

**ALBANY INTERNATIONAL**  
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7 March, 2003

TCF Inquiry  
Productivity Commission  
PO Box 80  
Belconnen ACT 2616

Dear Sir

Albany International Pty Limited is a world class manufacturer of a range of technical textile products used in conveying and filtering applications. We are based in Gosford NSW and market our products throughout Australia, New Zealand and export to many parts of the world.

We have benefited in the past from the Import Credits Scheme and are currently a recipient of grants under the SIP. These programmes have been of tremendous assistance to us and have enabled us to maintain a technological advantage over our overseas based competitors. The following submission contains our comments concerning the pending Productivity Commission Inquiry.

Recent Performance and Future Prospects

AIA TCF products are predominantly in a technical textile sector and it's this continuing technological demand that has been the driving force in our industry over the last two decades.

However, it is increasingly obvious that as particular product groups begin to enter a flattening of technical need and pass onto commodity phase then the method that we have used to counter the threats to our successful business in Australia has been to investigate and implement all options that will maximise our available technology base.

As product groups tend towards commodities, one of the options available is to reposition manufacturing resources offshore to advantageous labour markets that enable us to overcome the threat of International competitors raiding our customer base. AIA has combated this threat by a continuation of strong support for our R&D efforts and capital expenditure in new technologically advanced equipment wherever possible. This however is limited by the business environment. AIA's commitment to a continuing manufacturing facility of World Class products based in Australia is unmoved and continuing for the future.

The opportunities offered by structural change can only deliver a limited benefit to AIA's business position. Without a constant commitment to technologically superior products the core fundamentals of doing business in the Australian market place such as labour costs, undermine the business security of AIA.

The most influential and growing market which demands world class performance in both products and costs is SE Asia and successful entry and continuing successful business in this market place is only available with a technological advantage due to the significant advantages in labour market forces that exist in SE Asia.

AIA has successfully exported into SE Asia for over 20 years but the inherent inertia is outpacing Australian technical textile companies ability to successfully compete long term. Support to continuing export is imperative to maintain the Australian Technical Textile product push into this expanding market.

In terms of regional position in Australia AIA has in the past not been disadvantaged by location on the Central Coast of NSW. However, generational changes and regional growth has made it more difficult to develop long term expertise in manpower. Relocation of skilled labour in the narrow field of technical textiles is increasingly more difficult. This is exacerbated by the dwindling tertiary educational courses that are available in NSW and Victoria in the textile field. Education courses that focus on technical textile technology will underpin the future technology base that must be in place to enable continuing growth in the industry.

#### Impact of Current Assistance Program

The SIP Program in particular has been successful in creating an environment for Australian companies to implement and realise innovation strategies in their R&D Programs. The two-pronged affect of capital expenditure and R&D support has enabled Australian companies to venture beyond the inevitable R&D and start a program that will bear significantly greater rewards for the Australian community than before the SIP program.

There is no question that in the technical textile field R&D and innovation are essential elements for survival but only the most predictably successful projects can be funded. The plethora of untapped innovative ideas that cannot be funded by Australian companies under continuing business pressures can now expect some further investigation with the support of the current SIP Program.

The critical issue is that the idea-to-commercialisation cycle of successfully innovative products that result from R&D activity in our technical textile field can range from 3-6 years and therefore any factor that will minimise the R&D programs will effect the medium to long term projects.

Continuing support for R&D and capital expenditure in post 2005 program is in our view a critical and essential element that must exist.

The expansion of EAOP Program to all sectors of the TCF Industries will ensure the continuing existence of growth of sectors of the TCF that are subject to labour market pressures. Commodity technology for part manufacture should be available as an accessible resource to the benefit of Australian Industries. This initiative can offset the labour market differences but in turn develop the Australian Technical Textile Industry into a more technologically and innovation focused industry. Without relief of this continuing international difference in labour costs company innovation and R&D programs are curtailed and this eventually leads to the dissemination and eradication of the Technical Textiles Industry to the detriment of the Australian economy.

### Work Place Issues

AIA has operated under an Enterprise Agreement system for many years and labour rates have increased in excess of CPI. These increases in labour costs have been partially offset by productivity gains due to the purchase of modern, high speed automated equipment, however the fact remains that we are grossly disadvantaged in this area when compared to the low labour cost countries.

Another factor impeding our growth is the excessive penalty rates applicable to both overtime and weekend work. The high on costs associated with permanent employees forces employers to only hire the minimum permanent workforce and rely on casuals and/or overtime to cater for the incremental spot business opportunities that present themselves. These arrangements are also expensive and counter productive towards improving the skill levels of our workforce.

We need assistance that enables us to continue to focus on technology and use this as the means to differentiate ourselves from the low labour cost producers.


### Market Access Issues

AIA's technological products have been competing on a global basis. The market equality that is lacking is that inbound tariff should match up globally for eg. products to major industrial customers in India are subject to duties in excess of 40% total and the reciprocative trade from India in similar products would incur around 15% maximum. A similar imbalance scenario exists with Brazil and European countries as well as other Asian countries.

The curtailment of previous export assistance programs has thrust the justification of product advantage to technologically based issues. In a rapidly changing global market AIA have been successful in maintaining export business but this has become increasingly difficult to sustain at the same level especially in view of value of the Australian Dollar in recent years.

This is only a brief submission on an extremely important topic. If after reading this you require any further input from us we would be pleased to visit you or alternatively sponsor a visit of your officers to our manufacturing facility in Gosford.

Yours faithfully  
**Barry McDonald**

A handwritten signature in black ink, appearing to read 'B. K. McDonald', with a stylized flourish at the end.

**MANAGING DIRECTOR**