes.

MR MILLER: Do you think it's reasonable to have a 700 per cent mark-up?

MR WEICKHARDT: Look, I have no idea whether it's reasonable or not. It depends entirely on the stock holding and the other costs associated with it but the question is even if there's a 700 per cent mark-up if the individual importing that product gets a 20 per cent reduction on the imported item does that 20 per cent eventually flow through to the consumer?

MR MILLER: Well, we say it doesn't.

MR WEICKHARDT: Okay. I hear you.

MR MILLER: And the retailers tell us that it doesn't.

MR WEICKHARDT: They're telling you something they're not telling us.

MR MILLER: Yes. Well, that's interesting. They're obviously wanting to make more margin and more profit.

MR WEICKHARDT: That's the nature of the capitalist world and competition eventually sorts that out. Now, I accept the fact that we have got a concentrated retail sector in Australia and - - -

MR MILLER: But what's going to see the prices reduce, Philip? That's what we can't work out. What's going to see them reduce?

MR WEICKHARDT: Competition is.

MR MILLER: But you won't get Coles Myer and David Jones and Woolworths competing. They're not going to be competing - - -

MR WEICKHARDT: It's funny you should say that because - - -

MR MILLER: They have huge margins.

MR WEICKHARDT: It's funny you should say that because I think in the areas of those stores that distribute most clothing you would find their net profit margins are extremely disappointing to shareholders.

MR MILLER: Yes, I'm aware of that, as a shareholder to some of them, yes.

MR WEICKHARDT: So I'm not sure where the money is going.

MR MILLER: Yes, it's interesting. If the smaller retailers can sort of make the profits that they're telling us, the margins that they're telling us, it just makes us

wonder what the bigger retailers are making in terms of margin and you wonder why they can't make more profits.

MR WEICKHARDT: Yes. I mean, one of the things that retailers have told us that there is definitely a pricing point target and so they do have in mind that, you know, a particular T-shirt or skirt or something will sell for 29.99 and so if the import price goes down they've told us it's not always the case that the price to the retailer will go down, but what does happen quite frequently is the pressure to de-engineer an imported item which is on. I mean, a lot of people have told us that they bring things to the attention of retailers from imported items; the retailers look at them and say, "Well, we can only sell that for 29.99. Therefore you have to use a less expensive fabric or a less expensive printing process or something to hit that pricing point."

Now, the retailers have said, "It's quite possible if the tariff goes down that the price to the consumer won't go down but the pressure on us to de-engineer those products may go down." So you may end up with a better quality for a given price.

MR MILLER: But can you accept that when this shirt, which is really top quality polyester, a really good quality shirt, costs the small retailer \$10? Can you believe what the big players are saying?

MR WEICKHARDT: I can't comment on that.

MR MILLER: No, I know. It's hard to believe. I find it very hard to accept.

MR WEICKHARDT: Okay.

MR MILLER: We can't accept it.

MR WEICKHARDT: All right. Thank you for your input, we appreciate it, and we'll take that into account. The experience you had with OLMA, and I guess its inability to help people, did you - - -

MR MILLER: In retraining, yes. The OLMA program was set up by the Labor government to try and redress some of the unemployment that was caused through retrenchments as industries closed down, particularly in the TCF sector, and they put the money out to the regions that were hard hit so Geelong got quite a lot of money. The idea was to try retraining programs or to try and get other businesses to set up and businesses were given that opportunity. Some of them set up and worked. Most of them failed and sort of as a consequence the actual direct results weren't all that great. John, you will remember that. We didn't sort of win too much out of that, did we?

MR WEICKHARDT: Again, any lessons that you think you have learnt out of that, that you would, if you were involved in trying to help people in the future, you would apply. Again, if you have got some ideas we would be grateful for those by 20 June.

MR MILLER: Okay. The chamber's real concern is what's going to happen to Geelong. How can we possibly avoid that? We're going to be the hardest hit of any region. We don't want to see that happen, and if there's any way that assistance packages can come forward, and I would hope that the federal government recognises that because we'll be trying damned hard, if you succeed with your recommendation, if the recommendation is to follow your preferred option, we'll be trying very hard to try to redress that as far as the Geelong region is concerned. We don't like being the hardest hit region. We don't like to see any jobs go.

MR WEICKHARDT: We hear that.

MR MILLER: We're on the other side of the fence to John Kranz and his traders and local council.

MR WEICKHARDT: I hear that and I understand it and we'll take your points into account. I would simply say that whilst in some senses the problem might be in your eyes the greatest, in other senses the opportunity might be the greatest too. The points Carol was making before are taken into account. There are lots of trained skilled people here and from what you were saying there are lots of small businesses that can use those people.

MR MILLER: There are. Thank you.

MR WEICKHARDT: Thank you.

MR ROBINSON: Commissioners, thank you very much for the opportunity to speak today. May I introduce myself: Jim Robinson, president of the Australian Wool Processors Council. On my immediate right is Peter Morgan, the executive director of council; Leon Baronet of Riverina Wool Combers, the Chargeur group; and David Michell of Michell Australia.

The Australian Wool Processors Council, AWPC, represents the interests of Australian early-stage wool processing and three members of the latter-stage wool processing industry. The early-stage processing industry is involved in the scouring, carbonising and manufacture of tops from Australian greasy wool. Early-stage products are sold to the latter-stage producers, who are primarily yarn spinners. Early-stage processing in Australia is an export oriented industry that also services the domestic latter-stage product market. The Australian early-stage processing industry processed wool with a value in excess of \$1 billion in 2001-02. It will achieve a similar value in this current financial year in spite of conditions which have led to a contraction in the industry.

Key points of the Australian Wool Processors March submission. Despite the modernity and export-orientation, the early-stage processing industry in Australia is an extremely difficult competitive condition at this time due to (a) the failure of key markets to reduce their protective barriers to the same levels that prevail in Australia. These barriers take the form of direct tariffs and certain discriminatory tariffs and, in the case of Europe, specific subsidies to allow early-stage processing capacity to be set up in the lower labour-cost countries such as Eastern Europe; (b) the emergence of a significant wool processing industry in China that has an early-stage processing capacity to service. The Chinese purchase the majority of their wool in greasy form and currently purchase 42 per cent of the Australian wool clip. The Chinese industry is protected by tariffs and value added taxes and soft loans. This contrasts with the Australian early-stage processing industry, which has never had tariff assistance; (c) a global overcapacity of early-stage processing that has in turn created an overcapacity in Australia; and (d) a decline in the production of Australian wool. Australian early-stage processors can only process Australian wool due to the quarantine restrictions on imported fibre, and the decline in greasy wool production coupled with the increased Chinese propensity to purchase Australian wool in the greasy form has exacerbated the excess capacity for early-stage processing in the Australian industry.

The Australian early-stage processing industry, through its peak body, the Australian Wool Processors Council, has put in place strategies for the industry to work through in order to meet the competitive challenges it faces. These strategies are focused upon (a) modernising the industry through research and development and new product development; (b) developing a specialist niche industry, supply chain partnering, seeking liberalisation of trade barriers in overseas markets, capitalising on the interrelationships within the industry, increasing the production of wool in

Australia; and, finally, facilitating restructuring.

The latter-stage processing industry in Australia is an integral part of the total wool supply chain in Australia. There is an interdependence between early-stage processors and latter-stage processors apart from the supplier-customer relationship. Latter-stage processing allows the early-stage process manufacturers an ongoing assessment of product quality performance and allows for the introduction and trialing of innovating product developments.

The Australian early-stage processing industry has been excluded from any positive assistance under the current TCFL assistance arrangements and is now struggling to compete against overseas markets due to their slow rate of trade liberalisation. Consequently Australian production has declined over the last two years, imposing substantial restructuring pressures on the industry. The industry now needs a level of positive assistance to enable it to consolidate and reposition itself in order to be able to forge a sound presence on world markets once other countries finally liberalise their markets for early-stage processed products to the same extent prevailing in Australia.

The early-stage processing industry needs to reinvest and restructure going forward. The optimal development of the industry can best be engendered by the acceleration of the reduction of tariff barriers in our key early-stage process export markets. In summary, given the complexity and slowness inherent in trade negotiations, the Australian wool processing industry believes the following action should be taken by the government to support this sector of industry: (a) the holding of domestic tariffs for latter-stage processed products constant at 2005 levels for at least five years; (b) the extension of the SIP scheme for the latter-stage processing industry beyond 2005; (c) the introduction of a special early-stage wool processing industry development program.

The special industry development program would be geared towards the specific needs of the early-stage wool processors, given the unique market conditions now confronting the industry. Funding grants of up to 7 and a half per cent of a company's added value, triggered by agreed expenditure or performance targets should be made available to ensure the long-term future of the Australian early-stage processing industry.

The Productivity Commission position paper. AWPC notes that the commissioners have made reference in their position paper as follows:

The support for the legislated reductions in tariff levels post-2005 and the need for these changes to be accompanied by support programs which assist in industry transformation. This includes a successor to the current strategic investment program.

Reference is also made to the need for policy certainty. The possible inclusion of early-stage processors in such a program - option A, the modification of existing arrangements. It is also noted that the position paper includes two other options, option B, a bounty based on additional value added, and option C, firms compete for assistance. The Australian Wool Processors Council appreciates this recognition, which was overlooked when the current program was put in place.

The future: why include the early-stage processing industry in TCF support programs? Early-stage processing is recognised as a part of the TCF industry. It is a capital-intensive manufacturing industry, no different to other downstream TCF industries. There is little doubt that, as the world's largest wool-producing nation, Australia will continue to have a significant early-stage processing industry. It is a value adding industry. It is a source of raw material for the local and international latter-stage processing industries and it provides significant employment in regional and rural Australia. While it operates at world's best practice from a productivity, quality and environmental point of view, it is experiencing a number of issues, outlined earlier, which are being addressed within the industry. Resolution of these issues, such as unfair market access barriers, does not need outside financial support. Some actions taken in other countries, such as tightening environmental requirements, will also assist the competitiveness of the Australian industry.

Other resolution issues, such as the need for continued investment in research and development and innovation to make a commercially stable and leadership position in the current and future global industry, development of new products and for the associated restructuring of companies and their labour force will be enhanced by access to properly-structured support. The early-stage processing industry recognises that it differs from its downstream colleagues in that it does not receive tariff support and does not need access to a SIP-like program to facilitate an adjustment to a reduction in tariffs. However, access to the successor of SIP will be a key factor in the industry's ability to maintain the necessary program of research and development, innovation and product development mentioned above.

AWPC believes that this could be best managed by access to funding grants of up to 7 and a half per cent of a company's added value, triggered by agreed expenditure or performance targets. It should be made available to ensure the long-term future of the Australian early-stage processing industry. Latter-stage processors: the Australian Wool Processors Council is pleased to see that the position paper refers to the ongoing needs of TCF industries currently subject to tariff assistance. AWPC maintains the need for this sector of the industry to receive support and the need for change to be sensitively and appropriately managed. AWPC also notes that other organisations, such as the TFIA and the Victorian government, have undertaken modelling exercises involving the proposals in the position paper.

AWPC does not have the resources to engage in such work, but does note that the state government models indicate either little or negative benefit to the nation or the industry. As we recall, at the industry briefing held at the TFIA after the release of the position paper, it was stated that the commission had not done any modelling at that stage. Has any been done since then? Given this information, AWPC restates its March recommendation that domestic tariffs for latter-stage processed products remain at 2005 levels for at least five years. Thank you. Do you have any questions?

DR ROBERTSON: Does anybody else want to speak first? Okay. I'm not quite sure about this reference, Ian, to modelling. We didn't do any modelling but we did commission modelling, which wasn't available on the Web until last week. The reason for that is we had a certain amount of difficulty with the modelling, and in fact we're still having some difficulty with the modelling. The figures from the Victorian government study haven't been provided to us yet - they've been promised - so we don't know what they mean either. The modelling has become difficult at this stage because tariffs are so low and some of the assumptions are beginning to dominate the outcomes.

I don't know how many of you are familiar with modelling exercises, but obtaining closure requires making assumptions about things like actual elasticities that we don't think are realistic, but that's what's in the model, and so we don't get the results we anticipated. So the whole thing has become uncertain. But the models are now available, not the Victorian government one yet because they've promised it to us by the final deadline, which is 20 June.

MR WEICKHARDT: The position paper certainly has a fair bit about the models generally, but I think its commentary is that the effects demonstrated in the models are extraordinarily small and, quite frankly, you probably ought to sort of note that, put those to one side and then think about other issues before you reach any conclusion. They wouldn't motivate you to either reduce tariffs or to not reduce them. They would say the impact of doing anything on the overall Australian economy as modelled is probably fairly low. So the question is, what's the right thing to do from all sorts of other criteria, which is what the position paper really spends most of its time arguing.

DR ROBERTSON: I don't object to any of this in any way at all. Let me just see if there are any more - - -

MR WEICKHARDT: Can I raise some short questions. I have a degree of sympathy for the position the ESP industry is in with world overcapacity. That's always a difficult environment to make any sensible return under. However, it's difficult for the Australian government to control what other people do and whether

they install too much capacity or encourage people to install too much capacity around the world. Why did you come up with a funding grant of 7.5 per cent of a company's added value as a sort of, it would appear to me, compensation for this sort of difficulty? Any industry to a degree could put up its hand. The chemical industry could say, "We're having a tough time." The machinery industry, the plastics industry, any industry, could say, "At the moment its tough. Give us some special consideration." Why should the government come up with a grant of 7 and a half per cent simply because globally the industry is going through a tough time?

MR ROBINSON: I think, Philip, it's because we're currently in an uncompetitive situation with the tariffs and value added taxes on our processed wool going into our key markets, our key markets being China and the European Union. We're talking about a 2 per cent discriminatory tariff into the European Union, 2 per cent plus 4 per cent extra value added tax on processed wool into China. Ideally, if there could be bilateral trade talks to reduce those tariffs, we may not need this money, but this doesn't happen overnight. So perhaps it is compensation to at least bring us up to a competitive level. Without it, I see that our whole industry is in danger.

MR BARONET: If we could add to that, if we look over the last 18 months, we've lost four wool combers in Australia. We believe that the remnants of the industry are committed, but we also believe that for us to progress in light of the points that Jim has made strongly, we need to continue with innovation, we need to continue at the forefront of innovation so that we can compete and create products that are suitable and available at least for a few years out of Australia and so we're able to access markets and overcome the tariff barriers that are basically in place. Under a different initiative this group are working with DFAT to look at ways to penetrate our trading partners in the reduction of trading tariffs.

MR WEICKHARDT: Where did the 7 and a half per cent of companies' added value come from?

MR ROBINSON: That was a figure that we saw was roughly the disadvantage we were placed at - 10 per cent on wool top at 20 per cent a kilo is 40 cents a kilo. We're just looking at the value added.

MR WEICKHARDT: What does that work out at roughly as a percentage of sales, do you know?

MR BARONET: As a percentage of sales to date?

MR WEICKHARDT: Yes, of your sales?

MR BARONET: We sell into the European Union alone half a billion dollars worth of wool tops - a half a billion - but we're not suggesting that we get 7 and a

half per cent on our current business models. We're looking at innovative investments and we're citing innovation to be this 7 and a half per cent criteria. So basic tops, we're not suggesting that we would pick up any incentive on that.

MR WEICKHARDT: So this is incremental value added?

MR BARONET: Yes.

MR ROBINSON: Philip, in our March submission the total value added of all the early-stage processing in Australia on an annual basis - this 7 and a half per cent would represent \$12 million per annum.

MR WEICKHARDT: On sales of?

MR ROBINSON: On sales of in excess of \$1 billion worth of wool.

MR BARONET: To all destinations, yes.

MR ROBINSON: So it's about 1 per cent on sales.

MR MICHELL: The reason that we've actually contemplated, to take Leon's point, the innovation side of things is because the processors that are left in this country can compete in some areas. If you want to go to commodity wool production, I think you just to China and forget the rest of the world, but Michell and Chargeur in terms of value add are much more competitive than our Asian counterparts. Most of the investment thus far has been done on our own account and right now, given the increased focus on drought-affected global recession, we actually need to keep investing to keep ahead of the game. I think that's where most of our thought processes have come thus far. Leon says he has some impending investment. I have an impending investment as well, and it's a real struggle at this point in time and I think that's where most of our thought processes have come thus far.

I know Leon says he has some impending investment. I have impending investment as well and it's a real struggle, at this point in time. I think there's a very high likelihood that a lot of the investment won't actually happen because boards of our companies will say, "We can't afford it right now." So if there was a way that the government can help us through this current downturn I think we can actually maintain a leading edge and remain in this country.

MR WEICKHARDT: So can you help me understand - if we put to one side the issue of the quantum of the SIP money how does your scheme contrast with simply early stage processing being opened up to SIP claims. I mean, do you have a reason for trying to re-craft the way in which an entitlement would be made available?

MR BARONET: Just off the top of my head, Jim, and we bounce this around quite often, we believe that top making, as David has indicated, is basic commodity business. We firmly believe that for the Australian industry to compete and win we will need to be innovative and add value onto the tops, which we are doing already.

MR WEICKHARDT: So innovation would qualify?

MR BARONET: Innovation and further - for instance further treatments - - -

MR MICHELL: For example, I have a joint venture with the Woolmark company to produce a fibre called Optum. That starts off as wool and ends up as something that's near a cashmere. The value add - - -

MR WEICKHARDT: Under SIP type 2 claim would give you a right to claim for that if you were eligible - - -

MR MICHELL: It might. It might. It's still debatable. We've actually put in to see if we can and it's being thought about but it wasn't an automatic yes. We've also put in the last - - -

MR WEICKHARDT: Wasn't an automatic yes because you're not considered part of the industry for SIP.

MR MICHELL: Correct.

MR WEICKHARDT: But if you were - - -

MR MICHELL: Then it would be an automatic, yes.

MR WEICKHARDT: What I'm trying to understand is are the levers that SIP entitles companies to, if you like, gain credit for, that is, innovation, capital expenditure and incremental value added, are those levers the right levers for your industry?

MR MICHELL: I think so.

MR BARONET: Just to add to the point that David makes, we were about to bring in some patented technology. We created some invention in our European business but our board is suggesting that we either bring it to Australia or take it to some other part of the world. Importantly for us we need the development capital to move it forward into the next stage and into a marketing arena. It's also the value adding part of the chain rather than commodity tops.

MR MICHELL: So I think the argument of use, the wool industry is having

difficult times, is not our main focus. Yes, it is, but I guess what it's likely to do is to stifle further investment, which I think we need to do right at this point in time.. I'm not looking for a handout just to get them through this tough time. That is not in their minds at all.

DR ROBERTSON: How did Foreign Affairs react to this, in terms of WTO?

MR MICHELL: It depends what your time line is. DFAT is becoming more helpful as they understand the issues that we face. But the difficulty being the timeline - I mean, it might take many, many years to manage your way through tariffs and protection barriers. I mean, Europe should be a no brainer in terms of its - it's a nuisance tariff. It's 2 per cent. I mean there's two factories left in Europe and they're moving out. But they'll still fight to keep the rest of the world out of their patch. But if that doesn't take 18 months it's probably, you know, more like three years.

DR ROBERTSON: The Europeans are even moving from Western Europe to Eastern Europe where they're still going to have this 2 per cent.

MR BARONET: With DFAT we have a three pronged approach. The first one with the United States we're looking at a multilateral agreement.

DR ROBERTSON: Bilateral.

MR BARONET: With Europe, as David mentioned, we're looking at getting our clients on board and friendly countries within the European union to support us. With China we think it's going to be the hardest. We believe that WTO will be the direction. So it will be a long, long road.

MR MICHELL: Although China - we face regional investment within China so may actually get under the WTO rules anyway. That's another kettle of fish.

DR ROBERTSON: What about if you got this money from SIP? Were they happy about that?

MR MICHELL: Yes. It's a separate issue. You mean - - -

DR ROBERTSON: Yes, it is a separate issue.

MR MICHELL: Yes.

DR ROBERTSON: I mean, it's a subsidy issue.

MR BARONET: The 2 per cent, 3 per cent, 6 per cent in China, they're basically

commodity-related issues.

DR ROBERTSON: Yes.

MR BARONET: They are the bread and butter issues that are going to keep us in manufacturing or not.

MR MICHELL: The real difficulty with the SIP scheme, as I understand it, and why we don't qualify, is because we don't actually get subsidised in this country for tariffs. But we fight tariffs in every end market we deal with.

MR WEICKHARDT: Yes, you're not exposed to a tariff reduction - - -

MR MICHELL: Absolutely not.

MR WEICKHARDT: - - - and SIP was put in place to supposedly compensate for the - - -

MR MICHELL: So we understand the challenge - - -

MR WEICKHARDT: - - - tariff reduction.

MR BARONET: It's the reverse of that.

MR WEICKHARDT: Sure.

MR BARONET: Every market, and the opposite is that tops are - come into Australia duty free from all of the low cost countries.

MR MORGAN: There is some eligibility in the current scheme but automatic - but that the qualifications virtually exclude all early stage processes. It's the requirement for vertical integrations, which is - just doesn't exist in early stage processing. It was a strange situation.

DR ROBERTSON: It's something like that or the 1960s, a vertically integrated plant from combing through to spinning.

MR MORGAN: Which doesn't exist any more.

DR ROBERTSON: No, we all specialise now. Thank you very much indeed.

MR WEICKHARDT: We'll take all that into account.

MR BARONET: So where do you guys see this going?

DR ROBERTSON: If we knew that we wouldn't have to do any work for the next six weeks.

MR WEICKHARDT: You wouldn't be surprised that, given an industry that is this diverse we've received a lot of advice, not all of which is internally consistent so we've got a lot of thinking to do.

DR ROBERTSON: We've set this deadline for any final submissions. You know, either like the one you've just made or anything further you may feel the need to put by 20 June, which will give us just six weeks to get the final report written and in the hands of the treasurer.

MR BARONET: We'll get a copy of the final report?

DR ROBERTSON: Yes, well, of course we don't have the final report. What happens is we report to the government. The government then has so many days - 25 sitting days or something - to react to it and publish it. Sometimes it takes longer than that.

MR WEICKHARDT: As soon as they release it.

DR ROBERTSON: When they release it.

MR WEICKHARDT: And it's their decision when the release it.

DR ROBERTSON: You'll get it.

MR WEICKHARDT: I think their compliance with their 25 day rule is sometimes more honoured in the breach than the observance but - - -

DR ROBERTSON: This one need not be because they have said that they want to do something - Macfarlane has said he wants to do something this year. So the chances are that's the sort of time it will come out.

MR MICHELL: One question I was asked by someone before was how many dollars would the early stage processes want from a scheme over the next three to five years? We tried to pull a number but it would be less than 50 - probably less than \$30 million, I would guess, if things were really meaning - - -

MR WEICKHARDT: And that's over how many years?

MR MICHELL: Three to five.

DR ROBERTSON: You said 12 million a year I think - - -

MR BARONET: No, no but an investment case, we thing about - between 30 and 50 mil.

DR ROBERTSON: Right, the total.

MR WEICKHARDT: Sorry, I'm confused now. You're saying that's what you would expect to receive as an - - -

MR MICHELL: In terms - if there were claims put on the system the question was asked, "What might it be?" You know, how big? Is it hundreds of millions of dollars? We're saying probably not. You know, if it was five to 10 million dollars a year I think that would be top end, I think. I mean, I can't think what it would be other than sort of trying to guess at what Leon might be doing and a few others might be doing. But I don't think it's in large lumps.

MR BARONET: No, it's not restructuring the industry as such.

DR ROBERTSON: No.

MR BARONET: Just to add to that point, we - as Jim alluded to in his paper - the industry is going through restructure as we speak. So believe that our industry, when we come out of the slump, we will have strengthened. The players that are here are here for the long haul, committed to stay in Australia, and we need the innovation to continue. That's the sum total of what we're about.

DR ROBERTSON: Okay, thank you very much.

DR ROBERTSON: What we suggest we do is that you make any comments you wish, including on position paper, and any further submission you might wish to make to be with us by 20 June so we have time to take it into account in a draft. We're in your hands, really. You have the floor and if we have any questions we'll ask you when you've finished.

MR MANNERS: I'm going to ask Simon - Simon will make up the main presentation because Simon has done most - pretty well all - - -

DR ROBERTSON: Okay.

MR MANNERS: - - - a lot of the work on this issue. I'd just like to say that we're representing the National Farmers Federation, who are unable to present evidence for one reason or another.

DR ROBERTSON: Yes.

MR MANNERS: We're with the Victorian Farmers Federation, which is an affiliate of the NFF. So we've - there's a bit and match of both the NFF views and the Victorian Farmer's Federation's views in this - - -

DR ROBERTSON: Okay.

MR MANNERS: But we'll make that clear as we go through.

DR ROBERTSON: Thank you. One thing I forgot to say is would you identify yourselves because of the tapes.

MR MANNERS: Right. My name is Clayton Manners. I'm general manager, policy, for the Victorian Farmers Federation.

MR PRICE: Simon Price. I'm senior policy analyst with the Victorian Farmers Federation.

DR ROBERTSON: Thank you.

MR PRICE: Thank you very much, Chairman. Thank you for the opportunity to present before the Productivity Commission on this review of Textiles, Clothing and Footwear and Leather industry assistance. As Clay indicated, the VFF has been asked by the NFF to represent their paper that they put in the submission, and we'll make some supplementary comments on the position paper the commission has released.

The National Farmers Federation submission first was developed following

extensive consultation with their member organisations, and that included the Wool Producers - peak national woolgrower representative body, which represents some 14,000 woolgrowers across Australia. It included Cotton Australia Ltd, representing cotton growers, and obviously the Victorian Farmers Federation. I think it's important to note in this submission the support of wool producers and Cotton Australia for developing the NFF position because growers in this industry are active participants in the textile sector and they have a very real interest in the future of downstream processing in the sector in the country. Wool Producers has written to the commission, as you know, expressing their support for the NFF submission. Comments not specifically related to the NFF written submission should be taken as being the VFF position, as outlined from the start.

By way of brief introductory comment I think we'll just go over very briefly what the NFF put in the written submission, with some comments arising out of the position paper and submissions as we go through. Then we'll address the position paper more directly. Firstly, the importance of farming to Australia. Farming is an important sector of the Australian economy. Agriculture makes up approximately 3 per cent of national GDP growth. Having it value added of \$20.5 billion in 2001-02, that nationally agriculture provides approximately 20 per cent of our goods and services exports, which is worth approximately 30 billion in 2001-02. This value is estimated to decline this year to about 17 per cent or \$27 billion as a result of the drought. From a Victorian perspective, agriculture's gross value of production is \$8.3 billion in 2001-02 and generates approximately 38 per cent of this state's exports.

Agriculture is one of the largest employers in Australia, providing over 380,000 jobs or 4 per cent of the Australian labour force. Many rural communities depend on a vibrant agricultural sector for their prosperity. Agriculture contributes more than 30 per cent of employment in 66 per cent of small non-coastal towns. This is an important point. There was a strong argument - we would suggest scaremongering - about the regional effect of potential displaced workers resulting from TCF and L industry restructuring all through the - by tariff reductions. The position paper indicates that TCF employment in regions of Wodonga, Wangaratta and Geelong are 2.3 per cent and 2.2 per cent of total employment respectively. The impact of agriculture in regional Australia is much, much greater in terms of employment in small rural towns than the TCF sector. Agriculture which is placed at a cost disadvantage because of tariffs contributes a third of employment in small rural towns.

Australian wool and cotton producers rely overwhelmingly on selling fibre on international markets. Tariff distortion favouring domestic TCF industries provides little or no benefit to farmers and in fact raises some input costs. Tariffs favour import competing industries at the expense of export oriented industries such as agriculture which exports approximately 70 per cent of products. Australia's

manufacturing industry tariffs impose \$95 million through the costs of primary production inputs in 2001-02 reducing our international competitiveness. Australian farmers are hurt by domestic tariffs because the nature of the international commodity markets mean these costs cannot be passed on.

Further, tariffs are restricting industrial relations reform by protecting manufacturing industries from pressure to contain labour costs. This results in less political support for reforms that would benefit labour-intensive industries, including agriculture. The existence of high tariffs have not stopped TCF industry from losing domestic market share or employment. Over the past 10 years the share of imported clothing on domestic market rose from 19 per cent to 45 per cent. Imported footwear rose from 36 per cent to 65 per cent share. Employment fell by more than 40 per cent over the same period. This indicates a continuing need for the industry to adjust and the retention of tariff support will not prevent these pressures. That there will be ongoing rationalisation of the industry is a point recognised even by some organisations that have submitted requesting retention of tariffs at the current level.

The Australian Wool Processors Council, of which you've just had representatives, for example, reports domestic and international over-capacity in their field. Rationalisation will continue to occur. Australian consumers and industries should not be penalised and taxed higher to protect employment in uncompetitive firms or roles that will be lost, irrespective of any reasonable level of assistance. The NFF argues that any targeted adjustment assistance should be provided to re-skill employees and make the employment transition as easy as possible. The NFF is actively pursuing international trade liberalisation. It is the NFF experience that the rest of the world watches Australia closely, and our international credibility could be totally undermined if we say one thing on the WTO on tariff reform and do the opposite at home.

The NFF conclusion is that TCF tariffs should be reduced as proposed at 2005 and eliminated by 2010 in line with our APEC commitments. Industry support programs should be reduced in line with tariff productions and our preference is for such programs to be used to assist TCF industry employees affected by industry rationalisation with retraining and skills development to facilitate transition to ongoing employment.

As the commission is meeting here in Geelong and many of the local submissions to the inquiry have emphasised the implication of the TCF industry to the region, it seems appropriate to comment on the importance of the region - this region - to the farmers. Geelong has long been a major centre for wool growing and export from Port of Geelong. As the Geelong Chamber of Commerce have stated in their submission:

Overall the wool industry in the region, both in primary production and

value added processes exerted a powerful influence on Geelong's early economy.

Geelong remains a very important player in the TCF and wool industries and benefits from the proximity of education and research providers, including CSIRO's Belmont Textile Fibre and Technology Centre, the Gordon Institute and Deakin University. The development of linkages between these education and research providers and local TCF industry will have a key role in assisting TCF firms adjust to products that can be competitive in the market. The Geelong region remains important to the VFF in setting policy for woolgrowers. The current president of our wool-growing commodity group is a woolgrower from this region, as is the VFF's general councillor representing south-central Victoria.

Our general council, which is our main policy-setting body in the VFF also includes a south-west region woolgrower with experience as a director of the International Fibre Centre established by the previous state government. In this context, I advised the commission of the March 2003 resolutions of the VFF general council which was before the position paper was released on TCF tariffs. The first resolution states:

The VFF recommend to NFF, make a submission to the Productivity Commission inquiry into post-2005 TCF industry assistance supporting the proposed tariff reductions from 1 January 2005 and cessation of the SIP program and EOAP programs on 30 June 2005 as currently scheduled; that TCF tariffs should be progressively reduced to 5 per cent or less by 2010.

You will note that the VFF policy is slightly different to that of the NFF, insofar that our Victorian members believe the budgetary assistance should be removed completely from mid-2005. I note that the position paper struggles to quantify the benefits of the SIP program and that many of those weren't submitted - have also expressed frustrations with the inadequacies of the current initiatives. We note the previous hearings that you heard from, the Australian Wool Processors Council submission which indicates clearly that early-stage wool processors are essentially excluded from access to the SIP program assistance.

The program does not benefit the whole TCF industry which was, I think it's fair to say, the expectation of the community when it was introduced, and runs the risk of delivering false hope for firms and by supporting new capital investment, contributing to an overcapitalisation of the domestic industry as a whole. For the record, the content of the above resolution - VFF general council resolution - has been debated by our wool commodity committee and was successfully carried by that committee.

The VFF general council also adopted the following policy position that the VFF strongly urges the federal government to increase the pace of reforms to introduce greater workplace flexibility and reduce industry protection. These reforms will strengthen the competitiveness of Australia's business environment and will benefit export industries and improve employment opportunities. The second resolution is important because there is a strong concern in the farming sector that industries that have received tariff relief over the past three and a half years have not taken the full opportunities to adopt workplace flexibility measures to make the cost more competitive.

The concern of the VFF is that tariff protection is allowing organised trade union movement to seek uneconomic rents from companies to buy industrial harmony. The pressure is not there for the companies to resist or to argue for further flexibilities of the industrial relations system which would benefit themselves, the whole economy and particularly small businesses that have minimal power in centralised wage negotiations. I think we can argue with the recent national wage case determination. The Australian industry group, which represents some of the larger textile companies in this country, put in a submission for a \$10 minimum wage claim this year.

The claim of the smaller businesses represented by the ACI and the farm sector by the NFF was for a zero increase, particularly from our point of view factoring in the impact of drought, and the end result that we have seen is with big business support for some increase in wages which they can pass on; that we've had the second highest ever hand-down which has affected the agricultural sector \$17 minimum wage rise in the worst drought for many regions of this stage in a hundred years.

The Commonwealth Department of Workplace Relations has submitted to this inquiry. The VFF notes that only 16 per cent of TCF employees have their conditions determined by a federal certified agreement and only 5 per cent of agreements include provisions permitting use of AWAs. More than one in four agreements expressly excludes the use of Australian workplace agreements. The industry is not seriously taking advantages of the flexibilities that are in place. Of more concern was the department's finding that 43 per cent of these agreements include provision for paid leave for trade union training.

Australia's consumers and industries that are downstream users of TCF inputs should not be paying extra to allow unions to negotiate such sectional arrangements that are neither in the public nor the companies' interests. Farmers - and I suspect the general public - would be appalled to learn that they are being cost disadvantaged by the tariff system for companies to fund their employees to not work and instead attend trade union training courses.

In response to the commission's position paper the VFF is disappointed in the proposal and is concerned that the commission risks derailing further the momentum to strengthen the economy by opening it up to competition. Despite the commission's finding that further structural adjustment and job losses are inevitable in the industry, almost regardless of future assistance arrangements - which is put in the key points at the front of the position paper - far too many submissions to the inquiry which were taken from rent-seekers and their political cheer squad have called for either an ongoing tariff rate freeze for the industry or a further tariff rate freeze following the reductions from 1 January 2005.

This provides a clear indication that many in and around the industry wish to use political influence to maintain their unfair protection and continue to impose higher costs to Australian consumers and exporters. The claims to build political support have been most extreme. According to those opposed to tariff reductions, reforms will result in anything from job losses to the annihilation of this region's TCFL industry, to increased crime, increased disease and family breakdowns. It is evident from some of the more sensible submissions that changes in Australia's exchange rate will have as significant if not greater impact on the competitiveness of our domestic textiles, clothing, footwear and leather industries, but we do not see the same sort of political extremism in the debate on the exchange rate as has been evident in this debate on tariff reform.

The commission has raised four tariff reduction options for consultation. The commission's preferred option 4 is not acceptable as it seeks to delay the reduction of tariffs considerably over the five years between 2005-2010 and allows retention of high tariffs for apparel and finished textiles to 2015. If it is adopted it will be a major win for the political activists who will see an opportunity to again lobby the commission and the Commonwealth in 2008 to further delay the next round of tariff reductions.. Such a result will encourage domestic gaming by the rent-seekers in the industry and the union movement which could have very negative impacts in terms of encouraging firms to adapt to the international climate. Further, such a decision will send a very negative signal to our export markets.

Maybe most importantly, option 4 will remove the firm certainty that the majority of industry is seeking. VFF notes the submission from Pacific Brands which clearly calls for "clear enunciation of an end point tariff required by government in a plan to get to this objective". The Council of Textile and Fashion Industries of Australia - TFIA - notes one of two most important issues for the sector is certainty. The VFF position is to support option 2 representing a progressive reduction in all tariff categories annually to 2010 to maintain our APEC commitments and reduce industry support.

However, the VFF argue the option should not result in tariffs of 5 per cent but lead to the complete removal of tariffs. There is no justification for retention of tariff

tax at 5 per cent on imports when such assistance is easily swamped in the exchange rate. The VFF also argued the commission should, as part of this review, support the request to reduce yarn and other duties currently at 5 per cent - at the 5 per cent nuisance tariff level - to zero per cent. This has been raised in submissions to the inquiry and including by Melba Industries which has operations in Melbourne and Geelong and is a user of woollen product.

By way of further comment, the tariff freeze is not a panacea for the industry. In recent weeks a local division of Pacific Brands - Candy's - has announced its intention to closer operations because of the underlying uncompetitive position, with the potential loss of up to a hundred jobs. This illustrates to the local community that doing nothing is not a viable option. At this stage it's important to emphasise that it is average consumers and exporters that suffer under tariff arrangements. TCF tariffs impose \$1 billion additional cost on Australian consumers per year and the current budgetary assistance imposes \$700 million cost on taxpayers over five years. Manufacturing industry tariffs impose 95 million additional input costs on agriculture and of note, \$2.3 billion additional input costs on service industries. This is an important consideration for this particular region, where there is growing economic and employment reliance in the local economy on the service and tourism industries.

The commission has requested feedback on the type of budgetary assistance to be provided to the industry to help the process of adjustment. I think the VFF position is clear, but we note the NFF position, which is that if assistance is to be provided for the purpose of facilitating adjustment and minimising the negative impacts on the community, measures should be non-distorting and not encourage firms to continue uncompetitive production. From this perspective the NFF recommendation is for assistance to be targeted to assist TCF industry employees with retraining and skills development to facilitate transition to ongoing employment. This will be an important issue in regional centres, where the flow-on effect of job losses may impact harder. Such a program should supplement existing retraining assistance that may be available under the Commonwealth's Job Network program.

In conclusion, VFF support the scheduled reduction in tariffs from 1 January 2005 and the progressive removal of tariffs by 2010. The 5 per cent nuisance tariff should also be removed from 2005. If budgetary support is to be retained in the industry post-2005 - that's an "if" - then it should be targeted at assisting those persons displaced by adjustment, and the VFF emphasises the need for the commission to continue with a plan of tariff reductions for the sector to deliver certainty to all involved and encourage genuine attempts at adjustment. Thank you.

DR ROBERTSON: Thank you. Did you wish to add anything?

MR MANNERS: No.

DR ROBERTSON: Where to start? We're very appreciative of this presentation. It has a degree of reality to what's been going on here earlier in the day.

MR PRICE: I'm sure it does.

DR ROBERTSON: We obviously thought very hard about the phasing of tariff reductions and the phasing of SIP. It seemed that a more staggered arrangement than the one you've proposed was probably going to do things more gently, shall I say. The SIP - it was only a suggestion and we were seeking opinions about the phasing down of the SIP, which we'll have to look at again. Everybody else thinks it should be for 10 years and should be without any kind of step. So these points that you've made are certainly some degree of counterbalance to what we've been hearing.

One thing we had thought - and this is in agreement with what you're suggesting - under the heading of Adjustment Assistance you suggested that retraining should be targeted in a period of transition rather than actually subsidising producers and investment and things. We've been trying to rethink something on labour adjustment. There's a mention in a position paper of this but we've only really been thinking about it since the position paper came out, so we'd be consistent with what you're suggesting there, that there is a need for thinking more about the labour side, the factor input side, than what the consequences might be. So we're certainly following up on that angle.

MR PRICE: I think we think that's particularly important, with regard to some of the submissions that come through indicating that the smaller firms are unable to get SIP assistance of the larger firms who, if you look at say Melbas or Pacifics, have already adopted strategies to make themselves more competitive and stay long-term in the industry. If they're going to remain in the industry irrespective of support, one really does have to ask why the taxpayer should provide the funds. It means that the assistance that the taxpayer is providing of 700 million over five years is not necessarily actually reaching the people who are most exposed, which is those employees who have limited other obvious employment opportunities.

DR ROBERTSON: We understand that. In fact, we've been concerned as to how much additional investment, for example, you get under SIP type 1, or whether it's simply helping to fund investment that would have taken place anyway. So we have that in mind. I think we're already thinking along lines that would slightly change the position paper. I suspect the SIP will continue to some extent, but we have to look at the different varieties of SIP. At the moment 1 and 2 are widely used, 3 gets used a bit and 4 and 5 aren't used at all, so there's some money in there that's just sitting not being used. But we'll certainly take all those points into account.

MR PRICE: That doesn't mean it has to be spent.

DR ROBERTSON: No, not by any means.

MR WEICKHARDT: You'd presumably like to see it go into drought relief. No, I don't think have any other - - -

MR PRICE: I think the only other supplementary comment I might make is that there's the Monash economic modelling in the report. We clearly do not subscribe to the view that the agriculture, fisheries and forestry sector will be disadvantaged in the way that that model does. Our indications are that we already in the market, particularly in the wool and cotton industries, completely dominated by the international market and the international price, and that will remain the case irrespective of in some degrees the level of domestic support, and if the actual global consumption of Australian product were to decline, what we would see would be increased adjustment within the industry, as we've already seen, through reductions of woolgrowing to move towards to move towards prime lambs and those other things. So I think it's just important that we reject that view that the agricultural sector would be negatively impacted. Fairly obvious from our point of view is the case that we'd be freed up with the reduction of these taxes.

DR ROBERTSON: Are you going to make comment on the modelling? Are you going to submit that with the presentation you just put?

MR PRICE: I'm happy to submit that with the presentation, yes.

DR ROBERTSON: You might like to, if you've got any criticisms of the modelling, append those, because that could be useful. Most people don't express any ability to interpret the model at all, so any help we can get there would be useful.

MR PRICE: Okay, I'll bear that in mind.

DR ROBERTSON: Anything else you want to say? No.

MR MANNERS: Thank you very much.

DR ROBERTSON: Thank you.

DR ROBERTSON: Okay. Would you introduce yourself for the sake of the tapes so that we can identify what you say, please.

MR BAARINI: Yes, thank you. My name is Bill Baarini, mayor of the city of Hobsons Bay. I am here on behalf of the Western Region Councils Forum. That forum is a partnership of local government areas of Brimbank, Hobsons Bay, Maribyrnong, Melton, Moonee Valley and Wyndham. If you would like me to start, I'll proceed. The forum obviously has got a number of issues in relation to the proposed model which has been put by the Productivity Commission, that being option 4. As you can appreciate, the people of the west as traditionally being obviously a working industry, one of which is certainly manufacturing, and that has been a big part of the west and it's certainly been a big part of employment in the west and certainly job growth and the economy.

Whilst we appreciate the federal government's position insofar as wanting to, I guess, streamline and reduce tariff to a certain percentage, as I understand it, 5 per cent over the next period of time, we do have some issue with the way that's going to be achieved, and it certainly is a question of me really just raising some issues about the modelling that's going to be adopted to achieve that end. I could be here talking about the philosophy of whether or not the federal government could or should be reducing it but as I understand it, that's a separate issue to today's submission.

So today's submission, certainly on behalf of the Western Region Councils Forum, is more about the modelling behaviour or the model proposed to bring about the reduction of the tariffs. As I understand it, there have been previous tariff cuts, if you like, back in 2000 and certainly that has achieved a number of things in the way that tariffs have for industry throughout Australia. Can I just say that there certainly has been some impact to date just on the tariff cuts that arose in the year 2000. In 1996 there was some 5644 shop floor jobs just in the western region alone. As a result of the tariff cuts in 2001 this had reduced to 3754 with the largest reduction being in full-time female employment.

If you work it out to a percentage that's about 37 per cent and certainly when it comes to male full-time employment that's down by about 36 per cent. Just insofar as employment, if I could just take a point insofar as the nature of the employees which have traditionally continued at this stage to take on these jobs in the manufacturing sector. They have historically and to a large extent today continue to be unskilled migrants that have come from overseas, and they have been doing this for a very long time. A lot of them, as I understand it, have lost those jobs, particularly since the tariff cuts in 2000 are unable to find alternative employment (1) because they don't have the skills; (2) their English is fairly limited and (3) the barriers to entry into the market are certainly a lot more difficult in the globalised world that we live in.

So that just gives you an idea of the sort of stuff that has occurred in the western region since the 2000 cuts are concerned. If we were to see further cuts, the proposed model certainly to a large extent looks to even create more difficulty insofar as our residents and certainly the families of the west are concerned, because it would create further unemployment. The 2003 tariff levels at this stage, particularly with the apparel and finished textiles is 25 per cent. Now for 2005 that's proposed to be at 17.5 per cent. If you compare that with the cotton sheeting and woven fabrics, certainly the sleeping bags and the textile yarns and sewing threads, the 2003 are at 15 per cent, 10 per cent, 5 per cent respectively.

Equally if you look at the proposal for 2005, they go down anywhere from 2.5 per cent to 5 per cent. Now, that's the maximum for 2005 but yet for the apparel and finished textiles it's well over 5 per cent. I think if you were to do that then that would certainly have an impact on the other three categories in which manufacturing is actually carried out. So if you're going to reduce the tariffs I think they should be done consistently and they should be done, I guess, in a way which is pragmatic so far as the relationship is concerned with the four sectors of the manufacturing program, the manufacturing sector.

We have insofar as our own analysis of option 4 is concerned, it's an analysis that's been carried out through an economic modelling tool which has been utilised called Rent Plan. Rent Plan was developed for the western region of Melbourne by the Centre for Sustainable Regional Communities by Latrobe University and like any model there are limitations and certainly a number of assumptions. But certainly the analysis is also taken into consideration, the Ecnotech and certainly the Monash modelling and both of these models indicate that there will be substantial reductions in employment in the TCF sector in Victoria and certainly in metropolitan Melbourne, and certainly those regions which are over-represented in the TCF sector. The western region and certainly the Western Region Councils Forum wishes to highlight that its part of Victoria certainly contains a high number of families and employees that are part of that sector.

We have also as part of that modelling taken into consideration the work already undertaken by the national economics group on behalf of the Victorian state government that has forecast employment reductions across the state over time. Essentially - and I don't want to bore you for too long - there will be a written submission, as I understand it, provided to you by the 20th of this month. But I just wish to highlight the propositions, if you like, or the outcomes of the modelling that has occurred to date insofar as the western region is concerned.

Our modelling indicates that about 1925 TCF jobs will be lost in the region with an additional 3448 jobs lost in other sectors of the region, so we're talking about a total job loss in the order of 5373. Importantly, a loss in household income of

about \$195 million or 3 million per week, and a loss of \$520 million to the regional output and a reduction in the gross regional output of \$373 million. That's a substantial amount of money for people of the west who have traditionally relied on the TCF sector to be a substantial part of the economic growth and the economic activity of people of the west.

Whilst the model is aiming to achieve a certain percentage by 2015, I think there's got to be ways in which that can be achieved without dramatically having an enormous impact on residents and families of the west, I guess immediately, if you like. I think that can be altered to phase in the reductions periodically, systematically and without too much detriment to the people that have traditionally worked in this sector. That's not to say that they won't be affected, there will be job losses. I think that's inevitable. But with that I think there needs to be obviously, if there is a periodic a systematic approach, with that there will need to be on the flip-side or on the left hand, if you like, a system in which there is program support through alternative funding and programming and training to ensure that those barriers to entry and those earlier points that are raised are actually eliminated and that those people who are unskilled in other sectors of the economy are actually equipped with the skills and the capacity to gain employment - meaningful and gainful employment - in other sectors.

Can I just say too it's interesting that this is occurring at this stage, if you like. From our end as councils we - if you can appreciate - have a number, particularly in the west these days, of potential threats to different or all parts of the economy, if you like. There are issues particularly affecting Melbourne's west. There has been a number of large industry downsizing and closures of recent times, including the TCF industries, such as Bradmill and Kinnears and certainly the non-TCF, National Forge which is a proposed relocation of the Tenex operations. Certainly the most recent is the federal government's cessation of funding for the Inner-Western Migrant Resource Centre.

Now, Tenex is certainly an example of what potentially could occur, not only to certainly Williamstown of which I'm the mayor of, but if the federal government is wanting to downsize the number of shipyards in this country and propose to have Tenex relocated to South Australia then that alone is going to cause an enormous impact on not only Hobsons Bay but a rippling effect on a number of chains which are part of that industry. Alone in Tenex we have about 800 people employed directly, and about 1800 indirectly employed and a \$20 million economic turnover weekly. So we're talking about a lot of money. So that accompanied with the proposed tariff model would certainly have enormous impact on not only the people employed by the TCF sector but it would also undermine, I guess, and really question the confidence of the local economy out in the west which has traditionally been vibrant and full of economic activity, particularly in manufacturing and the like.

Other issues - certainly the petrochem companies, they themselves out in the west are also questioning their operations. As you can appreciate, it's a lot cheaper to carry out operations in overseas countries than it is here, particularly the high cost of labour in this country. The petrochems are also considering the extent to which they continue to operate or whether they look to downsize and relocate. I say that not lightly, I say that quite seriously because it is a thought that's currently being entertained by some of the petrochem companies. So not only will that affect those that are employed directly by those industries but certainly families which they support and certainly the chains which I guess act as a feeder to their current operations.

Other factors certainly that have continued to play a part in the west is the limited support for R and D development and export assistance in the region. Currently there is no Austrade trade support program which has been offered and certainly the only limited export development assistance of it by the federal government. That is certainly an alarming point, particularly for people of the west. When you come to think of it, it's quite interesting. I mean, on the one hand we have had a huge manufacturing sector in the west and the federal government has never seen fit to really promote that and really use it to his advantage to increase exports. Certainly the broader issues - and it's not specific to the west but certainly across Victoria and Australia - the drought has had an impact on lot of the processes of primary produce and the transport and engineering companies which make up the fabric of the economy in the west.

So you will probably ask, well, what is the preferred position of the western region - and it's a fair question. As I indicated at the outset we would certainly be suggesting that there be a pull-back of the role out of the tariff reduction, that it does really come into line with the other three groups that make up the TCF sector so that they are streamlined, they are systematic and they are periodic. Certainly as I said on the flip-side or on the left hand, if you like, we would be looking for a maintenance of the SIP-like funding levels, the 2003 levels, until about 2015.

It's interesting if you look at the transitional support funding for 2000 to 2005, the strategic investment program, it's about \$678 million. At the very same time we're looking to introduce the tariffs from 2005 to 2009, that's reduced to 560. Then even more than half, well, 280 million for 2009 to 2013. Given that there is going to be such a huge impact as already highlighted by the tariff cuts of the year 2000 to date, I think that the SIP funding would need to be maintained. Whilst I can appreciate the federal government is wanting to also reduce the program funding, I think it needs to be done in such a way that that too isn't taken away immediately, isn't taken away without a periodic and justified funding, if you like.

Just to give you an idea of the six local municipal areas that we have in the statistics - and that will be provided in the written submission to you: Brimbank has

a very high number of residents who work directly or are employed by the TCF sector of about 2500; Hobsons Bay has a large number of workers engaged in manufacturing, and as I said, Tenex is certainly another example of the different works that are carried out in the sector; certainly the impact on Maribyrnong is interesting, given I guess the reduction in staffing at Bradmill and the closure of Kinnears and along with that the added impact of the global downturns has had an impact on that particular municipality's efforts to encourage new economy businesses to establish in the area.

Lonely Planet which is I guess the author of the travel guide if you want to go overseas and visit different parts of the world is also facing job losses because of the downturn in tourism, given the recent events and certainly the events over the last few years. Melton is a prime example of the new economy of TCF businesses - high tech, targeted, specialised - but that too is an area that is still vulnerable to dramatic reductions in tariff within the sector as they are predominantly upstream businesses which are value adding. Talking about the food chain, if you like, or certainly the chain to the sector, when you're value adding to a primary product which is potentially going to be taken away then that is certainly going to have an impact on Melton.

Moonee Valley is predominantly is a services sector support group and they have been certainly supporting a lot of the work within the TCF sector. Again Wyndham has a high number of workers employed in the supply chain business which again is a part of the upstream work that is carried out by the sector. I guess essentially I just want to highlight the fact that there needs to be a more systematic and periodic approach to the modelling. Our modelling, REM, has had a look at the options that's been proposed by the commission, and the modelling that's been carried out through the different other groups, that which included obviously Ecnotech and Monash and has also had a look at the state government's national economics modelling.

There are ways in which that end can be achieved without necessarily using option 4. The impact it's going to have on the families of the west who are currently facing enormous pressure and certainly uncertainty insofar as the industries which have served the west and provided jobs and strength to many people of the west and certainly those unskilled workers and unskilled immigrants that have served the community and worked in these sectors for a long, long time, I think that they're going to continue to face more uncertainty and more frustration and job losses and the like if these tariffs were to be introduced in the way that option 4 proposes to do them. We would be seeking in any event, irrespective of which option is adopted by the federal government, we urgently and unequivocally ask the federal government to continue its maintenance of the strategic investment program.

One thing that the federal government really needs to take on board is that if it

doesn't then there's going to be enormous pressures on other services and other programs that it runs - obviously Centrelink and all those other family support services. It will cause shifting, if you like, within the system. There isn't an elimination. People have to go somewhere for social support services. Rather than further use taxpayers' money to provide further funding for those social support services, let's look at ways at how those workers move out of the sector and move into another sector and continue to be as productive as they have been. Thank you for your time.

DR ROBERTSON: Okay, that's fine, thank you. We'll take that into account with all the other comments we've heard today.

MR BAARINI: Thanks for coming down here.

DR ROBERTSON: Thank you very much. I've now got to offer an opportunity for those in the audience who may wish to speak. We've all had a long day, that's why I can afford to say that.

MR WEICKHARDT: Can I just put on the record our appreciation of the city of Geelong for the hospitality and this room and the lunch. It's been an excellent facility and we really appreciate the trouble you went to. Thank you.

DR ROBERTSON: Thank you very much.

AT 5.48 PM THE INQUIRY WAS ADJOURNED UNTIL
FRIDAY, 6 JUNE 2003

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