

ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into Manufacturing in Victoria

Melbourne — 18 August 2009

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Mr R. Patterson, General Manager for Victoria and Tasmania, Printing Industries Association of Australia.

Mr ATKINSON — We will start. We are expecting another member but rather than hold you up we will get under way. Obviously a warm welcome. Thank you for both your submission and for agreeing to appear before the Committee. The Committee is actually an all-party parliamentary committee and is hearing evidence today on the inquiry, as you know, into manufacturing in Victoria. You would not know it was an all-party parliamentary committee, but indeed it is!

Mr PATTERSON — I was going to say!

Mr ATKINSON — All the evidence taken at this hearing is protected by parliamentary privilege. If you were to repeat what you said outside the hearing — for instance, if there were a clamour of media at the front door, which I do not believe there is — then that would not be protected by parliamentary privilege.

Mr PATTERSON — That is fine.

Mr ATKINSON — You will have an opportunity to review the Hansard transcript, because this is being recorded. You will be able to make any corrections — misspellings and matters like that — but not change the substance of the evidence. Can I ask you to just state your full name and address and the capacity in which you are attending the hearing today.

Mr PATTERSON — My name is Ron Patterson. I am the current General Manager for Victoria and Tasmania for the Printing Industries Association of Australia, certainly representing the printing industry members, and non-members for that matter, at this hearing today. Part of our submission was just to put in a small number of issues that we felt are important to be talked about if we had the opportunity.

Mr ATKINSON — That is fine. Do you wish to make some opening introductory remarks to that extent?

Mr PATTERSON — No, not really. I was just going to talk briefly to the major issues that we put in the submission. Since then there have been a couple of updates on some of them, but certainly I will talk more to our recommendations rather than the background, which is hopefully in the document.

Mr ATKINSON — That is fine.

Mr PATTERSON — The first part of our document was regarding the credit crunch and the impact on the printing industry. We as the Printing Industries Association of Australia on a national basis put out a quarterly trends report. That trends report is representative of our industry and members, and a lot of people tend to look forward to this report because it gives a general overview of the last three months. Most of the Association's findings, if not all, are taken out of that trends report. So rather than go into detail, because it is a 60-page report, I am only too happy to leave this with you as a copy and go from there.

The general feeling and our comment was that the credit crunch has hurt the industry quite dramatically. From the responses we got, our policy recommendation was that the government needs to have a look and take action to make sure that there is credit available to all commercially viable printing presses — along the same lines as what happened in the car industry. With all due respect, that is not just a Victorian issue; I would suggest that it is a national issue as well, but because this is a Victorian inquiry, we thought that we would talk about that.

If I may, I will shoot on to point 2. I could probably talk for 2 hours on that first credit crunch issue but most of the issue there is pretty self-explanatory. The concern we have is that the credit is putting a lot of pressure on the industry, and over 50 per cent of the industry members are saying that if they could not get credit, either to purchase product or for cash flow reasons, they would have to start to downsize and cut costs, and that is of concern to everybody, obviously, from an employment point of view and certainly from an investment point of view. For a number

of years the strong belief has been that our industry has been very, very much overserved and far, far too many print companies are involved in the business. But that is the way it is, and over the last two years we have had a fairly substantial downsizing with a number of major companies coming in and buying up a number of print companies and making larger print companies, and certainly that is where we stand today. But credit is certainly an issue that needs to be put on the table.

Item 2 is long service leave changes and the likely impact on the printing industry. The printing industry is concerned about attempts to standardise long service leave. As an explanation regarding a lot of this documentation, the Printing Industries Association of Australia has a committee set with the Federal Government through Kim Carr's office, a number of major members of our industry sit on that committee and a lot of these topics are reviewed and discussed on a regular basis with the Federal Government. But again, as part of Victoria these issues are certainly a concern as well. The one that we are talking about now is the long service leave changes and the likely impact on the printing industry.

There is concern that the attempts to standardise long service leave provisions will lead to implementation of highest common denominator standards, resulting in significantly higher employer obligations for printing employers. For example, if this was to be standardised, South Australia has the highest benefit of 13 weeks at 10 years service, versus Victoria with 13 weeks at 15 years service. On behalf of our members, our organisation does not support the increases in long service leave entitlements.

Item 3, if I can, is the establishment of a printing industry adjustment fund. What that is about, pure and simple, is that the technology change over the last 10 years — going from analogue to digital — has certainly helped the industry, but it has hurt it quite dramatically as well. The issue you have as an owner of a printing company is you have to keep up with the latest and greatest. As most people in this inquiry would know, the minute you buy a bit of electronic equipment, probably three weeks after that there is a smaller one, half the cost and much better. That is an ongoing issue with regards to the industry. In the industry itself, when digital technology hit the airwaves — our industry is designed to make short-run, quick turnaround-type product very much for a service industry like a Kwik Kopy and a Snap versus an offset business which is a long-run-type product. Most companies today have to have both products. A number of them have decided that they are not sure where they stand, but with all due respect they cannot afford to pay the outstanding legal entitlements to all their employees. The issue we feel — and we see it quite readily — is where there are a number of companies that are slowly dying on the vine. What we are trying to do is to come up with some sort of a government-funded initiative to assist companies to either exit the industry or restructure and/or adopt new technologies and improve performance and overall competitiveness.

The issue is that they cannot afford not to, but because they cannot afford it they tend to shy away from that side of it, and that is an issue. Again, our policy recommendation would be the introduction of a federal and/or state government-funded industry adjustment package to apply for a limited period of, say, six months, giving the industry participants the opportunity to either exit or to restructure.

Item 3 is a fairly intense issue: it is the 30-day rule campaign. A lot of people have thrown their weight behind it. The Productivity Commission has come out recently and recommended the 30-day rule, as we call it, or parallel importation restriction, should be gotten rid of. The printing industry's position, which is naturally guided by the feedback of the book printing industry members, currently advocates the retention of the existing arrangements — what is commonly known in the industry as the 30-day rule.

That main concern there — and again there is detail in there for anybody to look at — is that basically what happens is a publisher in Australia has 30 days to print the book before it is done outside. It has protected the local content of the industry. Victoria would be one of the hardest hits,

because in Maryborough, just outside of Ballarat, there is large book printing company by the name of McPherson's Printing Group. There are over 300 employees and they only print books. This parallel import restriction, which it has been suggested should change, gives them some sort of protection. There is no evidence from where we sit that has been provided to say why it should change. In numerous other countries it has not changed. There is a hell of a groundswell.

We were very surprised by what the Productivity Commission came out and said — recommending an open market within three years after a government decision — knowing that the Australian economy by then would have emerged out of the current recession. The recommendation for an open market is likely to prove detrimental to the local book production industry, resulting in reduced production and employment.

Most of this has been pushed quite heavily by the larger booksellers, claiming that books are overpriced. Once again, certainly from all the evidence we have in front of us, there is no evidence to prove that. You can buy books in today's world on the web and all those types of things at very different prices, but to suggest that the dropping of that rule would help drop the cost of books, we do not believe to be exactly correct.

From a printing industry point of view, we have become heavily involved with the major players — Griffin Press, PMP and certainly McPherson's Printing Group here in Victoria. As I say, we as an industry are quite concerned about it, because of the Maryborough issue that I have already stated. We had sent letters to Premier Brumby, and he sent an answer back on 3 August with his media release saying that he supports our issue and, from a government point of view, would throw the government's weight behind it. We have been involved quite heavily with many federal ministers working closely with the mayor of the Central Goldfields Shire, Chris Meadows-Taylor, the Honourable Maxine McKew and Steve Gibbons, the federal member for Bendigo, who was also appointed to the committee that was set up recently at the ALP federal conference to try to stop this rule being changed. So there is a hell of a lot of work going on in the background.

Once again we believe that it should be left as it is. At this particular stage that will be our issue and focus over the next three months or so. We believe that the final result from the federal cabinet will come out in the September time frame. It is very much a concern from a Victorian point of view purely and simply because of the employment ramifications.

There are a couple of other smaller issues and there is one large issue that I would like to discuss at the end if I may. So I will just touch on the smaller ones. In Australia some 20-odd years ago a Keep Printing in Australia campaign was run, and it was very successful at the time. It was very costly but very successful. There has been a heavy push from the industry to look into running that type of campaign today. Our strong belief is that a communication campaign to the public might be a lot better than a Keep Printing in Australia-type of campaign.

The issue is quite simply we are fighting against the Asian countries: any printed product that is not time-sensitive, like a book, can be picked up out of Australia, taken to China and printed for probably about 50 per cent of the cost of it in Australia. The issue we have with that is a bit like the food product area whereby if we say the packaging is printed in Victoria or printed in Australia, then the public seems to know. One thing about Australians is they are pretty loyal when it comes to this type of issue — or to an extent they are. For example, just recently Hallmark cards packed up and took the printing of its cards into China. Again the public will not see any better pricing; it is purely and simply a cost-driven exercise. The local print market, with all the associated laws and regulation such as environmental management systems and things of that nature, which are costly, finds it almost impossible to compete on that side of the business.

In summary, one of the issues we would like to look into is some sort of law or regulation, similar to the requirement to put on packaging what is in a product, which requires the producer to state where the packaging was printed. We have found that if a spare part or something along those

lines is produced elsewhere, then more than likely the packaging goes with it. If a spare part for a car is made in the Asian area, then more than likely the printing is done there as well. No-one knows where the printing was done but they may know where the product itself was made.

Basically we are talking about free trade agreements. The printing industry supports free trade agreements but we would like to see some communication on anything that is printed outside Australia to say where it was printed. We would like to see some support for the industry. We are not suggesting any form of protection; we are not asking for better funding or anything along those lines. We just want something on the packaging to advise the public of what is going on in those areas.

The fourth issue that we are up to, I would suggest, is a print promotion campaign regarding the industry and sustainability. The printing industry generally — not only in Australia or Victoria but certainly on a worldwide basis — tends to cop a lot of flak because of paper, which is so ill-informed it is not funny. It is not something that I have with me today, but proof can be provided to show that the industry, probably over the last 10 to 15 years, has moved a lot further down the environmental track than many other industries have. All the forests and the wood that is used to make the paper are regenerated and very sustainable on a long-term basis. Our industry, from a paper industry point of view, is mounting a campaign, both federally and from a state point of view, to try and help the image problem. It is more along the lines of helping with our career opportunities and employment with young people. Again, we know the true reflection of the state of the modern printing industry, which is clean and technologically advanced. The fact that the printing industry is amongst the largest users of information technology is not a known fact amongst the community. Our recommendation, again along these lines, would be for the state and/or federal governments to commit funding for the development of a national paper and print awareness and promotion campaign, and communication for the development of Aussie print jobs versus Aussie jobs, country of origin where product is printed as well as made to help with competition versus Asian countries which have relaxed rules regarding environmental issues et cetera. I have discussed the Hallmark issue. I suppose one of the biggest issues we have got in the industry with regard to that side of it is purely and simply communication, where we want to make sure that that side of it is looked after.

There is one major issue that from a Victorian point of view is probably the key issue that I have with me today — that is, the State Government. We have been dealing with a number of the people that are on this committee over a number of years with this issue. The current State Government went into a whole-of-Victorian-State-Government printing contract purchasing policy and its impact on the printing industry. This particular contract was signed in July 2007 by the Department of Premier and Cabinet. At that particular time it was Premier Bracks.

A number of issues concerned us at the time. One was that there was no communication with the industry whatsoever. This originally was picked up through the paper when it was announced that it was going to happen. Our concern at the time — and there are many documents that can prove the issue — was that it was going to be price driven only and would have a very strong detrimental effect on many small businesses within the printing industry, which it has had.

There are a number of issues. As an industry we are not against government trying to save money, because we are all taxpayers — we do not have a problem with any of that — but we believe the issue is completely wrong. Since then a number of state governments have picked up different models, and that has been our issue. I will talk about a number of issues, if I may, about the contract that we see as a concern to the manufacturing side of the business.

How does the contract work? At the time it was announced that the spending on print within government was between \$15 million and \$25 million. The issue was to try and standardise it and obviously save money. Our concern, as we said, was the way it was being handled and the way it was put together. The gentleman at the time out of the Premier's department was a chap by the name of Andrew Hockley. At that time he had looked into purchasing newspaper advertising at a

better rate, and certainly TV advertising at a better rate, which was a lot easier to do because of the fact that you were dealing with four or five newspapers and/or TV stations at the time. For some reason they continued on with the idea to do it from a printing point of view.

The way the model works is that the actual contract was handed over to what we call in the industry a print procurement company or a print broker. In that particular model if you are a printer, you have to be accredited through their process, and that accreditation is under their rules and they tell you what the rules are, be it a two-colour printer, a four-colour printer or a packaging printer or whatever. Again, we do not have any problems with that; that is the way they do their business and that is fine.

What we do have a problem with is when a job goes up onto the website and as a printer you go on and you look at that particular job and you quote for it. The job is quite simply price driven — the lowest price gets the job. How it works is, for instance, if I get the job and my price is \$9000 and Bruce Atkinson's price was \$10 000 and the job is needed next Wednesday and I cannot do it, then it goes back to Bruce as the second. He is then offered the job — it is not a quote at that particular stage — on the condition he can produce it by the next Wednesday. In effect it gives it the price and the time for all that type of work.

Quite simply our issue is that there has been long-term damage and unemployment in SMEs — small businesses. It is due to the many smaller printing companies not being prepared to supply for the prices that this has happened. We have had a fairly large printer in Melbourne that was heavily involved in this side of the business. It got to the stage where they just restructured the company recently and had to put off 78 people. That certainly was one of the reasons — it was not the only reason; do not get me wrong.

Another issue we see is quite strong. What happens is that the government departments that are looking for a printed job are not able to talk to the printer. As probably most of us around the room would know, a printed job can be very complicated. If the department cannot talk to the printer and he is talking to the man in the middle, that is what the issue is. We feel that many times some of this work has fallen over or been printed wrong. Obviously at the end of the day the printer is the one left holding the bag. A number of other models, which I will talk about at the end, would be much better, whereby the government departments talk to the printer involved — whoever has won the job — and there does not seem to be an issue.

Mr ATKINSON — Can we move to those fairly quickly, Ron, because we need some time for questions.

Mr PATTERSON — Okay, I will keep going through it. In July 2007 when it was established we were told in writing by the Premier at the time that there would be a review on a regular basis and a yearly basis, a review on the savings. I have got a letter in writing from Premier Bracks at the time — we are now in August 2009. We were looking for a review in 2008, in July, and nothing happened. In a nutshell the issue is that we have had no concerns or issues reviewed whatsoever.

On the independent review and accountability of any appointed print management company performance, as I said, Premier Bracks committed to it in writing, and we cannot seem to get any evidence whatsoever out of the department. As late as last week we were told that the contract now was being taken out of the Premier's department and put into the finance department, because one would suggest that the issue is quite distasteful and has become a political issue rather than the issue itself.

As an industry in the beginning we started to put together a number of companies — five companies — that would be working together between now and July next year to see if we can get some answers and/or make some recommendations to fix the whole issue. Quite simply the concern is that for the printer at the end there is no evidence to say that any money has been saved.

We cannot get proper feedback. I have numerous letters to say that. It is not something that we have been looking at every 12 months; we look at it on a monthly basis. Quite simply that contract was signed, sealed and delivered, and we do not believe that it has been good for anyone but the middle man.

Mr ATKINSON — Okay. That is good. Can we dimension the industry in Victoria? Do you know the number of printing companies, say, over the last five years — the loss of companies, and particularly the impact of the last 12 months' economic circumstances?

Mr PATTERSON — The problem you have got is quite simply in today's world with technology, I could put a printer in my backyard tomorrow and call myself a printer. As to the documentation, we believe that some two years ago the number of printers per se in Victoria was between 1400 and 1500. Today we believe the figures to be between 1100 and 1200, so there has been a substantial loss, but again a lot of them have been in smaller businesses that are one and two-man shows. Eighty per cent of our members are people with under 20 employees, so most of those particular businesses are quite sustainable, but as I mentioned before, there were a couple of large private equity companies come in — two of them — one called Blue Star and one called GEON — and they bought out, probably in Victoria, 12 of the best performing companies and made them into one, and that is what has happened there.

There has been a substantial decrease. The last 12 months has been difficult, but the way we look at it is that we felt that in a recession time, a lot of these places that do fall over certainly very quickly are not very viable businesses anyway, and they do not run very well in good times, lot alone in bad times, but as I say we believe it is from 1400 to 1100 now.

Mr ATKINSON — As part of the consolidation and the credit squeeze and the procurement policy, has there been any significant or disproportionate impact, if you like, on country or regional printers?

Mr PATTERSON — There are a lot of country printers that were doing government work and a lot of them have been hurt, especially in the Gippsland area. There were a lot up that way. But again from an overall general point of view, one would suggest it is not any worse than, say, in the CBD. They have been around. There are a lot of very small printers around regional Victoria, and they are still going, a lot of them, but the general comment is that the ones that have not would have fallen over for the same reasons I mentioned before.

Mr ATKINSON — Who are our major competitive countries and has there been printing work that perhaps has come back to Australia; if so, for what reasons it might have come back or besides those private equity investments, has there been other significant investment in the printing industry in the last three or four years?

Mr PATTERSON — No. The major change to the industry, as I say, was the technology changes which makes it easier for anyone to get into, and secondly, the private equity companies are buying up those places. There has been a substantial amount of work taken, mainly in the book industry because of the time frame.

In China originally, some two years ago, the turnaround was about 14 weeks. Today it is within the 10-week area, so if you want to produce something quickly, it would take you at least 10 weeks, but the cost savings are quite dramatic, and the book industry there has suffered quite dramatically from that, but no, there is nothing that you could say. China is obviously the biggest threat. The Printing Industries Association took a few people to China some 18 months ago, and the major printer over there, or one of the major printers they visited, to give you an example, the best printer they had in the place was on \$1000 a month, and some of our printers in business today are on probably between \$70 000 and \$80 000 a year, so there are substantial savings in obviously people.

Mr ATKINSON — The 10-week turnaround on a book means that you actually could not meet the parallel import — —

Mr PATTERSON — That's right. That is really not the issue. That tends to protect us here in Australia when you are publishing a book. Say Bruce Atkinson was publishing a book, the publishers here gets — —

Mr ATKINSON — Which he has done!

Mr PATTERSON — The publisher here gets protection — exactly. He has 30 days to make sure that no-one can grab it outside and print it in China and come back. It is more the second printer that probably is where the issue would be. If you were going to have a second run of it, say, in December, you could get it printed in China, and that tends to happen.

Mr ATKINSON — How familiar are you with the greeting card industry?

Mr PATTERSON — Quite. We do the administration for it in our office.

Mr ATKINSON — I am fascinated by Hallmark as a case study and some of the other greeting cards companies where, as you said, they have taken printing offshore. Greeting cards are a high value product, pretty easy to produce and they are fairly high volume products, with not a lot of transport costs. It is a pretty good product that you would think would do well within Australia.

My understanding is that the major problem with the greeting cards is rebates that the manufacturing companies have to pay to the retailers to stock their product, particularly the department stores and discount department stores, and it is those rebates, because of retail pressures, that have encouraged them to go overseas to try and protect some of their margin. Is that a fair estimate of what has been happening in that industry?

Mr PATTERSON — We believe that they have indicated that the costs — obviously they are chasing costs, and those rebates would have to be paid with the retailer anyway, whether you print it here in Australia or in China, but you are right. I suppose our issue quite simply is the consumer — the person at the end who buys the card — we believe does not know that the thing is being printed in China, and probably from a communication point of view, if that is what the company wants to do, and it is not right of us just to pick on Hallmark because this is going on across the board, and one of the things we have looked at is the name and shame, but that is another issue as well.

But from a general point of view, what we are saying is if there was a law that said you had to put on the back that it was printed in China, we believe that a number of people would not buy the product. Now, to say they have to pay those rebates, they have to pay them anyway, do they not? And there is a cost issue, but we have all got cost issues, so our issue is not to get involved in their cost issues; our issue quite simply is to tell the public that this product is being printed offshore. That is probably where we are coming from.

Mr ATKINSON — In terms of export opportunities for our print industry, are there any that you can identify?

Mr PATTERSON — Nationally we turn over about \$1.9 billion in exports currently, mainly in the packaging arena. That is where a lot of it is done. A lot of it is product that is packaged before it goes out as well, so I suppose the issue is the industry has been concentrating more so from a protection point of view. In reality, though, Australia is a small market to the Chinas of this world, but it is still a market, and to answer the question, 'Are there any more export issues?', the answer would be, yes, but we would have to probably concentrate and find out exactly where they are. Most of the export that happens from a packaging point of view is in conjunction with and on behalf of a product that is already made in Australia and taken overseas.

Mr ATKINSON — Does our industry have a competitive advantage or any areas of competitive advantage?

Mr PATTERSON — No. I think the major problem we have is that the laws and the rules here in Australia, especially now coming from the environmental area, from a printing industry point of view, we instigated a product called Sustainable Green Print, which is an environmental management system. It takes you to the ISO14000 standard.

As we probably all know, the ISO14000 standard is an international standard for all industries, whereas the difference with our product is it is industry specific and it is a four-tiered product — steps 1, 2, 3 and 4. Step 3 is the equivalent to 14 000; steps 1 and 2 are for smaller businesses, and a lot of these things come at a cost, and we find up in the Asian countries that area is not too overly concerned with them, and that is where a lot of the costs come into it, so again it is — —

Ms THOMSON — I am just conscious of time, but just one question: is the Asian market the only direction people are looking in?

Mr PATTERSON — Yes, I would suggest; the reason being it is the closest and the other countries are a long way away.

Mr ATKINSON — Can we just understand too that in relation to the companies that are actually getting print work done in Asia, it is all outsourced work? Is it all contracted out or are there any Australian, particularly Victorian, printing companies that are actually setting up shop over there, that are actually setting up their own operations offshore?

Mr PATTERSON — No, not to our knowledge. That is not the feeling we are getting. Any competition that comes out of that area is from companies that are already set up there.

Mr ATKINSON — If there was an adjustment package, what sort of contraction would you expect in the industry; what is the sort of exit level of the industry that you would expect?

Mr PATTERSON — The figures tell us it would probably be 15 per cent of people. Our major concern in that area is the damage that would happen in just waiting and slowly dying on the vine, if you like. We see it quite commonly with companies that need to upgrade equipment but cannot afford to, so they try to battle through, and then they fall over.

We had one in Richmond about eight months ago, a company by the name of D&D Global. He approached us on numerous occasions to try to get his company together with another to see if we could merge the two together. What happens then obviously is the egos of the two owners start to fall in place. The problem was he had some decent work but his equipment was getting old and to upgrade he was probably going to have to spend \$2 to \$3 million, which he did not have access to, and eventually he fell over. That tends to be how it all happens. But to put a figure on what it would be — —

In one way the industry needs for it to happen, in another way it does not — if that makes sense. That is because, as I said at the beginning, our industry is far too overserved, there is far too much press power, and we have just got to keep the work in there. What is happening at the moment, we have found over the last six months specifically, is not that a lot of the printers are losing work, but that their customers are not printing as much. That still hurts, obviously, the bottom line. That is probably the key issue.

Mr ATKINSON — Mr Patterson, thank you very much for appearing before us this morning and providing us with that information; it is appreciated. Within about a fortnight you will receive this morning's Hansard transcript. As I said, typing errors or any misspellings of names can be corrected, but not the substance of the evidence.

Witness withdrew.