

**Review of TCF Assistance
Position Paper dated April 2003**

Submission by Harold Boot Company Pty Ltd

Introduction

1. The Paper states that the Commission is seeking comment on the most appropriate form of support for facilitating adjustment in the TCF industries. This submission offers comments in the context of that specialised part of the footwear manufacturing industry to which Harold Boot belongs. Accordingly the submission begins with a short outline of the company and the issues facing it.

About Harold Boot Company

2. Harold Boot is a truly niche manufacturer of high quality boots located in the Melbourne suburb of Abbotsford. Employees number 16. Turnover is in the order of \$1.5m pa.
3. The main product lines in order of volume are:
 - a. dress boots in seven ranges;
 - b. western boots in nine ranges;
 - c. horse racing industry boots in five ranges;
 - d. mountain boots in four ranges;
 - e. snow boots in a single range; and
 - f. motor bike boots in three ranges.
4. 30% of product is exported, up from 3% five years ago. A further 10% is exported through a domestic buyer under that buyer's brand. Of the above product lines, 50% of horse racing industry boots is exported; and 20% of dress boots.
5. The company has no interest and does not compete in lines that involve labour intensive standardised production. Past and future growth depends almost entirely on its ability to identify and respond to demand for specialty boots.

The Issue for Harold Boot

6. The company has demonstrated its ability to identify demand and develop markets. But it has limited capacity for product development. Tooling up costs can be prohibitive and limit the capacity to grow.

An example: the snow boot range uses very expensive imported componentry from Italy – rubber galoshes. We would like to make the galoshes at the Abbotsford factory which would reduce costs significantly. We currently have 50% of the domestic market and would be able to grow this to 90%. An export market could be developed with the potential to triple total sales. But finding the funds to develop the moulds is the problem.

Another: we see a need to develop a new line of dressage boots to maintain and hopefully expand our existing strong position in the world market. But prospective tooling-up costs are inhibiting.

7. The company has gone through a long process of adjustment and is now profitable but securing its future is a critical concern. It is already internationally competitive in some markets and with some products, and is capable of becoming more so. But current government measures designed to facilitate adjustment are not structured to meet our particular needs and our circumstances.
8. With the right sort of assistance, Harold Boot could become a \$5m company. It would then have the capacity to stand alone and be able to provide new and sustainable employment opportunities.

The Footwear Manufacturing Industry

9. We accept the analysis of the industry presented in the Position Paper, the inevitability of further change and the need to phase out specific government assistance. We note that footwear manufacturing has contracted most severely and that jobs number around 4000 across Australia. We also note on page 13 that productivity growth in footwear over the last decade has been twice that of the TCF sector as a whole.
10. We agree with the statement on page XIII that some TCF activity can prosper - especially niche manufacturers in footwear such as Harold Boot.

Phasing out Assistance

11. We have no argument against the Commission's preferred option 4 for tariff reduction as it affects footwear
12. We agree that special support should not continue indefinitely. At the same time we believe that it would be disruptive to markets already developed, to suppliers and investors and to those employed to abandon footwear manufacturing and let it just fade away.
13. Therefore we agree with the Commission's general intention to continue transitional support along the lines of SIP or the alternatives outlined with a view to assisting adjustment, not only of those firms that should leave the industry, but also those that can in the medium term develop into efficient manufacturers.
14. We suggest that such support should be targeted more closely to those firms with the best prospects and most likely to continue in the long term. In other words prospective growth and staying power could be better criteria for assistance than existing financial and market power in some cases.

Existing SIP Assistance

15. We agree with the Commissioners' comments that the structure of existing SIP assistance limits its applicability to small firms such as Harold Boot.
16. Definition of innovation needs to be broadened especially to include tooling up costs where these costs are a barrier to entry to new markets.

17. Tooling-up costs are a significant investment for a niche footwear manufacturer that by definition relies on supplying a range of specialty lines to particular market segments. A prospective new line in a product range cannot be market tested without producing and showing the samples. Hence the significance of tooling costs in this industry sub-set.
18. The eligibility threshold is too high. Compliance procedures and the post investment claim feature are too complex for small firms.
19. Addressing these criticisms would go some way towards adapting the scheme to meet its aim of helping innovative small firms adapt to change.
20. However in considering SIP and the other options in the Position Paper, we suggest that the Commissioners look to aspects of each option. A more suitable assistance package may contain elements that can be tailored to suit the different needs of a variety of TCF sub-sectors. One size does not suit all especially in an industry sector undergoing rapid change.

Option C

21. Having said that, we believe Option C would provide assistance in a more cost-effective way especially for smaller firms.
22. We agree that a competitive bidding approach would leverage initiatives to improve a firm's competitiveness. It may be criticised as "picking winners" but in effect that is what is needed and already implicit in the Position Paper.
23. This is the form of assistance that would really assist Harold Boot to take the next step in expanding its product range to meet needs already identified in local and overseas markets.
24. We suggest that Option C should be but a part of a revamped assistance package. It would work best if it were a limited option designed to kick along particular firms in particular circumstances. An expectation that every firm should "have a go" would probably sink the scheme.
25. We suggest that a scheme based on Option C might best proceed by way of a limited number of pilot projects. The aim would be to target small firms judged capable of and likely to grow and remain as efficient manufacturers in Australia in the long term.

30 May 2003