

# Transcript

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Program: **MORNINGS** Time: **08:33 AM**  
Compere: **DEBORAH CAMERON** Summary ID: **S00033843664**

Item: **AUSTRALIAN INDUSTRY GROUP CHIEF EXECUTIVE  
HEATHER RIDOUT DISCUSSES PRESSURES ON AUSTRALIA'S  
MANUFACTURING INDUSTRY IN THE CURRENT ECONOMIC  
CLIMATE, IN RESPONSE TO PACIFIC BRANDS ANNOUNCING  
JOBS IN AUSTRALIA WILL BE CUT.**

**INTERVIEWEES: HEATHER RIDOUT, AUSTRALIAN INDUSTRY  
GROUP**

<b>Demographics:</b>	Male 16+ 43000	Female 16+ 66000	All people 109000	ABs 33000	GBs 69000
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**DEBORAH CAMERON:** If the management of a company like Pacific Brands can't withstand the forces of an economic tide, then what does it mean for all businesses?

Heather Ridout is the chief executive of the Australian Industry Group. Good morning, Heather.

**HEATHER RIDOUT:** Good morning, Deborah.

**DEBORAH CAMERON:** How hard do you think companies fight to defend their businesses at times like this?

**HEATHER RIDOUT:** Oh, look, they fight very, very hard. This decision would have been taken with great angst by the company. And frankly it's a miracle that Pacific Brands has been able to keep that business model going in Australia for so long.

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If you look across manufacturing, ever since the tariff phase-down programs of the '80s and the '90s, the industry's been under siege from low-cost imports; its exports markets have been undermined by Chinese production, which has become the factory of the world.

Textiles have been at the really sharp end of that, Deborah. It's been the lowest cost production area. They've got very efficient global supply chains now that can supply Australian shops in a week. It's very, very efficient.

And this company would have taken those decisions with great regret and you know, I know that people might think that's coming from me, a bosses' representative, but I do know that. And I know it's a tough decision.

DEBORAH CAMERON: Let's look at the role of the bankers in this. There was a quote this morning from a Merrill Lynch analyst, David Errington, who lambasted - according to the *Daily Telegraph* - the executives, chief executive of Pacific Brands, saying that someone's panicked, namely the banks. And now you have to cut your business to ribbons to effectively take on huge implementation risks largely to appease the banks.

How is it dealing with banks right now, for business? Are they being unrealistic about mana... about overdrafts and extension of credit?

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HEATHER RIDOUT: Well, banks generally have toughened up on a lot of their requirements and their covenants from business and it's harder to get money. A big company, not in the clothing, textile or footwear industry, told me yesterday three big projects backed by property could not get finance. And that is really tough.

But in the automotive industry and the TCF industry, the banks have been even tougher. And a lot of companies in those industries have really struggled just to get trade finance which covers being able to buy stock, being able to manage until they get the debts paid; just really the money that's the blood, the arteries of your business, to keep it flowing.

So it is very tough, because the banks say, oh well, this industry's really got a bit of a high risk attached to it so we won't lend. And in times of tight credit they really put the squeeze on.

Now, we've seen some action for dealers in the automotive industry, but there are a lot of components companies that are struggling and now we hear the same sort of issues, that they're now facing in the TCF industry. It does not surprise me.

The healthy banks that we have in Australia, should be healthy in their lending practices. And it's very tough at the moment for manufacturers.

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DEBORAH CAMERON: Then, if banks are acting as a tourniquet on the economy right now, at the same time as the Government has propped them up - or given them these fantastic guarantees - assisted them - their bottom lines with, you know, so much reinforcement of the idea that they are strong at the same time as the Reserve Bank is cutting interest rates, what in the world is business meant to do about it?

HEATHER RIDOUT: Well, it's very hard. And banks say, well, we've got to manage our books very carefully, that the world is short of capital at the moment because then no-one's lending to them. They're having to go and raise capital on the international markets. So they're really hunkering down and doing what would be rational for them to do, which is ration credit.

But that's not helping the situation, because business has got to invest; business has got to have money to manage their businesses. And you know, in the end it might end up with the Government having to give more guarantees behind small business lending.

It is very hard for business at the moment. And frankly, from - I was talking to a company yesterday who want to invest in emissions reducing technology, but the cost of their capital is now so high that it's prohibitive; they will not be doing it. And there are a lot of agendas which are being affected by this, the credit crunch at the moment.

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DEBORAH CAMERON: Okay, now Chris, you've got a query.

CALLER CHRIS: Yeah, hi Deborah. I'm just hoping that this is a decision made because of the economic crisis and not an excuse of the economic crisis to make the decision.

DEBORAH CAMERON: Okay, let's go back to Heather.

Heather, is this cover?

HEATHER RIDOUT: No, it's not.

I think really this company - I mean manufacturing as a whole, every year we find out what's going on, with an annual survey of our members. And over 20 per cent of these companies - which is many hundreds - would be seeking to go overseas and have manufacturing done there, because that's the way the global supply chain operates.

So, this outsourcing of production and marketing your retail and design in Australia has been really very much part of the industry and of manufacturing more generally for some time. It would have been made worse by the crisis. The pressure on capital we were just talking about, the lack of demand - slowdown in demand would have made it harder.

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The only off-setting aspect would have been the dollar – this would have taken a bit of pressure off them, the dollar falling.

But you know, it's coincided with it, would have been made worse by it, but I'd be very surprised if they were just taking cover under it.

DEBORAH CAMERON: *The Financial Review* has published a graph today that has a long list, of course Pacific Brands isn't the only company to have laid off and there's a huge sweep of different sorts of companies that have laid people off. Yesterday, Lonely Planet reduces its workforce at the same time as a car parts manufacturer reduced its workforce.

What do you think employees should prepare themselves for, in the next little while?

HEATHER RIDOUT: Well, in manufacturing over the last six to nine months, something like 42,000 jobs have been lost because a lot of the pressure on this industry predated the global economic crisis.

I mean people say we don't need manufacturing in Australia - we've got finance, we've got mining; it doesn't matter what happens to that industry. It does matter; 1.1 million jobs, the biggest provider of full-time employment by a country mile is in manufacturing.

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But really, we are seeing at the moment the downturn in demand; we're seeing huge drop in forward orders, the - going forward, so the certainty of - for investment, for employment is very, very opaque.

So, I think we have to prepare ourselves for very tough times. But the industry has shown this enormous capacity to reinvent itself.

And whilst this many mean that we have to change business models like Pacific Brands are doing, we have been able to preserve that core million-plus jobs in manufacturing through thick and thin and I'm very - the industry has been pretty disciplined, unlike the massive salary rises in mining and finance we've seen, that has not been the case for manufacturing. It's a much more...

DEBORAH CAMERON: [Interrupts] Now I'll come back to that.

HEATHER RIDOUT: ...lean industry. A much leaner industry.

DEBORAH CAMERON: I'll come back to that question. But Suzanne on the text has said, maybe it's time for another solid buy Australia campaign.

Do you have a view about that?

HEATHER RIDOUT: Look, I think now the industry is so globally integrated and so many of our opportunities - over

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20 per cent of manufacturing production is now exported. So we're in this global business, Deborah. - it's a global business and whether you're in Bendigo, whether you're in the Illawarra, companies tell me they are part of a global supply chain.

So, just to say, buy Australian - and frankly, when we've done research around this, regret has turned into resignation about that issue and I think it's just protectionist sentiment that really won't wash.

What we do need to do is make sure competitive Australian companies get a go at all sorts of contracts. And in this infrastructure spend that's going to roll out we need to make sure competitive Australian companies get a fair go.

And in New South Wales I'm the chair of an organisation called the Industry Capability Network, and that matches clients and suppliers, and over the last six months we've got \$200 million worth of work for local companies out of infrastructure projects. And it's fantastic, it can be done, but it takes a lot of will and government support.

DEBORAH CAMERON: My guest this morning is Heather Ridout, the chief executive of the Australian Industry Group.

John, what's your idea?

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CALLER JOHN:

Well, basically, if all the prices of the Pacific Brands products went up five per cent, there wouldn't be a problem for Pacific Brands.

The only trouble is, is that they're not allowed to - well, they are allowed, but they can't - put a recommended retail price on their label. And even if they did, do you really think the five per cent would find its way back to Pacific Brands?

DEBORAH CAMERON: Thank you very much for that comment, John.

Heather, of course Pacific bands - Brands basically operates in a retail context; that's where we see it, that's why we think it's doing just fine. There's Bonds singlets from here to eternity when you walk through Target.

Is there a - what's happened between Pacific Brands and the retailer that has contributed to this?

HEATHER RIDOUT:

Look, I'm not certain around the relationships that Pacific Brands has with its retailers. But I would say that there's just this unrelenting downward pressure on prices. And manufacturing has become such a huge scale enterprise at that low end - low-cost end that it's just inexorably the big retailers can buy very cheaply and they drive down prices.

And it's very tough to be able to get price increases at the wholesale, at the manufacturing level. And

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that's been a characteristic of our industry for so long; when you get commoditisation, when goods just become commodities - there's an awful lot of them, so they're not distinctive enough.

Now, I actually think Bonds have worked hard to really innovate their product, to make them smarter, make them more attractive and everyone sees that. But, you know, a pair of undies are a pair of undies.

DEBORAH CAMERON: And now we've lost our undies, Heather. I suppose that there's...

HEATHER RIDOUT: Well, I hope not. [Laughs]

DEBORAH CAMERON: There's - thank you very much for your time this morning.

HEATHER RIDOUT: My pleasure. Thank you.

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