30 May 2003

Our Ref: *RJG/PC/PC-30.05.2003*

Mr Bill Henderson
Senior Research Economist
Enquiry A Branch
Productivity Commission
P O Box 80
Belconnen A.C.T. 2616

Dear Sir

Re: Review of TCF Assistance (Position Paper)

Thank you for the opportunity of responding to the Position Paper and the invitation to participate in the Public Hearings, to be held on 3rd June 2003.

The Position Paper addressed a number of the issues raised by our company in our recent submission and we would hope to further explore these issues with the Commissioners.

Current Assistance Arrangements

The tariff pause and SIP have been very effective in promoting change in the industry, consistent with the Government's industry development agenda.

Godfrey Hirst has responded to this with major investment in plant, process and product technology and people – Refer to Pages 14 & 15 in our Submission for examples of this investment.

2 years into a 5-year program, SIP is bedded in and working well. It is important to retain SIP without major change over the life of the program. In fact any changes prior to 2005 could be deleterious.

The legislated tariff cut, which we have acknowledged, will pose a significant challenge for the industry by introducing a unilateral cut in protection at a time when China and other countries in the region are expanding their production capacity and gaining an increasing share of the Australian market.

Post 2005 Assistance Measures

Tariff
Retain at 10% until at least 2010. No further cuts without closer equilibrium of rates as this would serve only to weaken our bargaining position in future trade negotiations

The administrative anomaly in the tariff treatment accorded to carpet relative to other interior textiles (such as bed linen and towels), should be rectified. There should be no further cuts in the carpet tariff until other interior textile tariffs are in line with the carpet tariff.

Adjustment Assistance
A SIP-style program is required post 2005. We need the certainty of a 10 year fully funded program to complete the adjustment process. GHA has made good progress so far, but more needs to be done to become truly internationally competitive in a low tariff environment. Further assistance is required to complete the restructuring process.

Fine tuning adjustments to SIP may include: T1 30%, VA cap from 5% to 10%, more flexibility in the provisions relating to reconfiguration and restructuring, and support for demand driven activities (including overseas expenditure).

Market Access

This is a major concern for GHA and the carpet industry generally. Trade barriers are endemic in many countries and are less transparent than in Australia. In a lot of countries non-tariff barriers provide the greatest difficulty in capitalising on export opportunities.

Whilst the Federal Government is committed to trade liberalisation, our major trading partners have been slow to reduce their trade barriers. Modelling results suggest that the economy wide gains from further tariff reductions are minimal.

US/Aust free Trade Agreements
At the industry level, there is a need for effective safeguards to prevent the Australian market being swamped by imported carpet. The rules of origin are also contentious. Applying the US Yarn Forward rule would limit duty-free access to imports made from either Australian or US yarns.

Regional Issues

Godfrey Hirst is a major Victorian employer in both Geelong and Benalla.

Firms operating in regional areas can experience difficulties in terms of recruiting and retaining skilled personnel, access to training and infrastructure support services, higher freight charges etc.

SIP should be modified to provide more support for restructuring within major firms and between different entities.

Workplace Reform

Godfrey Hirst '*in principle'*, supports the thrust of AIG's submission on changes to the workplace and agrees with the PC that an independent review would provide a circuit breaker for the divisive employer entitlements issue.

Looking ahead

We believe that the post 2005 outlook for the company can be strong, given the right policy settings. This will include a significant local base, with continuing export growth of differential product, global sourcing of raw material inputs and ongoing investment in plant and machinery and innovative product and process engineering.

However, this development requires tariff stability until 2010 at least, and any further tariff reform should be subject to adjustment by other countries such that there is a close equilibrium of rates by our trading partners. Ongoing industry development programs, similar to the current SIP program for a period of 10 years post 2005 is essential to help the industry to complete the adjustment process and the journey to become truly internationally competitive and to stand on their own feet.

Yours faithfully

R J Garrett
Director