



Godfrey Hirst Australia Pty Ltd
ABN 58 000 849 758

Submission to the Independent Review of TCF Industries

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Author	John Garrett, Director
Organization	Godfrey Hirst Australia Pty Ltd
Address	Factories Road, Geelong
State	Victoria
Email	John.Garrett@godfreyhirst.com
Phone:	03 5225 02222

Godfrey Hirst Australia (GHA) appreciates the opportunity to present this submission to the Independent Review of Australia's TCF Industries.

In addition to this submission, Godfrey Hirst Australia contributed to the submission by the Carpet Institute of Australia Limited, and supports the recommendations contained in that submission.

Recommendations

- Additional funding should be allocated to SIP to avoid modulation in the last 3 years of the current scheme
- Introduce an unmodulated Investment Facilitation and Innovation program for 2010 to 2015 funded at similar rates to the existing SIP
- Support for innovative product development, process improvement and market development for innovative products should be provided for 2010 to 2015
- Restrict eligibility for the scheme to locally based manufacturers primarily engaged in producing eligible TCF products
- No further tariff reductions
- The Commonwealth Government should specify ACCS/ECS graded carpets for its own accommodation needs
- Product labelling requirements should be actively enforced for all carpet products supplied to the Australian market
- State and Federal government imposed costs on direct employment should be reduced.
- Support should be provided for investigating the establishment of a national carpet recycling program
- The Post - 2010 program should provide assistance for training and skills development either in-house or through linkages with external training institutions and tertiary providers
- Financial support available to carpet firms under the proposed Investment Facilitation and Innovation program should include a 10% grant uplift factor for projects or activities undertaken by eligible firms in regional areas.

Godfrey Hirst in Brief

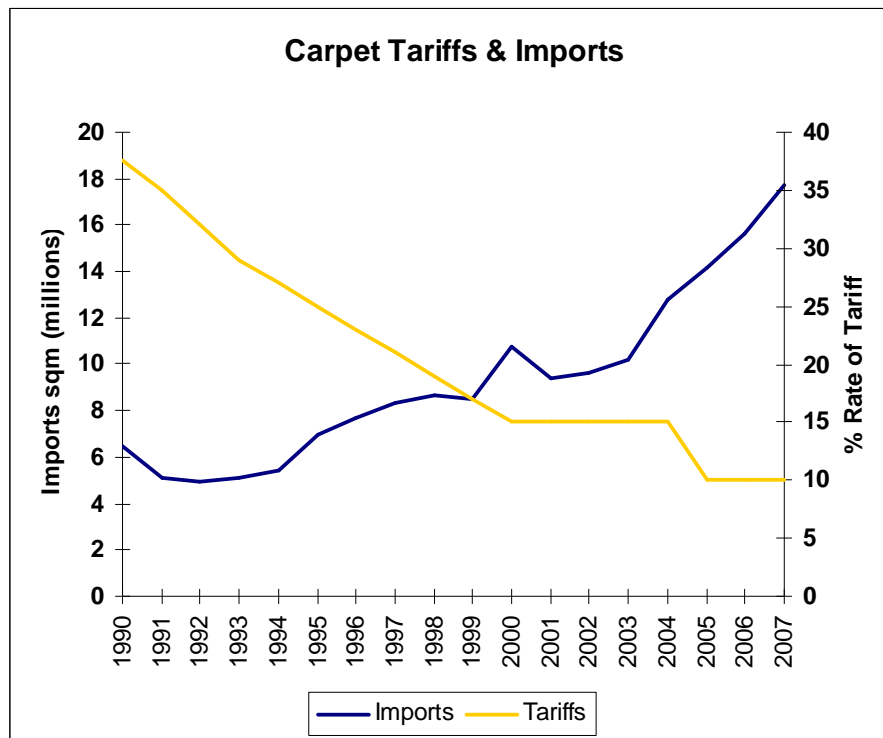
- Godfrey Hirst is Australia's largest carpet manufacturer, and the company ranks as one of the top 10 carpet manufacturers in the world rated on sales revenue. Most global companies specialize in synthetic carpets, which due to their use of filament yarns and scale of operations provide opportunities for manufacturing efficiencies greater than in similar sized companies in Australia. The technical and financial challenge associated with our requirement for flexibility is highlighted by the fact that comparable sized facilities in the United States and Europe manufacture only 10-15% of Godfrey Hirst's product range.
- Godfrey Hirst employs over 1150 people mainly at its manufacturing facilities in Geelong, Bayswater, Benalla, Braybrook and distribution centre at Laverton.
- Godfrey Hirst is the world's largest producer of wool carpet yarn and wool carpet, and produces approximately 50% of all wool carpet made in Australia.
- Godfrey Hirst is vertically integrated in both natural and synthetic fibres – this includes extrusion of nylon in both white 6 and 6.6 and coloured 6, polypropylene yarns, wool spinning, yarn texturizing and tufting and finishing of roll carpet and carpet tiles.
- Godfrey Hirst produces approximately 45% of the total Australian carpet production and approximately 10,000 tonnes of synthetic yarn annually.
- Godfrey Hirst has a major focus on export sales and currently represents two thirds of the total industry exports. Our major markets have continued to be developed and despite the appreciation of the Australian dollar exports have increased by 26% between 2003 and 2008. Sales to North America, our most important market, grew by 18% over the same period.
- In December 2006 Godfrey Hirst acquired Feltex (in liquidation) and initiated a major restructuring and reinvestment program, which is ongoing.
- Since 2001 Godfrey Hirst has spent over \$190 million on capital expenditure across its Australian manufacturing facilities with a major focus on technology improvements, investment in synthetic yarn production, and rationalization of plants following the Feltex acquisition. The rate of expenditure has accelerated in recent years and will be around \$30 million in the current financial year.
- The company also undertakes a significant research and development program. Research into fibres at the various stages of transformation is complemented by an extensive process improvement program into the mechanical processes of transformation. An extensive design program is also conducted to identify and develop new products and features.

Industry Context

The Australian carpet industry has experienced extensive rationalization and restructuring over many years. There are currently some 20 carpet mills in Australia, compared to about 50 in the early 1990s.

According to the ABS, carpet manufacturing employed 3,200 in 2005-06 and sales and service income was \$1.1 billion. The Australian carpet market is mature and growth over the past 20 years has averaged less than 1%.

Australia's carpet tariffs have fallen from 37.5% in 1990 to 10% in 2005. At the same time, carpet imports have increased at an inversely proportional rate.



Source ABS

In 2006-07 Australian carpet production was 42 msqm, which is 3% less than 5 years ago. Imports increased by 85% over the same period and now account for 32% of total market supplies, compared to a figure of 20% in 2001-02. The magnitude of the increase is due in part to the emergence of China as a major exporter of machine made carpets, as opposed to traditional handmade rugs, as well as, the strong dollar. New Zealand remains the largest source of carpet imports, however, Chinese imports have grown strongly over the past 5 years and this trend is expected to continue.

The growth economies, including China and India, enjoy advantages over Australia as a manufacturing location because of their weak environmental standards, under regulated labour conditions and protected home markets that discriminate against imports.

Over the past 5 years Australian carpet exports fell by 3% to a figure of 3.7 msqm. However, Godfrey Hirst's exports increased by 26% over the same period which includes an 18% increase in the company's biggest and most important market, North America.

The Australian carpet market is very dynamic and much has changed since the post 2005 TCF policy and assistance measures were developed. Some of the more important influences have been:

- the growth in imports
- the strong Australian dollar
- higher water, fuel, energy and raw material costs
- chronic skills shortages associated with an ageing workforce and difficulty attracting younger workers, particularly in regional areas
- climate change
- the failure of recent trade agreements to deliver improved market access opportunities.

Notwithstanding the obvious challenges, the Australian carpet industry has made steady progress in repositioning itself within the global market through restructuring, capital investment and innovation. The Carpet Institute's submission clearly demonstrates through a series of company case studies that SIP and the tariff pause have greatly enhanced the ability of carpet manufacturers to respond to the competitive challenges by restructuring, modernising manufacturing assets and undertaking innovative product and process development.

Godfrey Hirst has used SIP as a key enabler in the company's efforts to become truly international competitive. Some examples of projects undertaken are outlined in case studies contained in the confidential Attachment to this submission.

Major Issues

Programs and Policies

At the last inquiry the Carpet Institute and Godfrey Hirst requested a 10-year extension of SIP and no further unilateral further tariff cuts, however, a 5-year program was implemented, and tariff cuts to 5% were scheduled for 1 January 2010.

Recent developments have increased the magnitude of the challenge facing the carpet industry, and confirm the need for positive assistance to 2015. This will help the industry to consolidate the gains made in recent years and to move forward with greater confidence.

With the benefit of an additional 5-years Godfrey Hirst will continue to invest in its Australian operations and to meet the challenges ahead. While much remains to be done Godfrey Hirst is confident that the company will further consolidate its position as the leading carpet manufacturer and to continue to focus on developing innovative, high value products for the local market and premium niche export markets.

Australia has one of the most open markets in the world for trade in TCF products. In marked contrast, many other countries have continued to maintain restrictive tariff and non-tariff barriers, which to a greater or lesser extent reduce our ability to export.

There are also tariff avoidance strategies known to be used throughout Asia. An example, known as 'submarining,' relates primarily to exports out of China, shipped via Hong Kong in transit. Through the use of dishonest freight forwarders, no VAT is paid ex China (normally 17%) or any taxes when transiting through Hong Kong. The correct practice is to pay the VAT and claw back around 14%.

Recent free trade agreements have had the perverse effect of increasing import competition in Australia while, at the same time, not improving market access for Australian exports. Godfrey Hirst believes this anomaly should be addressed, starting with US 'yarn forward' rule of origin. Despite these concerns Godfrey Hirst is in favour with the proposed trade agreement between Australia, New Zealand and the ASEAN bloc, provided that this Agreement delivers genuine market access opportunities for Australian exporters.

Recommendations:

- retain SIP until 2010 and increasing the annual budget to avoid modulation
- no further unilateral tariff cuts
- introduce a new unmodulated Investment Facilitation and Innovation program for 2010 to 2015 funded at similar rates to the existing SIP
- restrict eligibility for the scheme to locally based manufacturers primarily engaged in producing eligible TCF products

Godfrey Hirst strongly agrees with the Carpet Institute's contention that Government has a role in ensuring that the market is properly informed as to the origin, fibre content and environmental impact of carpets available in Australia. This may be achieved by government:

- specifying carpets that have been graded using the carpet industry's Australian Carpet Classification Scheme (ACCS) and Environmental Certification Scheme (ECS).

- enforcing labelling requirements

The carpet industry is concerned that reforms have failed to deliver any real improvement in government imposed taxes and charges, such as payroll tax and workers compensation premiums, that can add significantly to direct labour costs. These costs are considerably lower in New Zealand and work practices are more flexible than in Australia. Both issues need to be addressed and resolved.

Climate Change and Environment

Godfrey Hirst has taken major steps to improve environmental performance across all areas of our business operations. Godfrey Hirst has significantly reduced water and energy usage and increased recycling of waste in its manufacturing facilities. Further details are contained in the confidential Attachment.

Godfrey Hirst supports the industry's Environmental Certification Scheme and recommends that government departments and agencies specify ECS graded carpets for use in public buildings. Recycling of old carpet is an important priority for the carpet industry.

The biggest environment challenge facing the industry is of course global warming and greenhouse gas emissions abatement, which will have a major influence on the future structure of the Australian carpet industry.

Recommendations

- support should be provided for investigating the establishment of a national carpet recycling program
- a future Investment Facilitation and Innovation program should provide support for eligible environmental upgrades including dealing with climate change, transforming energy use to renewable sources and carbon trading

Education and Skills

Godfrey Hirst has continued to invest in management development programs incorporating our graduate program, which includes an annual intake of multi disciplined graduates covering engineering, computing, science and business studies etc for extensive training throughout our business operations.

Skills shortages are a major problem throughout the carpet industry. Institutional providers are not providing training in key skill areas, and manufacturers must rely on internal training or attempt to recruit people from overseas.

Recommendation

- the post 2010 program should provide assistance for training and skills development either in-house or through linkages with external training institutions and tertiary providers

Regional and Social

Godfrey Hirst directly employs approximately 600 people in Geelong and is the second largest non-government employer. The company has another regional plant in Benalla with a workforce of approximately 140 people. Both plants are major contributors to the local economies, and any reduction in carpet industry activity will be magnified through these regions.

Godfrey Hirst supports the Carpet Institute's proposal that, in recognition of the public benefits that flow from stable and growing carpet activity in these areas, any claims for expenditure and activities under the proposed Investment Facilitation and Innovation program in regional areas should attract a higher rate of support.

Recommendation

- financial support available to carpet firms under the proposed Investment Facilitation and Innovation program should include a 10% grant uplift factor for projects or activities undertaken by eligible firms in regional areas.