Laminex Industries Submission to the Productivity Commission's Review of Australia's General Tariff Arrangements

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1 INTRODUCTION

1.1 Introductory Remarks

Laminex Industries ("Laminex") welcomes the opportunity to present this submission to the Productivity Commission in its Review of Australia's General Tariff Arrangements.

In addition to the issues addressed in this submission, Laminex will also present a separate confidential submission on the factors affecting the profitability and competitiveness of the laminate and decorated board industry in Australia.

Laminex is the sole manufacturer of high-pressure laminates (HPL) in Australia. As such, it *is* the Australian HPL industry and competes against imported HPL.

In low pressure decorated board products (LPL), Laminex competes with other Australian manufacturers and importers. The combined HPL and LPL markets are estimated to be worth $400 million annually.

Laminex is a partially vertically integrated operation and manufactures Medium Density Fibreboard (MDF) at its Gympie plant. Two thirds of this is used by Laminex in the production of HPL and LPL. The balance is exported to South East Asian markets. A range of value added products supplements these core products.

Laminex is a significant component of Australia's manufacturing sector, with a capital investment in the $hundreds of millions and employing over 1000 people nationally.

The future for Australian production of HPL rests in the continued viability of Laminex. It is highly unlikely that another manufacturer will appear, as there are significant barriers to entry into manufacturing HPL in Australia. These barriers are the high capital cost of entry (about $100million per plant), the size of the Australian HPL market, establishing a distribution network and the intense competition from Laminex and imports. The volume requirement for a profitable HPL plant would mean a very significant increase in available supply of HPL in the Australian market. In effect, the viability of any new manufacturer would depend on being able to find export markets for a large quantity of unsold HPL, a daunting task.

The threat from imported HPL is growing, with approximately thirteen imported brands now in the market and offering spot prices at levels lower than Laminex's production costs.

Laminex has responded to increasing competitive pressure from imports in a lowered tariff regime with a range of measures described in this submission.

It has reached world best practice in its MDF production and has embraced appropriate microeconomic reforms to increase its productivity and competitiveness.

Critical mass in a capital-intensive industry such as HPL is an essential element in the viability of Laminex as the sole Australian manufacturer. The erosion of market share to progressively more advantaged imports is a threat to that viability. The pace of further tariff reductions needs to provide industry with the lead-time and opportunity for adjustment.

1.2 Company Profile

Laminex Industries ("Laminex") is Australia's leading integrated manufacturer, marketer and distributor of contemporary decorative surfaces, substrates and complementary products. Since its beginnings in 1934, Laminex has served the Australian building and commercial construction industries as well as kitchen, bathroom, furniture manufacturing and commercial/domestic design companies.

Laminex items come in a wide range of decorative surfaces and specialist laminates, doors, solid surface, mouldings, plus particleboard and medium density fibreboard panel products. Cabinet and furniture makers, shop fitters, architects/specifiers and builders constitute the bulk of the market for Laminex products.

Laminex is represented by a chain of 38 branches which in turn are supplied by four Laminex manufacturing plants. In both instances, the coverage of the Laminex group of manufacturing plants and branches is national with an employment force in the manufacturing plants exceeding 470 employees. There are 170 Laminex sales support staff in its 37 branches. Overall, employees exceed 1000.

The development of Laminex sales and distribution facilities around Australia has led to substantial company growth, with Laminex now having an international presence with new markets in the Asia region. The efficient marketing and distribution of products direct to customers has allowed Laminex to maintain operational independence with the aim of becoming a significant international player within the decorative surface industry, servicing consumers, trade and commercial customers.

1.3 Laminex Products

Laminex manufactures a comprehensive range of unfinished and decorated products plus selected value added components. Below, are some of the products that are manufactured by Laminex.

High Pressure Laminates

Laminex manufacturers High Pressure Laminates ("HPL"). These laminates are manufactured in a range of sheet sizes, thicknesses and finishes. Certain products are manufactured with special properties for specific applications such as for chemical and graffiti resistance. These wear-resistant decorated laminates are used mainly for use on horizontal surfaces; for instance, kitchen benchtops and bathroom cabinets.

The wear-resistant laminates come in an extensive range of standard colours, with the innovative "Laminext" range providing an additional range of 60 colours and patterns. The "Laminext" range provides designer colours and patterns targeted towards the commercial spectrum of the market. In addition this extensive range, in September 1999 Laminex purchased the laminate Formica brand form CSR together with its New Zealand manufacturing. The acquisition of this brand bolstered the range to an additional 232 colours.

Decorated Boards

Decorated boards, or Low Pressure Laminates ("LPL"), are manufactured by applying paper-based decorative surfaces to Medium Density Fibreboard ("MDF") and particle board substrates through the application of heat and pressure. They are primarily used in roles where high wear resistance is not required, such as applications where laminates would be more appropriate. They are best suited to vertical rather than horizontal applications.

Decorated boards are manufactured in several sheet sizes, thicknesses and finishes with the option for them to be manufactured with moisture resistance qualities.

MDF and HDF (HD3) products

Laminex 'MDF' products are sold under the brand name of "Craftwood" and are manufactured from radiata pine. Craftwood sheets are manufactured in a range of thicknesses, sizes and strengths and a range of mouldings for skirting boards and architraves is also available. MDF is marketed raw (undecorated) and as a substrate on decorated board.

As of last year (Sept. '99), Laminex manufactured a small quantity of HDF using highly water resistant resins to produce an extremely strong board suitable for use in humid and wet areas such as bathrooms. This product is marketed as "HD3" and in its raw form is now sourced from a New Zealand manufacturer. This undecorated board is then decorated by one of the Laminex plants and sold via the Laminex distribution network. Laminex sales of the HDF product occur both in raw and decorated forms.

Other Products

Laminex also manufactures and distributes a number of other products in addition to those listed above, such as:

- painted and roll-formed melamine doors
- Laminex partition kits, standard toilet and shower partitions made from HD3
- Laminex Lamikits which are flat-packed, ready to assemble, kitchen carcass kits
- Vanity units.

1.4 Capital and Human Resources

Manufacturing Plants (Capital)

Laminex has four manufacturing plants in Australia:

1. Cheltenham (Victoria) making HPL
2. Ballarat (Victoria) making decorated particleboard
3. Wagga Wagga in New South Wales making decorated MDF
4. Gympie in Queensland making raw MDF and decorated MDF.

Formica established an HPL manufacturing plant at Papakura in New Zealand in 1998 and through its acquisition of the Australian and New Zealand businesses of Formica in 1999, this plant is now under the same ownership as Laminex.

The manufacture of HPL, LPL and board products is a capital intensive business requiring multi-million dollar investments in complex treating and pressing machinery and associated buildings and infrastructure. The present day cost of establishing a manufacturing plant with treating and pressing facilities is in the order of $100 million.

Through the extensive expertise of its staff, and the large capital expenditure committed to its manufacturing facilities, Laminex has very substantial resources engaged in the laminate and decorated board industry.

Human Resources

Employment levels at Laminex manufacturing plants have declined steadily from 831 in 1990 to 472 in 2000. In 1998, the MDF press at Wagga closed and in late 1999, particleboard production ceased at Ballarat as part of the rationalisation associated with the acquisition of the Formica businesses. The number of branches and staffing levels of 170 over its 38 national sales branches and administrative offices have remained relatively constant over the last ten years.

Laminex employs over 1000 staff throughout it four plants, its 38 national sales branches and administrative offices.

Through its corporate culture and enterprise agreements, management and staff collectively work towards ensuring and improving customer satisfaction, in-house training, workplace relations and product quality to meet the challenges of competition and corporate performance targets.

2 TRADE POLICY AND MICROECONOMIC REFORM

2.1 Context

Over the last 30 years, major changes to trade policy have affected the manufacturing industry. These changes began with across-the-board tariff cuts of 25% in the early 1970s and government acceptance of Tariff Board recommendations for further tariff reductions.

Then followed the decision made in the mid-1980s, to introduce a general program of phased tariff reductions commencing in May 1988 to reduce most of the higher tariff rates to 15 per cent. In March 1991, the Government announced a continuation of tariff reductions beyond 1992 with a phasing of rates to 5 per cent by 1996.

The microeconomic reform agenda of government has included both domestic economic measures through the general tariff reduction programs concluded in 1996 and externally through the international trade liberalisation arrangements.

In the latter area, Australia has taken a leading role as an advocate for free trade and investment within the Asia Pacific Economic Cooperation (APEC) forum. It has also given legislative effect in 1995 to WTO agreements and promoted more open international trade through support of prior GATT agreements.

By these measures, successive governments have created a momentum for tariff review and initiated processes to reduce tariffs.

The continuous reductions in tariff protection over the 1980s and 1990s and the consequential increase in competitive pressure from imports have placed considerable competitive pressure on Australian manufacturers to adapt. To do so, manufacturers needed to make considerable adjustments to transform and adopt world best manufacturing practice to enhance competitive ability relative to imports.

2.2 Responses by Laminex to Microeconomic Reform

Competitive pressures imposed through trade liberalisation reforms have been additional to existing competitive pressures between local manufacturers.

In the laminate market there was intense competition between Laminex and Formica, the two local HPL laminate manufacturers and the importers of HPL.

Such competition of its own accord promoted pressure to improve performance.

In addition to competitive pressure from imports and local manufacture from Formica, Laminex has made its own strategic responses over a number of areas.

2.2.1 Company and Plant Rationalisation

In August 1999, Amatek Holdings Limited acquired CSR's Formica decorative laminates businesses in Australia and New Zealand to expand its own Laminex business and to further its business focus on decorative laminates.

As a result, Laminex Industries was further entrenched as the market leader in decorative laminate products in both Australia and New Zealand and became the sole HPL manufacturer in Australia.

This acquisition involved a restructuring to achieve higher economies of scale, greater capacity utilisation and increased specialisation.

For example, in the wood panel sector, Amatek Holdings Limited agreed to a long term contract with CSR for the supply of particle board requirements for its decorative laminates business and closed its particle board plant at Ballarat, which had operated below full capacity for many years in an industry with excess capacity.

2.2.2 Modernisation of Manufacturing Operations

Laminex has introduced world best technology into Australian HPL and MDF manufacturing facilities. In the production of MDF at the Gympie plant, Laminex expended over $120million in 1997 for new and upgraded MDF presses. As a result, Laminex has achieved world class run efficiency and unit production costs that underpin the success, on quality and price, of Laminex's export sales to South East Asia.

Laminex upgraded its HPL press at Cheltenham in 1995 for $13 million and its particle board press at Ballarat in 1996 for $14 million. The production of laminates and substrate boards relies heavily on expensive capital equipment of mainly German origin. The commitment to maintenance of this equipment includes ongoing minor upgrades with new technical advances to improve efficiency and reliability.

Computer integrated production and distribution systems are common.

2.2.3 Implementing Enterprise Bargaining

Laminex has benefited from labour market reforms and has enterprise agreements in place covering its plants. These agreements reflect a common commitment by management and employees to achieve best practice production and to improve the competitiveness of Laminex with shared rewards.

2.2.4 Product designs and differentiation

Laminex specifies and designs its laminate products to internationally recognised standards with world markets in mind. The joint Australia/New Zealand product standard is based on international standard IS 2928.

The primary areas of differentiation are in the visual and functional aspects of laminates. There are specialty laminates for particular applications such as fire retardant and anti graffiti laminates.

Otherwise, there is not a great deal of product differentiation in the respective LPL and HPL sectors. Despite this, end use consumers in Australia have a high recognition of the "Laminex" and "Formica" brands. Indeed, "laminex" has almost become a generic term for high pressure laminated benchtops. Laminex reinforces its recognition as the pre-eminent "Australian" producer with "Australian Made" labels on packaging.

Despite this high consumer recognition, Laminex does not obtain any natural protection against imports because of any real product differentiation worldwide.

2.2.5 Exports and Export Market Development

Laminex has exported MDF since 1987. Exports commenced to Singapore and were followed by the development of export markets in Korea, Japan and Hong Kong by the end of the 1980's.

Since 1993, Laminex has applied a value added strategy to exports and moved to appoint value-added distributors in export destinations.
Laminex intends to invest further export effort into developing markets in South East Asia for increased MDF sales. Despite intense price competition, Laminex has created and maintained its markets for exports based on quality and price with a loyal client base.

These exports are sourced from MDF production at Gympie plant and accounts for approximately one third of its production. The ability to significantly increase exports of MDF is affected by the internal demand for raw MDF for Laminex HPL and LPL production.

The low production capacity in South East Asia of LPL and HPL also provides an opportunity to develop markets for these products, which are currently supplied from Europe and America. There are major price and distribution issues to overcome before exports of HPL to South East Asia are a reality.

Annual exports of MDF reached 50,000 cubic metres or $24 million in 1998/9 and are expected to be slightly less for 1999/2000.

2.2.6 Research and Development

Laminex has dedicated research and development staff and resources to investigate and develop world first developments in the manufacture of its laminate products. Expenditure for the 1998/1999 year was almost $2million. Laminex is committed to maintain appropriate levels of expenditure on research and development to ensure that it manufactures world class products at highly competitive prices.

2.2.7 Employment

Employment levels at Laminex manufacturing plants have declined steadily from 831 in 1990 to 472 in 2000.

The MDF press at Wagga Wagga closed in 1998 and particleboard production at Ballarat ceased in late 1999, as part of the rationalisation associated with the acquisition of the Formica businesses.

There are 170 staff employed over 38 sales branches nationally. The number of branches, and staffing levels, have remained relatively constant over the last ten years.

Total Laminex staff presently number over 1000.

2.3 Other Factors

2.3.1 Exchange Rate

Laminex is susceptible, but not vulnerable, to movements in the exchange rate of the Australian dollar.

On the input side, nearly all material inputs are sourced locally. Laminex uses only a small amount of imported product as material inputs, principally Kraft paper from Europe and America for the manufacture of laminates in the order of $15million annually.

On the output side, Laminex benefits from a depreciating Australian dollar through the exports of MDF sold in $US or Japanese Yen.

Laminex's export revenues approximate the value of imported content in mostly common currencies, so the effect of exchange rate variations is largely offset.

Major new capital purchases of machinery, as well as new upgrade parts and spares are imported, mainly from Germany, and therefore pose a potential exchange rate consequence.

2.3.2 Technology

The basic embodied technology in laminate and board production has not changed over recent times. There are advances in production technology on an incremental basis. The efficient life of treating and pressing machinery can be extended by upgrades to incorporate improvements coming on stream.

2.3.3 The Building Cycle

Demand for laminates remains susceptible to fluctuations in the building cycle and dependent on the renovation market.

BIS Shrapnel has estimated that the average new home uses 15.7 square metres of decorative surfaces and the average single room renovation uses 7 square metres.

With 60% overall market share in the household decorative surfaces market which is estimated at 6 million square metres in 1999, laminates are particularly vulnerable to cyclical downturns in these segments.

This vulnerability is exacerbated by potentially greater sales depression from downturns in the commercial sector where laminate usage is around 10 million square metres in 1999.

3. THE AUSTRALIAN LAMINATE MARKET

3.1 Market Analysis

Sales of HPL and LPL are a segment of the decorative surfaces market. The other major materials in this market are granite/marble, timber and solid surfaces such as polymarble/acrylic, with stainless steel and glass having recent popularity.

Market share of laminates in domestic application is in decline. In HPL benchtops, market share has fallen 10 percentage points, down to 73% from 83% in 1993. This market share has been lost to granite/marble, timber and solid surfaces (polymarble/acrylic).

In LPL cupboards, the decline is also estimated at 10 percentage points since 1993, down to 56% from 66%. This loss is attributed to replacement by timber, painted MDF/polyurethane and membrane pressed vinyls.

Laminate market Share1999 - New Houses and Renovations

	Benchtops	Cupboards
Kitchen	75%	53%
Bathroom	33%	57%
Laundry	40%	72%
Total Share	73%	56%

3.1.1 Benchtop Products

HPL is still the most popular choice of benchtop material for domestic kitchens, bathrooms and laundries but has continually declined in benchtops across all of the above sub-segments.

In the renovation segment, the decline in usage of HPL in kitchen benchtops has mostly been absorbed by granite. Solid surfaces (polymarble/acrylic) grew dramatically in the early 1990s but have stalled since this initial penetration.

The decline in HPL usage in bathroom benchtops has been absorbed by granite, polymarble (in pre-made vanities), and tiles. Since polymarble is only found in pre-made vanities, it is reasonable to assume that the growth in this material is related to growth in sales of pre-made vanities.

3.1.2 Cupboard Door Products

The decline in use of LPL in cupboards is also estimated at 10 percentage points since 1993, down from 66%. This loss is attributed to replacement by timber, painted MDF/polyurethane and membrane pressed vinyls (oversupply through excess capacity of vinyl press machines has lowered their overall price).

3.1.3 Bathroom Vanities

After completing detailed analysis of the bathroom sub-segment, Laminex has identified a distinct correlation between price and design between the custom made (at the top end), and pre-made (at the bottom end) as consumers trade-off design for price.

Renovations and Additions
Numbers of Bathroom Vanities Installed

	1994	% Share of the Market	1997	% Share of the Market
Total	222,600		240,500	
Fully Integrated	120,204	54%	134,680	56%
Drop In Basin	102,396	46%	105,820	44%

Source: BIS Schrapnel - The Home Improvements Market 1997
N.B. It is assumed that fully integrated is Premade, and drop-in is Custom Made.

3.2 Alternative Decorative Materials

3.2.1 *Comparative Benchtop Costs*

The comparison below includes material and installation on a $per square metre basis.

Laminate $200 - $350

Granite $450 - $850

Timber $500 - $900

Source: Growth Solutions Group phone survey of 20 Victorian Fabricators 11/1999

Laminate is the most economical option and is versatile and reliable.

3.2.2 Consumer Perspectives

Recently conducted qualitative research with home renovators and buyers identifies the following product trends in kitchens and bathrooms.

- Stainless steel is fashionable but is not considered as functional as HPL Appeal is to a niche segment and could be temporary.

- Timber is a very popular and established but possibly waning in popularity which seems to rest on its ability to match any colour scheme, and a timeless appeal.

- Granite, marble and timber, were named by consumers as premium products considered to add value to a home with considerable aspirational value.

- Solid surfaces were considered as "trendy" and "modern" and a value-added product to the home.

- Attitudes toward laminate were favourable. They were considered hard-wearing, easy to clean, versatile and good looking. They were not associated with fashion, good design, premium products and value adding to the home.

3.3 Industry Concentration

Laminex is the only manufacturer of HPL in Australia. Formica closed its Sydney plant and established a new, state-of-the-art HPL plant at Papakura in New Zealand in 1998. This HPL is imported into Australia and sold under the Formica brand.

In the MDF sector, Laminex's plant at Gympie serves its own needs for MDF and the balance of production is exported. CSR (in Tasmania), Wesfi (in Western Australia), Hokushin (in Tasmania) and Dominance (in Victoria) produce raw (undecorated) MDF in Australia.

Decorated MDF is produced in Australia by Laminex, and Wesfi.

CSR is the only manufacturer of raw particleboard in Australia.
Decorated particleboard is produced by Laminex, Wesfi, CSR and Henderson.

3.4 Market Participants

In addition to Laminex/Formica, there are two Australian producer/distributors:

(1) Parbury Building Products

Parbury entered the market in 1983 as the distributor of WilsonArt HPL, imported from the US. It imports HPL and manufactures LPL.

Parbury sells HPL and LPL under the WilsonArt brand and uses a number of other brands using its own name as the umbrella distribution brand.

(2) Wesfi

Located in WA, Wesfi focuses on commodity LPL and raw board of its own manufacture. It imports HPL and sells it under the Formex brand.

Between them, Laminex/Formica, Parbury (WilsonArt) and Wesfi (Formex) have approximately 80% of the market for HPL. In the LPL market, the share is slightly less at around 75%.

Import Market Participants

A number of leading international manufacturers import HPL into Australia. The major players are as follows:

NAME	***BRAND***	***ORIGIN***
WILSONART		
INTERNATIONAL	WilsonArt	USA
Pionite	Pionite	USA
Decorative Services		
PFLEIDERER	Duropal	Germany
INDUSTRIE		
ABET LAMINATI	Abet Laminati	Italy
Perstorp	Perstorp	U.K.
NEVAMAR	Nevamar	France
Decorative Surfaces		

Duropal and Abet Laminati manage their importations and marketing through a mix of company offices established in east-coast states and independent distribution elsewhere. The other importers rely solely on exclusive local distributors.

Excluding WilsonArt, which has significant market share, a break-up of the individual shares of the remaining importers is difficult to make, although Duropal would seem to be the leader with perhaps twice the market share of any of the other HPL importers.

3.5 Market Shares

Please refer to our separate confidential submission.

3.6 Competition from Imports

The Australian market for HPL laminates is very competitive with more than 13 imported brands competing in the import market. There is aggressive pricing being offered by importers at the low end of the market and on spot sales, particularly in Sydney.

The major players, Laminex, Formica and Parbury (WilsonArt brand) offer comprehensive colour ranges, product ranges, a varying extent of branches (Laminex with 38 branches has by far the most), professionally qualified sales representatives and full support service. The remainder has selective, niche strategies and market coverage with limited colour and product ranges.

3.7 Market Size and Product Shares

The laminate market in Australia currently has an annual sales turnover of approximately 16 million square metres of laminate. At an average price of $24 per square metre, this represents annual sales of approximately $384 million.

The break-up of HPL and LPL within the laminate market is:

- HPL with 32.5% being 5.2 million square metres; and
- LPL with 67.5% being 10.8 million square metres.

3.7.1 Market Segments

The market has two broad segments:

- the commercial sector which includes retail, offices, hotels and the education sector; and
- the household sector

The Commercial Sector

The commercial sector share of the laminate market represents sales of approximately 10 million square metres for approximately $240 million per annum.

The approximate take up of commercial market segments is:

- Hotels 8.3% for $20 million
- Retail 12.5% for $30 million
- Offices 20.8% for $50 million
- Factories 8.3% for $20 Million
- Education 12.5% for $30 million
- Health 12.5% for $30 million
- Entertainment 8.3% for $20 million
- Other 8.3% for $20 million

The Household Sector

The household sector share of the laminate market represents sales of approximately 6 million square metres for approximately $150 million per annum.

The household market can be broken down further into the two primary areas of application for laminates – the kitchen and the bathroom/laundry. The renovation segment is approximately three times the size of the new home segment in terms of actual numbers of kitchens and bathrooms renovated.

The following shares are approximate:

- kitchen 80% for $120 million; and
- bathroom/laundry 20% for $30 million

Household Market segments

The household market falls readily into two distinct applications for laminate – the renovation industry and the new home industry. The approximate take up of these household market segments is:

- Renovations 70% for $105 million
- New dwellings 30% for $45 million

The significantly greater share for renovations is due to economic factors. The renovation industry is less affected than the new home segment by economic and demographic considerations ie. consumer confidence, inflation, population growth/aging and mortgage interest rates.

Growth in 1999 was strong in the new home segment with total starts around 158,000. From 2000, a significant decline is anticipated, in line with a slowing economy. The fall is expected to be around 13%, and total new home starts could fall to about 118,700 in the 2002. The introduction of the GST has caused housing starts to surge up to July 2000.

3.8 Market Structure

3.8.1 Renovation Segment

Outlined below is the market structure for the renovation segment market. The market structure differs between bathrooms and kitchens, and each is analysed separately.

Kitchens

The market is fragmented with approximately 7,000 cabinetmakers and kitchen manufacturers supplying approximately 90% of kitchens nationally.
Kitchens are supplied either directly to a consumer for a renovation, or via a builder for a new home. These kitchen manufacturers often have limited design and colour skills, and many lack professional design services or showrooms.

Bathrooms

The market structure for bathrooms differs in many respects to that for kitchens There are more tradespeople involved in a bathroom renovation, including plumbers, tilers, electricians, cabinetmakers (depending on the choice of vanity), as well as resellers or hardware stores where consumers may go to select bathroom fittings.

To a large extent, the focus of resellers is on the commercial trade aspects of supply, rather than on consumer choice issues.

Laundries

Laundries are not commonly renovated separately from kitchen or bathroom renovations. Where this does occur, the householder on a DIY basis usually carries it out.

3.8.2 New Home Segment

This segment includes new residential detached homes, multi-unit developments, units and townhouses, which are not part of an existing property. The consumer contracts for the building (and/or land in a package) from a commercial or domestic builder, or builder/developer. The consumer may employ the services of an architect to design the building and project-manage the construction with the builder.

Within this new home segment, Laminex has categorised the builders as:

(i) Small Independent Builders - build less than 30 homes per year.

(ii) Medium Builders - build between 30-130 homes per year.

(iii) Large Builders - build over 130 homes per year.

Within each of these categories, there are different types of cabinet makers servicing them, and different influences/players. For example, the role of the architect is much stronger in the small independent builder category than the others.

The table below sets out an estimate by Laminex of the current market shares of the categories and likely growth for each.

	Small Indep. Builder	**Medium Sized Builder**	**Large Home Builder**	**Commercial Builder**
Market Share of Total New Home Segment	57%	23%	15%	5%
Growth Indicator of Category	Medium Decline	Medium Growth	High Growth	Medium Growth

- N.B. The above information is based on quantitative and qualitative data and assumptions.

3.9 Market Developments

3.9.1 Renovations:

Kitchens

The fragmented nature of the kitchen market, and the general lack of sophistication amongst kitchen retailers, have provided opportunities for:

- "Category killer" type retailers such as IKEA, Freedom and Harvey Norman to expand their product range to include kitchens.

- "Barn" style hardware resellers such as Bunnings and BBC Hardware are marketing low-cost kitchens with value added services such as finance, installation and design services.

- Department stores such as David Jones are also extending their range to include kitchens and may conclude alliances with established branded kitchen manufacturers.

Through their 'lowest cost' positioning, growing distribution, strong buying power and great advertising pull, these retailers are in a position to strongly influence consumer choices.

In Sydney, a number the large kitchen retailers (Knebel, Knobby, Impala, Barnsley Joinery, Artline Kitchens who supply Harvey Norman and Sydney Kitchen Centre who supply Freedom furniture, are collaborating under an established co-operative structure. They meet to discuss events in the kitchen industry and promote sales into their market.

Bathrooms

Plumbing resellers are aware of the benefits of improving their focus on the end user with consumers wanting better service in terms of colour, design and convenience at an affordable price. Accordingly, plumbing resellers are changing their focus from trade customers to the end-use consumer.

As a result, more companies are offering a complete bathroom renovation service to the consumer, but overall, such companies with showroom type stores with professional staff and design service are still relatively small in number.

3.9.2 New Home Segment

The new home segment is becoming more concentrated, at a much greater rate than the renovation segment, with medium and large home builders capturing a greater % of the total market.

This trend is forecast to continue over the next 4-5 years, with these builders using aggressive marketing tactics, low prices, house and land packages, community developments and reduced costs through standardisation of home design.

Such targeting of first home or investment buyers with very competitive packages may serve to grow the size of the new home segment, as more consumers see buying a home as a real option to renting.

This increased market concentration and concomitant greater buying power, will place increased pressure on suppliers for the lowest cost option. In turn, this pressure will affect the prices charged by cabinetmakers and kitchen manufacturers, for kitchen, bathroom and laundry joinery and prices for the prices fabricators seek for their inputs, such as laminate, decorated board, doors and whiteboard.

This competitive pressure on prices for laminate will apply to both the new home and renovation segments as the kitchen manufacturers/cabinet maker's service both segments.

3.10 Market Trends and Factors

3.10.1 Market Penetration

The prospects for market share for laminates in the decorative surfaces market are constrained by:

- Natural materials (timber and granite) becoming more affordable
- International trends for greater use of continuous laminate as a substitute for HPL
- Global trend towards the use of foils instead of LPL

The appeal of natural materials on the one hand and new high technology substitutes mean that the laminates industry must concentrate harder on product differentiation and service.

3.10.2 Market Size

The growth in the decorative surfaces market is strongly affected by both economic and demographic factors.

On the economic side new housing starts and renovations are aligned to general economic growth and mortgage rates, which influence consumer confidence.

The current residential building cycle is likely to end early in 2001, and has been fuelled by forward ordering to avoid a 10% GST effect on building materials.

Demographic effects tend to restrain the size of the market through relatively low and stable population growth and an aging population.

4 THE TARIFF AND LAMINEX PRODUCTS

4.1 Classification of Laminex Products

The following table illustrates the current duty or tariff rates protecting the locally manufactured products of Laminex and in the case of Raw Particleboard, manufactured by CSR and supplied to Laminex.

Product	Tariff Classification	Duty Rates
High Pressure & Low Pressure Laminates (HPL & LPL)	3921.90.90	GT 5%
Mouldings MDF	4409.10.00	GT 5%, DCS 4%, CAN 4%, DCT 5%
Craftform (MDF machined to enable bending)	4409.10.00	
Raw Particleboard (CSR)	4410.19.00	GT 5%
Decorated Particleboard	4410.19.00	
Raw Medium Density Fibreboard (MDF)	4411.19.00	GT 5%
Decorated MDF		
Doors- Melamine, Painted, Vinyl, Solid Timber & Timber Veneered	4418.20.00	GT 5%, DCS 4%, DCT 5%
Laminex Partition Kits	4418.90.00	GT 5%, DCS 4%, CAN Free, DCT 4%
Laminex Lamikits	4418.90.00	
Vanity Units	4418.90.00	
Pre-fabricated Benchtops	4418.90.00	

Legend: **GT** = General Tariff Countries
DCS = Developing Countries subject to DCS rate & listed in Schedule 1, Part 2, of the Customs Tariff Act
DCT = Hong Kong, Republic of Korea, Singapore & Taiwan when shown

Interpretation: Unless otherwise indicated, New Zealand, Papua New Guinea, Forum Island countries (listed in Schedule 1, Part 1 of the Customs Tariff Act), and the balance of Developing Countries (D.C.), **are free of duty** (D.C. = Countries listed in Schedule 1 Part 3 of the Tariff Act).
If no DCT rate is shown then the DCS rate applies and if neither the DCT nor DCS rate is shown, then the GT rate applies.

These classifications are the corner stone for assessing both current General Tariff (G.T.) rates and Declared Preferential duty rates that can be used by importers who compete with the products manufactured by Laminex in Australia. There is an assumption in this. The Rules of Origin laid by the WTO, are to migrate from a basis of "over 50% factory or works cost value added" to a "change in Tariff classification" concept in the near future. Some competitive imported products may be affected by this change.

Although it would be preferable to exclude DCS rates of 4%, given that most of the major competitor nations have an almost matured manufacturing sector, there is a concern about the free rate for Canada under classification 4418.90.00.

Given the higher value-adding element of these goods, it is difficult to accept that Canada merits such a significant degree of preference over all other countries trading with Australia. For these goods, we believe that Canada should be on the same level for Tariff purposes (i.e. 4% or 5%), to avoid maintaining such a strategic advantage over lesser-developed countries.

With regard to the G.T., DCS and DCT rates, Laminex believes that there should be a suspension of further tariff reductions until 1 January 2005, when the freeze on tariff reductions for the Automotive & TCF sectors are due to be lifted. Tariff reductions to commence after this date should take into account the results of a review in late 2004 of the progress in trade liberalisation of our trading partners in the WTO and APEC.

Laminex, along with other players in the general manufacturing sector, has already undergone major restructuring, particularly in the laminate and timber products markets. They should not be singled out for further reductions when the maximum rate of 5% already exists.

Further reductions without assessing future market access to South East Asian markets, would, in the view of Laminex, be detrimental generally to the future financial viability of its manufacturing operation. Given its degree of vertical integration in MDF for laminate production, and the export reliant sale of surplus MDF, export market access with our nearest trading partners will be increasingly important in the face of increased competitive pressure from duty reduced, or duty free, imported laminates.

If a decision is made to further reduce the general tariff rates beyond 1 January 2005, then the 4% rates applicable to DCS and DCT countries should not be phased by 1 percentage point until the G.T. rate reaches the same level. Once this is achieved, then any phasing should occur simultaneously.

4.2 Three Percent Revenue Duty

Another major concern of Laminex is the current 3% input tax that applies to substitutable manufacturing inputs not readily available from Australian manufacture. This input tax does not apply to consumer type goods.

It is axiomatic that this impost on the manufacturing sector is a tax for revenue reasons, not to protect Australian manufactures. The result is to make the Australian manufacturing sector less competitive with imports that have access to like inputs at world competitive prices.

Laminex strongly urges the immediate abolition of this impost for the sake of sound economic rationalism and to allow the Tariff to be utilised as an economic tool rather than a taxing or revenue-raising device.

4.3 Tariff Concession System (TCS)

In addition to the above concerns about the 3% tax, Laminex also has concerns about the interpretation of definitions under the TCS. In particular, the "substitutable goods" definition has been construed widely to include the concept of “use”.

This outcome is troubling because Laminex import laminates that supplement their manufacturing range where the small volumes involved do not warrant the significant capital costs for manufacturing to cater for a specialty market niche.

Therefore, a definition that confers eligibility based on a market-competitive test rather than the “use” test would overcome the wide interpretation by the Australian Customs Service. It would also enable importer manufacturers to import complementary products at lower prices.

Naturally, Laminex also needs to ensure that their core products are not subject to sustained attempts by importers to gain duty free entry on locally manufactured product. In this regard, the Gazettal process is a useful monitoring tool to protect the company against such attempts and should be continued.

Regarding capital equipment that Laminex imports from time to time to upgrade manufacturing lines or install new processing lines, it is imperative that such purchases are entitled to duty free entry provided no Australian company has manufactured the equipment in the preceding two to three years.

The TCS needs further change to have a "compete" clause or requirement in the definition to preclude manufacturers merely claiming the "potential" to manufacture. Instead, aspiring local manufactures should have already carried out the necessary Research and Development, including design work and prove production and sale in Australia in the preceding two to three years prior to any order being placed overseas.

Laminex recommends that the Productivity Commission should review the TCS prior to 2005, to ensure that these changes to definitional aspects enable Australian manufacturers to compete viably under a diminishing tariff protection regime. Reduction in tariffs prior to a TCS review would further reduce the ability of industry to adjust to the competition pressures that a lower protective environment will provide.

4.4 Policy By-Law System (PBLS)

In order to allow increased access for plant upgrades to the PBLS, it is suggested that the notional threshold of $10m could be reduced to $5m. As industry reacts to the adjustment pressures of operating under significantly lower tariff regimes than Asia competitors, it is imperative that access to key inputs, ie capital and upgrade componentry, is available on a non input-taxed basis.

Key capital inputs to Australian laminate and fibre board manufacture (please refer below), should be reduced to duty free to enable access to capital equipment at world competitive prices and in the context of the PBLS, allow greater flexibility for major expansion projects. The reforms to the TCS system mentioned above will also factor in ensuring that no real Australian capable manufacturer is disadvantaged by duty free entry of major capital goods.

4.5 An Example of Failed Policy Intention

In addition, the delivery of current policy on importations of large single functional capital equipment is detrimental to industry and needs to be revised.

In this context, we support the views expressed recently in a submission to the Hon. Nick Minchen by the Pulp & Paper Manufacturers Federation of Australia ("PPMFA").

In summary, this submission highlights the difficulties, which are being experienced with the current policy, and proposes a solution designed to meet the needs of both industry and government. While the submission is focussed on the pulp and paper industry, it is relevant to a range of industries, including Laminex, which are significant importers of major items of capital equipment.

Under the Customs Tariff Schedule 3, there needs to be a clear intention that machinery for the timber and laminate manufacturing sectors should enter Australia duty free.

The relevant tariff items are as follows:

8439.30.00	***Machinery for finishing paper or paperboard***	***GT: 5%*** ***DCS:4%***
8479.30.00	**Presses for the manufacture of particleboard or fibre building board etc**	**GT: 5%** **DCS:4%**

This policy intention also applies to capital goods for the mining and resource processing industries (Item 45) and the agricultural food processing and food packaging industries (Item 46), as well as capital goods that are technologically more advanced (Item 56).

Despite the clear intention of Government policy that currently papermaking machinery should enter Australia duty free, the way this policy is interpreted and implemented under the PBLS makes this aim virtually impossible to achieve in practice.

The critical change that is needed is either the amendment of Policy By-Law 43 to resolve the “single shipment” issues that remain a frustration to industry today, or create a new Policy By-Law to deal with major importations of timber and paper finishing machinery and the foregoing sectors.

4.6 Anti-Dumping & Subsidies

Imperative in any domestic manufacturing sector is the protection from "unfair trading practices" and/or "predatory price behaviour" that have the potential to cause considerable or material injury to domestic manufacturers.

Inherent in any such system is the openness and speedy action that can be taken by Governments' around the globe to prevent such damage being caused to their domestic manufacturers by such international pricing behaviour.

Australia's Anti-Dumping system has recently undergone considerable change insofar as the aspect of processing applications in a timely manner. Naturally Australia has to abide by the WTO Rules on Anti-Dumping, however our domestic legislation and processing reflect one of the fastest processing of dumping and subsidy cases in the world.

The only aspect which seems to warrant consideration and perhaps investigation by the Productivity Commission is the aspect of what is deemed to be adequate R.O.I or profitability for the Australian industry in the context of a dumping or subsidy case. In other words, how should the Unsuppressed Selling Price (USP) be calculated if the market comprising local and imported products were not experiencing the effects of dumping.

From our experience, this aspect has to be investigated as the initial calculation of dumping margins and as a consequence the commercial or economic effect of a dumping case, revolves around this pivotal aspect.

Our recommendation is that all commercial factors should be taken into consideration and in particular industry or sector norms of profitability should be taken into account, rather than fictitious amounts or calculations that may result in the pricing effects of imports causing the dumping only being marginally adjusted.

5. GST and Tariff Reductions

The goods and services tax ("GST") is part of a wider tax reform package called "A New Tax System" ("ANTS"). The effects of other elements of the ANTS package should be considered with the centrepiece GST.

It is important to note that the GST at a flat 10% substantially replaces the Wholesale Sale Tax (WST) regime which levied tax on sales of certain goods at variable rates between 12% and 45%.

5.1 GST on Inputs

Laminex is currently registered for sales tax purposes as a manufacturer and quotes its sales tax registration number when purchasing or importing eligible equipment and raw materials used in manufacture related activities. As a result, no WST is currently paid on critical manufacturing inputs and final products are treated as sales tax exempt.

Under ANTS, a 10% GST will apply to all supplies and importations of goods, services, and anything else made after 1 July 2000, provided they are connected with Australia and they are not GST free or input taxed.

Input tax credits may be claimed to the extent that a registered business acquires or imports goods, services or anything else to make taxable or GST free supplies. Generally, input tax credits cannot be claimed to the extent that purchases or imports are for the purposes of making input taxed supplies.

The commencement of the GST will result in a new cost to Laminex when purchasing or importing manufacturing equipment and raw materials. However, given that supplies of products manufactured by Laminex will be taxable (for use within Australia) and GST free (when exported), it should be able to claim input tax credits in respect of GST included in the purchase price and levied on the GST import value of manufacturing inputs.

The input tax credit mechanism could be viewed as effectively continuing the 'non taxable' treatment of manufacturing inputs currently available to Laminex under the WST. Laminex may obtain a new benefit from ANTS where it is able to claim input tax credits of GST in respect of the purchase and importation of goods not currently exempt under the WST legislation. However, this benefit is likely to be minimal.

5.2 Exports

Exports of goods are GST free under ANTS provided they are exported within 60 days after payment to the supplier for them, or from the date of the supplier's invoice for the goods. There are corresponding provisions for payment for export goods by instalments.

GST free exports and the resultants increase in competitiveness for our export sector was a major selling point for the proposed ANTS package.

In Laminex's case, its present exports are of MDF to South East Asia are modest. The major material cost inputs in production of MDF are not liable to wholesale sales tax and accordingly cost savings on this account are negligible. Other input cost savings form the net effect of the abolition of the WST and its replacement by GST have not yet been quantified but are not expected to be significant.

5.3 Imports

GST at 10% will apply to taxable supplies of goods and services and this includes imported goods, unless they fall into a non-taxable category.

The 10% GST will generally apply to imported goods on a value comprised of the (FOB) Customs value, plus the cost of transport and insurance, and any Customs duty applicable.

The cost of Kraft paper and HPL laminates imported by Laminex will be increased by barrier GST. Competitors in the HPL market will face like increases. There is no competitive advantage conferred on local HPL manufacture from GST at the barrier on imported laminates.

This is because HPL and LPL are WST exempt but are not GST free. Laminex's HPL will attract GST at 10% on sale and competitors' imported HPL will attract 10% GST at the barrier.

ANTS provides that GST is payable at the same time as Customs duty or within such further time as is specified in regulations. The Government is in the process of drafting these regulations to enable the deferral of GST on imports from 1 July 2000.

Deferral will be available to all enterprises registered for GST who have a good compliance record, who report to the Australian Taxation Office (ATO) on a monthly basis and who deal electronically both with Customs and the ATO. Business enterprises approved for deferral of GST will be required to account for the deferred GST in their next activity statements.

This arrangement provides a cash flow and transaction cost benefits to importers.

5.4 Diesel Fuel

ANTS has significant cost saving potential in the transport sector. The provisions are:

- changes to the existing Diesel Fuel Rebate Scheme;
- a temporary Diesel and Alternative Grants Scheme;
- the introduction of an entirely new replacement scheme, the Energy Grants (Credits) Scheme from 1 July 2002

in addition to the introduction of the GST.

Under the new arrangements to 30 June 2002:

- the cost of diesel for eligible heavy transport is expected to fall by about 23 cents a litre (a fall of about 30 per cent after the grant and GST input credit);
- more business activities will be eligible for either a fuel rebate or grant;
- more types of fuel are included for a rebate or grant.

Diesel fuel is the fuel of choice in the transport sector. The increased benefits and coverage of rebate and grants schemes under ANTS should reduce transport costs somewhat. Industries, such as Laminex, which are significant users of commercial transport services, should thereby obtain the benefit of diesel fuel price reductions. It is too early to say whether this benefit will come in the form of reduced transport prices from suppliers, or a reduction in the increase which would otherwise have arisen from a 10% GST.

There is as yet no draft of the legislation for the Energy Grants (Credits) Scheme to commence on 1 July 2002. It is expected that the coverage and net benefits of the Rebate and Grants schemes will be preserved in the new Credit Scheme.

6 Scope for a Post-2000 Reduction in the General Tariff

6.1 Where will it end?

The end point for tariff reform appears to be 2010, even for the TCF and PMV sectors, in view of Australia's APEC commitment. The issue is whether there should be continuing unilateral tariff reductions through the whole or part of the period remaining. In turn, this will be determined by the point at which competing policy objectives in paragraph 2 of the terms of Reference are balanced.

Although there is a fundamental acceptance of the desirability of achieving tariff reform and free trade, there are significant issues to be resolved as to the pace and process of the reforms, both domestic and international, necessary for their attainment.

6.2 Costs and Benefits in Reductions in the General Tariff

The economic costs of barrier protection to the community are widely agreed to include distortion in resource allocation, additional costs on consumers, and adverse effects on real incomes and aggregate consumption. It is not the case however that there is equal consensus on the bases for the assessment and measurement of these cost effects among economists and economic modellers.

The diminishing marginal benefit in progressive tariff reductions is not so conjectural. In particular, the improvement in allocative efficiency of a given reduction to a high tariff rate – such as those that remain in the TCF sector – is much greater than the results from a low tariff rate.

The efficiency gain is not linear relative to the tariff levels. It is therefore extremely difficult to conjecture the justification on this account alone for further general tariff reduction from current levels of 5%. The point of no allocative efficiency return may already have been reached.

In respect of downstream costs to consumers, it is simplistic to argue that such costs are equal to the total tariff revenue raised because that revenue is applied by government in its general budgetary allocations. To the extent that tariff reductions will amount to foregone revenue, there is likely to be pressure to raise compensating revenue from higher taxation revenue of reduce spending. In either case, the effect will ultimately fall on consumers.

On the potential benefit side, it should not be assumed that tariff reductions will be fully passed on to consumers. Importers and others involved in the sale and distribution of the imported goods can be ultimately expected to share this benefit largely to the exclusion of the end consumer. Where rates of less than 5% are concerned, this outcome is more likely.

In all of this theoretical consideration, it is important to bear in mind that overall, tariffs at the average effective rate of assistance of 5%, represent a net subsidy equivalent of $3.3 billion. The major recipients are the highly protected PMV and TCF sectors who also obtain additional budgetary assistance.

Further, in the case of the general tariff rates of 5% or less, the published rates are affected by concessional arrangements through tariff concessions and by-laws. Given the indicative rate of 5%, a duty reduction to 3% duty by tariff concession, or to zero through by-law ruling, has a high relative impact on effective rates.

6.3 Suspension of Tariff Reform

Laminex recommends that, in line with the PMV and TCF sectors, there should be a freeze on tariff reductions to assess the pace of tariff reform and reduction in non-tariff barriers by our APEC neighbours, and WTO trading partners. We should be looking for an acceptable measure of reciprocity.

There is a dilemma posed for the Australian government from various factors. There are conceptual and structural differences between APEC and WTO arrangements. APEC rests on unilateral and comprehensive concessions between members with no legal or enforcement consequences. The WTO is a legalistic, formal and bureaucratic organisation with elaborated rounds of formal multilateral bargaining, with commitments backed up by enforcement mechanisms.

Accordingly, under WTO practice, Australia has a freedom to bargain for reciprocal concessions without any time constraints as to the ending of tariffs, but under APEC, the end date is fixed for developing countries at 2010 and concessions are to be offered unilaterally. While the pace of progress in trade liberalisation in each forum has had recent setbacks, it seems inevitable that by the end of 2004, Australia will find itself obliged to commit further to free trade to its APEC partners than is required by its WTO partners.

This is particularly relevant for the TCF and PMV sectors whose greatest import competition comes from APEC countries. It is for this reason that there are signs that the government is looking for reciprocity from APEC countries as the price for further reductions in tariffs. To pursue such a course runs the risk that Australia's regional and international reputation as a leader in trade liberalisation will be harmed.

Well, what if it is, when the offsetting benefit is the opportunity to further stage the dismantling of tariff protection at a pace measured by acceptable concessions and allowing affected industry reasonable restructuring time? The international momentum towards trade liberalisation may well be slowing as recent events suggest. If this is indeed so, free trade rhetoric and the outrage of theorists aside, it will not fundamentally matter if Australia signals that it is adjusting to the real pace, rather than asserting the role of pace-setter.

Laminex faces import competition in HPL from WTO countries, principally the U.S. and Western Europeans. Natural export sales markets for MDF (current) and laminates (potential) are in South East Asia, principally APEC countries. From an entirely Laminex perspective, a split approach to tariff reform, favouring free trade with APEC countries and maintaining tariffs elsewhere would be an ideal outcome.

Realistically, Laminex expects that the pace of tariff reform should be slowed by the requirement for reciprocal measures from our trading partners. In terms of tariff protection, the chief beneficiary will be the PMV and TCF sectors. It is important however that the general manufacturing industries with 5% general tariff protection are not seen as mere passengers on the coat tails of continuing assistance to these sectors.

Laminex, and other manufacturers in the 5% to zero tariff industries, would have genuine complaints on both equity and economic grounds if they are disadvantaged by selective and preferential treatment given to other sectors in the extent and pace of tariff reform.

6.4 Government Policy Objectives

Regarding the general policy objectives noted in paragraph two of the Terms of Reference to this Review, it is noted that they are in substance the same as those for the Industry Commission inquiries into the TCF and PMV industries.

Accordingly, there is no general policy reason for differential treatment to be accorded to manufacturing industries under this Review. Particular reference to APEC commitments and the next round of WTO merely state the present policy context and do not signal policy intentions otherwise.

6.5 Certainty and Adjustment

The HPL manufacturing industry is not a highly protected, poorly performing industry. Laminex is an efficient and mature Australian business with a substantial capital and human resources committed to manufacturing plant in three major regional centres and metropolitan Melbourne as well as a 38-branch national distribution network.

Laminex is an efficient, world-class producer of HPL and MDF. It has maintained its competitiveness against imports from European and American manufacturers that have lower unit costs from economies of scale. It has done this by an emphasis on maintaining a comprehensive product range of the highest quality and by unrivalled service and value adding through its branch and distribution network. It is a successful exporter of MDF to South East Asia.

All this has been achieved in a trade regime of declining tariff protection, currently at 5% since 1996 after a process of phased reduction from 1988. The adjustment lead times provided in these reform programs has been essential to an orderly and effective adjustment to increased import competition. Further reduction or removal of the remaining 5% must also be given proper and adequate lead-time.

6.6 The Trade Liberalisation End-Game

A decision to suspend further reduction in the general tariff until 2005 with subsequent reform to be decided in the light of progress in multilateral trade liberalisation will allow general industry to prepare over this period.

As to that progress, it is important to include non-tariff barriers and export subsidies in the equation, along with bound rates. On a like-for-like basis, Australia has little to exchange against the considerable range of non-trade barriers and export subsidies of our major trading partners, and its applied general tariff rates are generally below its bound rates.

In the end-game of tariff removal over the next ten years, Australia should not abandon or reduce its principal remaining bargaining resource without reciprocal concessions from the rest of the world. In particular, reductions in, or the removal of, general tariffs should not be used as a lever for the continuation of high levels of protection for the PMV and TCF sectors, or concessional gains in entry to export markets for our agricultural products. The end-game should be equitably played for all Australian industry.