

# CORRECTED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into 2002–03 budget estimates

Melbourne – 20 June 2002

#### Members

Ms A. P. Barker  
Mr R. W. Clark  
Ms S. M. Davies  
Mr D. McL. Davis  
Mr R. M. Hallam

Mr T. J. Holding  
Mr P. J. Loney  
Mrs J. M. Maddigan  
Mr G. K. Rich-Phillips  
Mr T. C. Theophanous

Chairman: Mr P. J. Loney  
Deputy Chairman: Mr R. M. Hallam

#### Staff

Executive Officer: Ms M. Cornwell  
Research Officers: Mr M. Holloway

#### Witnesses

Mr R. Hulls, Minister for Manufacturing Industry;  
Ms N. Watkinson, Director, Office of Manufacturing; and  
Ms A. Polmear, Head, Business Group, Department of Innovation, Industry and Regional Development.

**The CHAIRMAN** — Can I at this stage welcome to this hearing Ms Nicola Watkinson, director of the Office of Manufacturing; and Ms Andrea Polmear, head of the business group, Department of Innovation, Industry and Regional Development. Minister, would you care to make a short overview of the manufacturing industry portfolio?

**Mr HULLS** — Thank you. I have a handout here instead of overheads. Briefly, manufacturing contributes over \$23 billion to GSP in this state. It is the largest employer of full-time jobs and obviously it is an export leader. It leads Australia in research and development and in elaborately transformed manufactures; and one-third of Australia's manufacturing employment turnover, industry value-added and private new capital expenditure takes place here in Victoria. Activity in manufacturing hit a four-year high in March 2002. Manufacturers are pretty positive about the future, more than they have been in the past, according to the Ai Group recent survey.

We have a pretty simple vision for manufacturing in this state: to make Victoria a centre for manufacturing excellence in the Asia-Pacific region. That means making manufacturing dynamic, export focused and innovative. There has been a perception in the past that manufacturing is just a dirty old smokestack industry without much future when the reality is quite different. It ensures high-wage, high-skilled jobs and world-class training, and it is recognised as a vital part of our economy with very attractive career choices. We have to sell that message, though, and we have to get rid of this old perception of manufacturing.

On key achievements in manufacturing, the Premier and I launched an agenda for new manufacturing. We have set up a manufacturing hall of fame. Again, this is about the perception of manufacturing and trying to change the culture. I think I said last year we put our sporting heroes up on a pedestal; we ought put our manufacturing heroes up on a pedestal as well, and that is what it is all about. We embarked upon a rail manufacturing engineering strategy, which is very successful. It has been able to link our local suppliers into the world supply chain for rail manufacturing. We implemented the industry participation policy, a number of strategic audits have taken place and we set up the Manufacturing Industry Consultative Council. I am happy to go through any of these issues, but in relation to the rail strategy, over \$18 million of new investment has resulted because of the rail strategy and more than \$400 million in new orders of local supplies and 240 jobs in rail vehicle manufacturing, which you can see from your slide.

The next step is the agenda for new manufacturing — \$27 million allocated in the budget. It is all about growing our export base in manufacturing, building the momentum in relation to innovation, and promoting the value of manufacturing and a whole range of other initiatives. There have been some pretty good headlines in recent times about manufacturing. There are some doom and gloom merchants out there who are more than happy to talk manufacturing down, and I have to say as Minister for Manufacturing Industry, and I am sure it is what Mark Birrell found when he was minister, getting good news stories on manufacturing out there is a hard job. If there is a closure of a particular enterprise you will see it right up in the front of the paper, but when a new one opens, creating 300 or 400 new jobs, it will be at page 36 in the paper. So selling good news in manufacturing is difficult, but I reckon we are on track in Victoria to achieve our vision of making this place a centre for manufacturing excellence.

**The CHAIRMAN** — Taking up that theme, which is of particular interest to me, coming from Victoria's leading manufacturing centre, on page 154 of budget paper 3, under the heading 'Outlook', is the statement:

... the department will accelerate the delivery of the government's innovation economy objectives ...

including, under the second dot point:

The government will commence implementation of the Agenda for New Manufacturing, a comprehensive strategy to move the manufacturing industry to a higher growth path.

That reference to an industry growth strategy focusing on exports, innovation and industry collaboration to change the image of the industry and achieve high-performance workplaces is a strategy I would certainly welcome and encourage.

Minister, can you give the committee any examples of how this might be achieved — any pilot programs or things that have been put into place so far that this strategy may well be based on?

**Mr HULLS** — Yes, this is all part of our agenda for new manufacturing. To go back a bit, as you know we set up the Manufacturing Industry Consultative Council (MICC), headed up by Peter Thomas, who made a number of recommendations to government in relation to manufacturing and future directions for manufacturing.

Our response was the agenda for new manufacturing. It falls into four broad streams: as you said, accelerating innovation is one; growing exports; creating high-performance workplaces and also championing the industry.

In relation to accelerating innovation, we believe that as a government we need to support manufacturing innovation by investing in a series of programs aimed at accelerating the exposure of Victorian manufacturers to new ideas. That is basically what innovation is all about. So as part of this — you spoke about examples — we have an Innovation Insight Visits program which will open doors for firms of all sizes to see and learn from manufacturing operations which are world-class. To give you an example, a visit in this program will typically see a dozen or so people from a wide range of companies participate in a comprehensive tour of an operating facility which displays best practice, basically. The tour will be followed by an interactive session of discussion between visitors and key company personnel.

Further to that there will be direct financial support provided to companies to develop and promote new technology demonstration projects. These projects, for instance, will highlight the successful application of a range of new and emerging technologies. Funding will be provided on the basis of the technology being explored and the willingness of the company to disseminate findings to others in the industry.

There will be a whole range of other programs, including a Technology Road Maps and Skills Studies program, which will provide a longer term view of emerging technology and skill needs. A high-performance manufacturing consortium comes under this program as well, where the government will be inviting up to 20 companies to participate in this pilot scheme. It is modelled on successes that have taken place overseas, in Canada. Over there firms gained major benefits by sharing resources and knowledge on workplace excellence.

In relation to some of the other programs such as Growing Exports, we want to help manufacturers grow exports by encouraging new firms to export and by facilitating collaborative export initiatives. As a result there are programs under the agenda for new manufacturing to ensure that that occurs. In relation to championing the industry that I spoke about, we, as I said, want to turn around the image of manufacturing. That is what the hall of fame is all about. We will also be, with industry, researching community attitudes to manufacturing and developing messages to counteract negative images of manufacturing, and we want to support the Manufacturing Industry Consultative Council in this area.

Finally, creating high-performance workplaces — it is our view that the more understanding, trust and mutual respect there is between employers and employees, the more chance they have of realising their common goals, and as a result we will help create, under this agenda, high-performance manufacturing workplaces by providing funding support to Victorian businesses through a program called Partners at Work, which will improve the organisational capabilities and industrial relations within manufacturing enterprises. That program will be delivered by Industrial Relations Victoria. So, again, the government is implementing a whole range of initiatives to make our manufacturers more export-focused and therefore competitive on a world scale.

**Mr CLARK** — You referred earlier to the difficulty you had in getting coverage of good-news stories in manufacturing. It seems to me that you have to take a balance of the positives and the negatives on this score, and in net terms I refer you to the Australian Bureau of Statistics (ABS) figures on employment in manufacturing, which show that there has been a fall in employment in manufacturing in Victoria for every quarter since November 2000. Over the last year we have lost 21 100 jobs in manufacturing. Would you accept that that is a pretty relative performance indicator for the manufacturing industry portfolio, and do you accept that that suggests that despite what you have been doing, the net result has not been satisfactory?

**Mr HULLS** — Can I say that Victoria has the largest manufacturing labour force in Australia. That is the first point I would make in relation to that. In fact, in 2001 we were the only state where the labour force in manufacturing did not drop. You have referred to the ABS statistics for the May quarter. Those statistics show that there are, I think, 343 600 people employed in the manufacturing sector. You will also note that that is 12 400 more employed than when we came to office in August 1999. There has been a decrease in manufacturing employment in the last 12 months, that is true, and national manufacturing employment has declined over the long term for a whole range of reasons. I think when I was asked last year at this committee I said the levels of manufacturing employment, being as high as they were, were probably unsustainable, and I think that has proved to be right.

National manufacturing employment, as I said, has declined over the longer term for a range of reasons: outsourcing of jobs to service providers in other industries, rising productivity. You are probably aware that in the United States manufacturing fell sharply in recent times. But despite that, as I said, the latest figures do show that

employment today in manufacturing is 3.7 per cent higher than it was in August 1999. Manufacturing is the largest provider of full-time jobs and the lead exporter in Victoria. We are the manufacturing capital of Australia.

It is true to say, in response to your question, that manufacturing is not immune to the effects of any global slowdowns, and the last two years rate of expansion is expected to ease, I think, in the short term. But I think it is important that governments look beyond any periodic setbacks when it comes to manufacturing and, as I said, in partnership with industry we are developing a long-term strategic approach to the industry's future. Despite the current global uncertainty — if I can use that expression — manufacturing does continue to contribute significantly to the Victorian economy. In fact it directly contributes 16 per cent, I think I said earlier, of GSP and generates up to 40 per cent of economic activity.

There will always be structural changes leading to company restructuring and job losses, and that is occurring across the economy and across the world, as you would be aware. For instance, there has been major downsizing in the telecommunications industry, in retail, finance and aviation. But in relation to a number of these levers, obviously the federal government controls many of the broad policy levers, in relation to particularly manufacturing, things like trade policy, tariffs, company tax, interest rates and things like that. But we believe that our vision to make this state a centre for manufacturing excellence in the Asia-Pacific region is on track and we want to see manufacturing as a dynamic, innovative and export-focused industry.

**Mr HOLDING** — I refer you to page 154 of budget paper 3, which contains the departmental outlook for 2002–03. The first dot point refers to initiatives that the department will be taking to promote an industry growth strategy that targets exports, innovation and industry collaboration. Can you provide the committee with some information or perhaps an example of the sorts of pilot programs that might be used to promote that industry growth strategy?

**Mr HULLS** — Basically you are talking about the rail strategy. The government invested something like \$250 000, I think, for the first rail strategy. I know it is of interest to you, Mr Holding, because of your electorate. It was enormously successful, and as a result of that we were able to ensure that our local suppliers linked into the global supply chain. In March last year I announced the National Express and Siemens local supply arrangements, which actually resulted in, I think, about \$100 million of new orders for components and activity to Victorian companies, which created some 600 or so jobs. This has now increased to \$123 million of new orders for Victorian rail manufacturers and an additional job boost.

In August 2001 I announced a further major rail boost at the Alstom plant in Ballarat and extending throughout Victoria. These new jobs total some 48 in Alstom, Ballarat, and a further 750 jobs in the supply chain. Further to that, Alstom has committed some \$12 million in capital upgrades and training at its Ballarat plant. This will provide some 50 to 60 new jobs throughout the engineering–manufacturing sector.

In November last year the Premier announced that Bombardier Transport in Dandenong would design and manufacture the 29 regional high-speed new diesel motor units in Dandenong for the regional fast rail project. This will mean a further 60 new jobs being created at the Bombardier plant and some \$141 million in orders for local rail manufacturers, leading to about 700 new jobs in the supply chain. Further jobs will be created in the maintenance area as well. So for this very small initiative of the government to link local component suppliers into the global supply chain — and I think it was \$250 000 for the initial rail strategy, and it will be more — the benefit has been to create 250 new direct jobs, over 2000 jobs in the supply chain, \$400 million of local purchase orders and over \$18 million of new investment. Further to that, there have been about \$160 million worth of inquiries for export of rail components, leading to number of major orders. So this has been a highly successful strategy, and one that we want to build on. In the agenda for new manufacturing we are intending to have a number of other such strategies and overseas delegations, because it links our manufacturers into the global supply chain, with enormous results.

**Mr DAVIS** — I refer to the fact that the strikes at the BHP Steel plant at Western Port by the Australian metal workers union and the Electrical Trades Union over the past few weeks has prompted the head of Ford Australia, Geoff Polites, to threaten the Victorian government that it would buy its parts from overseas sources rather than from Victorian suppliers, which would obviously severely damage Victorian or local manufacturing. What have you done as minister to ensure that Ford Australia does not buy its parts from overseas?

**Mr HULLS** — Can I say that although I am not the Minister For Industrial Relations, I have said previously that the industrial relations regime we have in this country is in my view totally inappropriate. It is a regime that goes back to the bad old days where it pits employer against employee. It is a system where in my

view — without wanting to impinge on anyone else's portfolio — you have two combatants in the ring and they beat the hell out of each other and the last person standing is the winner. In my view that is a totally inappropriate system, and I am quite sure that view is shared by John Lenders, the Minister for Industrial Relations. I am not sure whether he has been before the committee yet.

**Mrs MADDIGAN** — He has.

**Mr HULLS** — I would be surprised if he did not share that view. I think the industrial relations regime we have is pretty ham fisted. It was the approach of the former federal minister Reith, and it has been taken up with a vengeance by the current federal minister, Tony Abbott. In relation to the comments of Geoff Polites, I have actually met with him about this matter. I meet, as you would expect, with the heads of our auto manufacturers on a pretty regular basis. My expectation is that Ford will continue to source product locally. It is true to say that auto manufacturers, and indeed key stakeholders in the auto industry, all need to understand that we are competing in a global marketplace and if there is a hold-up in the supply chain here in Victoria it reverberates around the world. That is why I believe the industrial relations regime we have here in Australia is not conducive to our being able to properly resolve these matters in an orderly way to ensure that we can continue to be part of the global supply chain.

The Victorian government's role in these types of matters is, if you like, an oversight role. We are prepared to be an impartial third party and try to arrange for these types of matters to be mediated rather than an all-in blue. The view I take about industrial relations matters in the manufacturing sector is that they are always resolved. Industrial disputes are always resolved. It is a matter of whether they are resolved with goodwill or bad blood, and if they can be resolved with goodwill I think all parties benefit. I have made it clear to the car manufacturers that we want to work with them. We want to work with all stakeholders to ensure that we continue to be part of the global marketplace. We want to increase exports in the automotive sector.

If you have a look at the history of industrial relations in the automotive sector over the years, it has been very good. That is acknowledged by the car manufacturers themselves. When I spoke to Geoff Polites about this matter — and it was in the context of many things, including post-2005 assistance because there is a review going on about that at the moment — he was of the view that industrial relations in the automotive sector, particularly with Ford, is the best it has been for many, many years. So there are those who want to beat up, if you like, industrial relations disputes in the manufacturing sector, particularly in the automotive sector, but the history of industrial relations in the automotive sector has been pretty good; and that has enabled exports to grow in the sector. Obviously I will continue to have discussions with Geoff Polites about the comments he has made, and I am very keen for as much local product as possible to be sourced when it comes to the automotive sector, and manufacturing generally.

**Mr DAVIS** — So you can provide that assurance that they will continue to source locally in that sector?

**Mr HULLS** — I am the Minister for Manufacturing Industry. I can provide this assurance: that I will continue to work with the automotive sector to ensure that it sources much of its supplies locally, because that is important for the manufacturing sector in this state and for the retention of the critical mass we have here. As you would know, once you lose the critical mass it is almost impossible to get back, so it is important that all stakeholders work together to ensure as much local product is used in manufacturing in this state as is possible.

**Ms BARKER** — In the overview you have given the committee, under shared vision there is a dot point about attracting new investment and reinvestment, and it is referred to in budget paper 3 in the 2002–03 outlook where it refers to a comprehensive strategy to position Victoria as an investment destination. Can you inform the committee of the progress the government has made in securing new investments in manufacturing in this state?

**Mr HULLS** — Again it goes back to the statement I made initially, and the follow-up question by Robert Clark — that is, there have been some fantastic things happening in manufacturing in this state but you do not read about them on the front page of the *Herald Sun*. Street prostitution is on the front page at the moment. Some fantastic things are happening in manufacturing. A lot of it is as a result of the initiatives we embarked on to set up an Office of Manufacturing, which is headed up by Nicky Watkinson, and also setting up the Manufacturing Industry Consultative Council, because we now have a manufacturing industry policy in place where all stakeholders have taken ownership of it. We have this future direction for manufacturing and making Victoria the centre for manufacturing excellence, and we believe we have put in place the structures to achieve that. Since the Office of Manufacturing was set up, and the Manufacturing Industry Consultative Council, they have worked pretty hard to get new investment in this state. I am pleased to say that they have directly facilitated more than

\$3.2 billion worth of new investment in Victoria. That has created more than 7900 new jobs in Victoria in the manufacturing sector. That is just jobs and investment directly facilitated by the Office of Manufacturing, so it is not bad.

You spoke about some of the wins. They include things like AC Mahle, a \$36 million investment in a new piston facility; Schiavello, an investment of some \$20 million and more than 300 new jobs in office interiors — I have a personal interest in that because it is in my electorate; and Visy, an investment of \$60 million and 200 jobs in Wodonga. A whole range of new investments have been directly facilitated by the Office of Manufacturing. Our strong recent economic performance, our good investment fundamentals and strong budget situation will help sustain investment, I hope, at a pretty high level. Investment will also benefit from the high level of business confidence that exists in Victoria. In fact in the March ACCI Westpac survey of industrial trends manufacturers reported strong growth in planned investment in Victoria, above the national average in both buildings and equipment. If we are looking at trends and surveys, the latest Yellow Pages small business survey showed confidence in Victorian small and medium-sized businesses has also risen by some 20 percentage points.

The Office of Manufacturing — I say this even though she is sitting next to me — headed up by Nicky Watkinson has done an extraordinary job in attracting new investment into this state, and that has meant new jobs. I repeat: it is also about keeping the critical mass here, expanding on the mass here, and ensuring businesses that are already here can expand and that we attract new investment as well.

**Mr RICH-PHILLIPS** — I wish to ask about investment facilitation grants. The annual report of what was the Department of State and Regional Development for 2000–01 listed a number of those grants and the companies that received them. There are some in particular I would like to touch on. There was a grant to Arnotts of \$23 500, Email of \$4000, Nestlé of \$26 000, Rocklea Spinning Mills of \$56 000, and a grant to Austrim which was undisclosed but it was part of a pool of \$23 million which was split between, as I understand it, 36 companies. Having received a grant from the Victorian government, all those companies I have listed have since shed Victorian jobs or closed their Victorian operations and transferred them to other states. Firstly, how has that occurred? What contractual requirements exist with these grants which have allowed the companies to take the grants and then reduce their Victorian employment or close their Victorian operations? Secondly, with respect to the current financial year 2001–02, are there other companies that have received grants and then reduced Victorian employment?

**Mr HULLS** — In relation to investment attraction and facilitation, there is projected outcome of \$1.8 billion in new investment in Victoria. That will be the highest level of investment facilitated by the Victorian state government in any financial year. That \$1.8 billion outcome is expected to create some 4500 direct jobs by the investing companies.

You spoke specifically about conditions and the like that are attached to investment programs. As you would know, the Auditor-General recently handed down a report on investment programs and attraction grants and how much of those ought be released. Whenever a company is involved in investment attraction grants, there are fairly stringent conditions attached to those grants, as you would expect, and they relate to a whole range of things including employment growth, innovation and the like. If those particular conditions are not adhered to, the government has legal remedies to get any moneys back that have been paid, or indeed to not continue in relation to further payment under those grants.

You probably recall in 1998 the state government provided assistance — you mentioned a number of companies — to a company called Kia Australia Pty Ltd. The purpose of that was to establish an automotive parts distribution centre, a warehouse facility and head office, and motor vehicle finance business in Victoria. A fairly substantial grant was paid and that company subsequently went into liquidation. I understand the first instalment was paid, the company obviously did not submit a claim for the second instalment, and a liquidator was appointed some time later. Legal advice in relation to that matter was sought. The advice was to terminate the agreement and cancel any further payments to the company. Legal remedies at least exist whenever these facilitation grants are made. Substantial contracts are entered into. They have a whole range of terms and conditions, and if those terms and conditions are not met there are legal ramifications.

**Mr RICH-PHILLIPS** — Are the companies I mentioned in breach of their agreements by reducing employment in Victoria or closing Victorian operations? If so, has there been any attempt by the government to either recover those funds or discontinue the agreements?



**Mr HULLS** — For the specific companies that you have referred to I would have to take that on notice and have a look at the legal agreements. As you know, the Auditor-General has again made some findings in relation to the disclosure of financial incentives. I think if you have a look at his report, he says you have to balance on the one hand openness and transparency while on the other you cannot compromise Victoria's competitive position because once specific details of grants are released that then becomes the bottom line and it becomes a bidding war. The Auditor-General's position is similar to that adopted by the Kennett government. I think the Auditor-General is right: it is a matter of getting that balance right. I am more than happy to take on notice the list of companies that you have given to me, find out exactly what are the legal aspects of the arrangements entered into and, without wanting to divulge any information that may be commercially confidential or covered by legal professional privilege, and get back to you as best I can in relation to the aspects that you have raised.

**Mr RICH-PHILLIPS** — I would be happy to receive that information in aggregate without specific details. The second part of the question was the current financial year. Are you aware of companies that have received grants this financial year and not met their targets or have reduced employment?

**Mr HULLS** — I can tell you that there is an ongoing program of investment facilitation and a whole range of companies receive assistance from government. Those assistance programs are, again, subject to legally binding agreements and arrangements. I am not aware of any companies that have breached those legal agreements to date. However, from time to time you will have companies that seek to alter the legal arrangements. For example, you will have companies that may have as part of the agreement a target of, let's say, 200 new jobs by a certain date and as they get closer to that particular date they will realise that they are not going to reach the target but will miss out by 20 or 30 and they will seek to alter the agreement. The government then has to make a decision as to whether we pull out of the agreement altogether or alter it. They are all decisions that are made on a case-by-case basis.

**The CHAIRMAN** — Thank you, Minister. That completes the time allocated to the manufacturing industry.

**Witnesses withdrew.**