

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2003–04 budget estimates

Melbourne – 28 May 2003

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Witnesses

Mr T. Holding, Minister for Manufacturing and Export;

Mr P. Harmsworth, Secretary;

Mr B. Mapperson, General Manager, Service Industries; and

Mr P. Rea, Director, Office of Manufacturing, Department of Innovation, Industry and Regional Development.

The CHAIR — I now open the session on the manufacturing and export portfolio; and we have the same witnesses as for the minister's other portfolio.

Minister, I take you to page 181 of budget paper 3 under the investment facilitation and attraction output, line 1, which reports that the 2001-02 measure for new investments facilitated and announced is \$2243 million. Can you give the committee some information on the nature of those investments and how they fit in with the priority areas?

Mr FORWOOD — We should be talking about why the target has dropped so much!

Mr HOLDING — You will get your turn, Mr Forwood.

Thank you for that question, Chair. It underscores the fact there has been significant new investment in Victoria since the Bracks government came to office in September 1999. A key factor underscoring this new investment has been the activities of the Department of Innovation, Industry and Regional Development and its predecessor, the Department of State and Regional Development, in facilitating new investment in Victoria. The department's resources, activities and energies have been focused on certain key areas to make sure that as much as possible Victoria presents a coordinated vision of our competitive advantage. Those areas are in particular food, for which Minister John Brumby has responsibility, and automotive, where there has been significant new investment. I am happy to go through the details of that.

The most significant new investment facilitated has been in the automotive sector. I touch on the Holden V6 engine plant at Fishermans Bend and the new investment that has spun off some of that automotive investment, and the Ford E265, the new all-wheel-drive vehicle which was unveiled at the international motor show earlier this year. Again hundreds of millions of dollars of new investment, hundreds of jobs created and spin-off investment that occurs as a consequence of it.

I will just mention in particular the spin-offs from the V6 engine plant at Holden. Earlier this year I had the opportunity of opening the new Mahle-ACL piston plant at Laverton, a direct result of the fact that new investment was occurring at Holden. Then there is the Ion engine block plant, this new investment also a result of the fact that Victoria would be hosting the V6 engine plant. Air International's research and development centre, Autoliv; the ACL one I have mentioned already; and a range of other automotive-focused investments which have done much to revitalise our automotive sector in Victoria and contributed so much to what has been a really outstanding export result with exports growing about 65 per cent or thereabouts in the last three years. It is a sector with a very bright future and one in which the government is very keen to make sure that we continue to build.

But we are not abandoning other sectors. There has been considerable new investment in our TCFL sector; again much of that facilitated by the state government with new investment at Melbatex in Geelong, new investment at Aunde in Stawell, which also supports some of the work that is occurring within the automotive industry; in the printing industry, new investment at AIW Printing Pty Ltd just out of my electorate in Springvale; new investment — —

It happened before I was the minister, Mr Forwood, I can assure you; but welcome nevertheless. New investment in our rolling stock industries; Bombardier, with new investment in Dandenong, which is in my electorate; at Alstom in Ballarat, new investment in a whole range of different industry sectors which will help build Victoria's position as a centre of manufacturing excellence in the Asia-Pacific region.

Mr CLARK — To follow on from the Chair's question, I refer you to page 170 of this year's budget paper 3. I contrast that with page 151 of last year's budget paper 3. This year's papers report that in 2002-03, \$0.8 billion of manufacturing investments has been facilitated creating more than 1700 jobs. Last year the report states that \$1.1 billion of manufacturing investment was facilitated creating more than 3200 jobs. Why has there been a drop in the amount facilitated? Why is there not a separate listing in your actual performance indicators of manufacturing investment facilitated given its importance? Will you undertake to put that in the budget papers in future? Can you provide the committee with a list of the composition of the \$0.8 billion and 1700 jobs?

Mr HOLDING — Firstly, you asked about the change in investment facilitator or the change in the quantum of investment facilitated. In relation to that I can say that the earlier year was, by anybody's standards, a record year for investment facilitation. It was a year in which there were enormous amounts of new investment in a whole raft of different areas. The state government is very proud of that and proud of the role it has been able to play in terms of facilitating new investment over a period of time, but particularly in that year.

However, it is true that we face a much more challenging investment climate now. Our investors face a whole range of new challenges, whether it is the more subdued international climate as a consequence of the situation in Iraq and more generally the subdued international climate arising out of events post-11 September. There has been a sluggishness among some of our key international trading partners. There has been a long-term sluggishness in the Japanese economy, but more recently a much more subdued economic climate in relation to the United States of America, and fortunately in relation to budget paper 2 there is an indication that there is likely to be a pick up at some time in the future. In recent years the United States economy has underperformed certainly against the Australian economy. The German economy has been sluggish for several years now. Germany is a significant trading partner of Australia, and is also the source of considerable foreign direct investment in Victoria.

We have faced a very challenging international climate as well as a challenging domestic climate with issues in relation to drought and other issues which have particularly impacted on the Victorian economy. We are mindful of the challenge that that international climate as well as those domestic factors present to us, and that has resulted in, if you like, a downward trend in investment facilitated for this year.

The second question related to a desire on your part to see a disaggregation of investment facilitation by industry subsectors. I would be reluctant to see that happen for some of the reasons I outlined in relation to financial services earlier — that is, at different times the emphasis between different industry subsectors or industry sectors will change. From time to time there will be significant investment such as the Holden V6 engine plant, a \$700 million investment, which can have the effect of distorting different years for a particular industry subsector but which overall do not necessarily reflect the trend in investment facilitated in a particular area.

We are very much committed to identifying the industry areas where we are chasing investment. Obviously within the department we monitor investment levels in different industry subsectors, but I do not think it would be helpful from an investment facilitation point of view to be disaggregating that investment facilitation figure by industry subsector.

Mr CLARK — The final component of the question was: are you happy to provide the committee with a list showing the composition of the \$0.8 billion and 1700 jobs mentioned in the budget papers?

Mr HOLDING — Where there have been public announcements we are happy to provide those figures; that is not a problem.

Mr MERLINO — I refer to page 182 of budget paper 3, the ninth item under the heading 'Business development' regarding the innovation insights visits program. Can you tell us what the program is, what it aims to do, and how many companies are participating?

Mr HOLDING — This is a very important program and is part of our agenda for new manufacturing. I was pleased yesterday to join a range of business leaders and manufacturers at Nissan casting in Dandenong to officially launch the innovation insights program. The program seeks to use a form of peer support by taking companies that are participating in or have achieved world best practice and giving them the opportunity of showcasing their manufacturing or their supply chain activities to other companies within the same supply chain.

We have had six companies already showcasing particularly lean manufacturing techniques. Those companies include Air International Group, a leading supplier to the automotive industry, and ADI in Benalla, which is a leading defence manufacturer. I know we have had Amcor cartons in West Heidelberg — which would be of interest to Mr Forwood — showcasing lean manufacturing and, from memory, supply chain activities. A range of companies have been showcasing industry best practice, manufacturing best practice, supply chain best practice, human resource best practice in relation to ADI, and other companies within the same supply chain have been coming in to see their world best practice activities first hand, to ask questions about it and to compare it with their own activities.

It basically stems from the fact that all international research shows us that companies are able to achieve the best learning and innovation through a continuous process of learning underscored by access to information sources within their own organisation, or access to the activities of other companies within the same supply chain.

This is supported by the findings of the Eurostat innovations study, which was released in 1997. It is underscored by the research of leading industry and manufacturing analysts such as Dr David Brown, the key UK expert on lean manufacturing, who has had a program running in the United Kingdom for about 10 years now which, as well as providing examples of lean manufacturing in the manufacturing area, has also been able to use an Innovation Insights-style program to support activity in transport, distribution and logistics, and other supply chain areas, and

also other innovation-style programs which have been showcased in Austria, Germany, Holland, Spain and a range of other jurisdictions.

We were very pleased to announce earlier this year the selection of Invetech, a leading manufacturing consulting company, to run the Innovation Insights program for us. We anticipate there being about 50 visits this year, 75 visits in 2004 and about 100 visits in 2005. So it will be a three-year program that should see something in the order of 225 visits. The first six visits have already been oversubscribed to the tune of about 20 per cent, so we expect there to be a lot of industry interest in this. There has already been a lot of industry interest in it, and we think it will be a key part of promoting innovation amongst some of our small and medium-sized enterprises.

Mr FORWOOD — Minister, I refer you to page 170 of budget paper 3 — the manufacturing sector — which talks about the Agenda for New Manufacturing and initiatives being administered by the Office of Manufacturing. I am interested to know: what is the budget of the Office of Manufacturing, how many people work in it, and does the \$6.4 million allocated under the Agenda for New Manufacturing for the year 2003–04 cover some of the budget for the Office of Manufacturing?

Mr HOLDING — Is it part of the Office of Manufacturing?

Mr FORWOOD — Yes. My question is: what is the budget for the Office of Manufacturing, how many people work there and is the \$6.4 million for the Agenda for New Manufacturing part of the office's budget?

Mr HOLDING — You have asked how many people work at the Office of Manufacturing. I am advised that the estimated total staff at 30 June 2003 is 32.4, so 32.4 positions within the Office of Manufacturing. In relation to the detail of the working of the budget for the Agenda for New Manufacturing, I might refer that to Mr Rea.

Mr REA — The budget for the Agenda for New Manufacturing is predominantly around the grants and, of course, delivering most of the programs around the Agenda for New Manufacturing, which the minister referred to — Innovation Insights, some of those sorts of details.

Mr FORWOOD — I presume that is the \$6.4 million that is detailed in *Building Tomorrow's Businesses Today*, so I know that. Is that part of the budget of the Office of Manufacturing?

Mr REA — As in operating budget?

Mr FORWOOD — What is the operating budget of the Office of Manufacturing?

Mr REA — To be blunt, I could not tell you the exact operating budget because it is within the total business group budget. Steve will be able to give us the exact — —

The CHAIR — If you wish, we can — —

Mr HOLDING — Why do we not take the operating budget on notice? Just in relation to the Agenda for New Manufacturing initiatives, if I could direct the attention of the committee to the *Building Tomorrow's Businesses Today* statement, which was released in April 2002, if you go to page 72 of that statement — and I appreciate that members may not have it with them — —

Mr FORWOOD — I have got it.

Mr HOLDING — You can then see the disaggregation of the different — —

Mr FORWOOD — The programs make up \$6.4 million.

Mr HOLDING — That is right.

Mr FORWOOD — And for each of the years.

Mr HOLDING — That is right.

Mr FORWOOD — I guess what I am trying to get at is that you keep the operating and administrative budget of the Office of Manufacturing separate from the programs, and so the program grants will be in budget paper 3 under the business sector. But would not there also be in there the cost to the Office of Manufacturing? So I guess the question I am getting to — —

Mr REA — No.

Mr FORWOOD — No?

Mr REA — Not entirely, no.

Mr FORWOOD — So where in the budget papers do I find it?

Mr REA — Within the business group.

Mr HARMSWORTH — Under business development?

The CHAIR — And that is what you have got to get back to us on.

Mr FORWOOD — Okay. That would be good.

Mr REA — As Peter Harmsworth noted earlier, we operate under a matrix management so therefore, for instance, some of the efforts within the Office of Manufacturing are sometimes directed towards regional work. We might be helping facilitate, for instance, a manufacturing project in a region, a responsibility of Regional Development Victoria and therefore it does not necessarily come under the Office of Manufacturing purely — for instance, food manufacturing.

Mr FORWOOD — I am interested in that. It might be good for the committee just to get a briefing on how this matrix actually works, because it is very difficult to follow through the budget papers when you have got so many ministers and such an aggregation. One of the things that might be useful for the committee to try to understand the operations of the department and the allocation of the funds is to get a briefing from the bureaucrats on how a matrix system actually works.

The CHAIR — We can follow that up, and I am sure we will be further briefed as each minister appears.

Mr HOLDING — We can provide some information to the committee in relation to that.

Ms GREEN — Minister, my question relates to the textile, clothing and footwear industry, and I refer you to page 177 of budget paper 3, under the heading ‘Strategic policy’, and note the reference to policy papers and submissions. Can the minister tell us what is being done in this regard in relation to the TCFL industry, which the media has reported as having significant jobs at risk?

Mr HOLDING — Sure. Thanks very much for that. This is a very serious issue that our manufacturing sector in Victoria and, more broadly, the Victorian community has to confront. Members would probably be aware that the Productivity Commission on behalf of the federal government is currently conducting an inquiry into industry support and tariff levels within our TCFL sector. This arises out of, or is part of an ongoing process of, reviewing industry assistance and market access issues across a range of different industries.

Obviously the TCFL industry is particularly important to Victoria. We account for about 44 per cent of the national TCFL work force and we are responsible for producing about 50 per cent of the industry’s value-added material. I think that is a very important statistic, because TCFL has traditionally been seen as one of those industries which have died. People, particularly economic commentators, often love to characterise this industry as being somehow connected with the old economy. From my observations that is simply not true. This is a sector which has undergone huge structural change in the last 20 or so years.

Recently I had the opportunity of visiting Melbatex, which is a textile company in Geelong. It produces fibres which are used for the manufacture of ultra-lightweight bulletproof vests, as well as fibres which are used for the production of special materials for emergency services workers, fighter pilots and people like that, because of their protective qualities. Melbatex is currently exporting these materials, not only to Korea, Singapore, Japan and locations like that, but also to China and India. So we have a textile manufacturer in Geelong, in a regional centre here in Victoria, exporting textile products to India and China, which have traditionally been associated with the sorts of countries that pose the greatest threat to our textile industry here in Victoria because of their low-wage conditions. What it really shows us is how much the industry has changed in the last 10 and 15 years in particular. It shows that the industry nevertheless, whilst a resilient one, is one that government has to work closely with.

I was very concerned to see that the recommendations in the TCFL’s initial report basically contained a set of policy prescriptions which would see tariff levels reaching negligible levels by 2010 and the phasing out of the

strategic investment program (SIP) for the TCFL sector. We are very concerned about this and the Victorian government made a submission to the Productivity Commission and to the federal government which basically said that future tariff reductions should not occur unless a range of issues are addressed.

Firstly, we want to see the federal government commit to maintaining a critical mass of the industry. That critical mass is very important to support high-value-add, innovative, export-focused companies like Melbatex that I mentioned earlier. We also want to see the federal government address market access issues. The truth is that our textile companies face prohibitive tariff levels in many of our competitor countries here in this region. We would want to see those sorts of issues addressed at a federal government level before the federal government simply proceeded with the next round of legislative tariff cuts and then embarked on a further round of tariff cuts in line with the recommendations of the Productivity Commission.

We are also concerned to see issues addressed such as making sure there are appropriate arrangements for structural adjustment in this industry. One of the things that the Victorian government's research has shown is that when people in our textile industries lose their jobs many of them are unlikely to ever find work again. They tend to be concentrated in regional and rural areas. Disproportionately they are women, often from migrant backgrounds, with low skills and with low education qualifications, which makes it very unlikely that they will be quickly reintegrated into the local economies in their regional areas. So we want to make sure that the federal government is realistic about the implications of the sorts of tariff reductions that it is contemplating and that it puts in place an appropriate scheme of labour market adjustment programs to support whatever changes it might want to contemplate. We are very concerned about this. We held a local government forum last week which was well attended by local councils from areas likely to be disproportionately affected by these cuts. We have also liaised closely with industry and with the Textile Footwear and Clothing Union of Australia.

All participants in this industry are very concerned about the implications of the Productivity Commission's report. We anticipate the state government making a further submission to the Productivity Commission prior to the handing of its final report to the federal government. We will also make our submission available to the federal government as well as some research that we have conducted to support that. We also want to work closely with the sector to promote some of the deleterious effects that the Productivity Commission's recommendations would have and which, I might add, are not supported by the research that the Productivity Commission itself has done. So the Productivity Commission is in a unique position of recommending a set of policy prescriptions which its own research says will be harmful to the industry and particularly harmful to it here in Victoria. I will leave it there.

Mr FORWOOD — Just a quick supplementary. The Australian Bureau of Statistics figures show that since November 2000 to the most recent figures of February this year there has been a drop from 343 000 people employed in manufacturing to 325 000.

The CHAIR — In TCFL?

Mr FORWOOD — No, total. Do you think most of those are TCFL? The drop in manufacturing employment from 343 000 in November 2000 to 324 000 now, do you think they are primarily TCFL?

Mr HOLDING — There is no doubt that there has been a change in both the quantum and the nature of employment within the TCFL sector. The reason for that is the way in which the industry is changing. I mentioned Melbatex as an example earlier. The truth is that our TCFL sector is shifting from being, if you like, a commodity-based manufacturer of essentially low-value items to being a producer of high-value items, innovative items, items where there is an opportunity for export or niche products.

If you go through and look at where new investment is occurring or where significant reinvestment is occurring it tends to be in those areas. To give you some examples, I mentioned Melbatex, but there is also Aunde and Autofab and companies like that which provide high value-added fabrics for our automotive industry. Once again it is the high-value end and you do not necessarily see the same quantum of jobs created from new investment in that end of the industry as you would in the old commodity-based manufacturing end for TCFL. That is not surprising. We are not going to compete in manufacturing singlets and underwear against China or India, nor should we want to for that matter. We want to focus on the sectors of the industry where there is high value add, innovation, where design is particularly important, and where there are export opportunities because of our capacity to produce what are relatively low production runs but retain a cost-competitive market. That is where the future of the Victorian TCFL sector lies.

Mr FORWOOD — Do you think you could provide the committee with which sector the 20 000 jobs have been lost from?

Mr REA — We have not got all that data. Currently we are in the process of analysing it. It also attributes some of the losses in employment around drought and food.

Mr FORWOOD — Food as well?

Mr REA — Yes, in manufacturing employment, in areas like Shepparton that have been fairly hard hit with drought and therefore have not been able to employ the numbers of staff they normally would during these periods.

The CHAIR — By way of a supplementary on TCFL, in our submission to the Productivity Commission, either the first one or our proposed second one, are we promoting the Melbourne fashion industry and the work that this government has been proactive in, particularly in its first term, that niche market and if that employs a lot of people?

Mr HOLDING — I cannot say off the top of my head whether the initial policy contribution that we made specifically mentioned the fashion festival in Melbourne and some of the other fashion events that we have, but I know that it would have mentioned design and fashion as key opportunities for growth. I know the submission did mention those areas. It actually raises a very important point because as we talk about niche opportunities, and I mentioned automotive and protective gear —

The CHAIR — Probably you do not have the same interest as some other members!

Mr HOLDING — I am perhaps less sartorial than other members! But never let it be said, Mr Forwood!

Nevertheless, our fashion industries do provide not only real opportunities in terms of niche manufacturing and high value-add, but they are also disproportionately represented by those small and medium-sized enterprises where we see a lot of the opportunities for explosive growth in the future. We ought not necessarily see it as the future opportunities for fashion just being in manufacturing the gear locally, but also the opportunities in terms of design, and that is why we have been working very closely with Brunswick RMIT and a lot of the design work that occurs there in terms of TCF.

I had the opportunity of visiting some of the designers there and seeing some of the International Fibre Centre equipment which has been located there and which is being utilised. We see great opportunities in terms of design. That is why the government supports and provides sponsorship for the Melbourne Fashion Festival. I know we have the Mercedes fashion event later in the year. We also provide support for the Melbourne Design and Fashion Incubator, which was very active during the fashion festival earlier this year. We see fashion as being a real opportunity for TCFL growth in the future.

The CHAIR — Your future supplementary submission, will that be a public document? If it is, can we have a copy of it?

Mr HOLDING — Yes, it will, as is the existing submission. We will provide the committee with a copy of our initial policy contribution as well as some of the research which underpins it.

The CHAIR — Thank you.

Mr CLARK — Can I refer you to the Labor Party election policy commitment last year to double the number of Victorian companies involved in export activity. Does the government still stand by that policy? What was the starting base number of companies exporting against which you have set that policy and by the midway point in delivering that policy at the end of 2006 how many Victorian companies do you expect to be exporting?

Mr HOLDING — Thanks for that question, Mr Clark. Firstly, I can say that, yes, we do have a deep commitment to focusing more resources on exporting, and as a measure of demonstrating our commitment to growing our exports, we committed at the last election to doubling the number of exporters by 2010 and also to taking our export performance over the \$30 billion mark by 2010 as well. This is, I guess I would not say necessarily absolutely consistent with, but complementary to some of the work being done by the federal government in relation to this area.

I know it has an earlier stated commitment to doubling the number of exporters by I think 2006 and has set itself that benchmark. Obviously there are a whole range of issues that the state government wants to address in relation to this, and many of those will be contained in our Opening Doors export plan, which we will be launching later this year and which was the overriding strategic direction for our export sector. In fact the commitment Mr Clark

referred to in relation to doubling the number of exporters, as well as increasing the volume of exports, is in a sense a subsidiary of the Opening Doors export plan, which will be our broader vision for state government action in relation to growing our exports.

The Australian Bureau of Statistics data that we have in relation to the number of companies exporting in 2001–02 shows that of companies around Australia exporting Victorian-sourced products the total number is 12 250, and I guess the challenge for both the state and federal governments in relation to their export targets is making sure that we are actually measuring growth in export activity.

Obviously, particularly for our automotive sector, this is a particular challenge. If I could just describe the challenge in the following terms: a company may be producing material in Victoria which is ultimately destined for export, but if it is taken, for example, to South Australia and put in a Holden car and the Holden car is exported, clearly the product being produced is being produced for export but the company itself is not necessarily engaged itself in exporting, even though the car that is being produced is ultimately being exported. So there are questions there in relation to how we get the measures spot-on, how we make sure we are measuring growth in exports, and growth not only in the volume of exports but in the number of companies exporting. We will be saying more about that in relation to our Opening Doors export plan when it is released.

If I could make a quick correction, I said that the Opening Doors export plan would be released later this year. We actually anticipate the release of that in early 2004.

Mr CLARK — If I could just clarify this, the 12 250 is, in effect, the base number against which your target is going to be measured?

Mr HOLDING — No, the 12 250 figure is the Australian Bureau of Statistics figure for 2001–02 for the number of companies exporting Victorian-sourced products. That is the ABS measure for Victorian-sourced product, but they may be companies that are not Victorian companies.

Mr CLARK — Sure, but I am just asking what is the base number which you are planning to double as the measure of implementing your policy. Maybe take it on notice if you do not have it on the spot.

Mr HOLDING — What we are saying is that the base figure we are working off is 12 250, as evidenced by the ABS in 2001–02.

Mr CLARK — Finally, do you have a target for the mid-point? How many do you expect to have exporting by the end of 2006?

Mr HOLDING — Obviously we would want to see it grow, but I do not have a 2006 target.

The CHAIR — I take you to page 174 of budget paper 3. Halfway down the page is ‘Victorian industry participation policy’. Could you explain to the committee how that policy operates and give any key performance indicators?

Mr HOLDING — Sure. Thanks for that. This is a very important part of, if you like, government procurement arrangements here in Victoria. It is important that I provide a description of this program to members of the committee because it is actually a very different program from many of the government procurement or what you might call price-preferencing programs that exist in other states.

Victoria is a state which very much favours greater trade and it is a state that very much supports freer trade. Within that context we have developed the Victorian industry participation policy (VIPP). The way the policy works is that, rather than providing a 10 per cent or 20 per cent price advantage or price preference for a Victorian company or a local company that is bidding for government supply or government manufacturing work, it asks any company bidding for work with a total value over \$3 million in relation to the metropolitan area or over \$1 million in relation to a regional area, where the value of the work exceeds that threshold, to offer up a statement of what local content arrangements would exist in relation to the manufacture or supply of those goods or services. So basically what it requires of a company bidding for that work is to provide a statement of what level of local content or what level of local sourcing would exist with respect to that contract.

In the event that the final tenders are within, from the point of view of a value proposition, 5 per cent of one another — not necessarily a cost perspective but a value proposition — the government department or agency would then be expected to use that local content statement as a vehicle for making the final decision as to which company would win the tender and then holding that company contractually liable, if you like, for the delivery of

that service or the manufacture of those goods in accordance with the offer-up contained within their response to the tender. So it does not provide a price preference for Victorian companies or for local companies, but rather it provides a commitment to demonstrate a willingness to consider local content and then a commitment to using that local content or to incorporating those local content offer-ups in the final contracts.

I mentioned earlier that as well as this arrangement existing already as a statement of government policy, the government intends shortly to introduce legislation to require the reporting by all government departments and outer budget agencies as well their compliance with the VIPP to Parliament, so that we can test compliance across all government agencies and across government departments to demonstrate performance under VIPP.

Very closely related to the monitoring arrangements for the Victorian industry participation policy is the work by the Industrial Supplies Office, which is currently changing its name to the Industry Capability Network. This is a government-funded but industry-run organisation which provides an import replacement service to companies that are looking to do business in Victoria and want to be able to source manufacturers or suppliers who would be able to meet their manufacturing or supply needs locally. And the ISO has an important role to play in monitoring performance against VIPP and making sure that undertakings given are actually met.

I can report to the committee that as at 31 March 2002 the ISO had achieved import replacement to the value of about \$80.6 million, and much of that import replacement was import replacement that occurred in the context of the VIPP. Currently contracts worth over a \$50 million have a requirement for tenderers to have their VIPP statements — that is, their local content statements — certified by the ISO as part of the process.

The CHAIR — Thank you. You said 31 March 2002?

Mr HOLDING — That was in relation to ISO import replacement.

The CHAIR — I was just checking on the date. That is all right.

Mr FORWOOD — I would like to ask about two high-profile manufacturing companies you might just care to bring the committee up to date on. Last year there was a lot of focus on Saizeriya. You might let us know whether it is working, what is happening and whether it is happy. Secondly, in relation to Alcoa and the additional pipeline, which of course will be a significant boost to Victoria's manufacturing, I was wondering whether you could inform the committee of where we are up to with that and the government's attitude towards it.

Mr HOLDING — I will start with Saizeriya. Obviously there has been a lot of community interest in this matter. It is fair to say that the government shares that interest and shares the frustration in this particular investment being plagued by some level of industrial disputation, and more particularly some level of delay in relation to its start-up. I must say it is not indicative of new food investments in Victoria. In fact, if we look at Tatura milk company, Vitasoy and a range of other food investments we see that these investments have been delivered within the same time frame as the Saizeriya investment but they have been delivered on time and on budget. The Saizeriya one has been, if you like, the exception rather than the rule of experience of new manufacturing in Victoria.

It is true to say that the Japanese company has also been somewhat frustrated by its experience in relation to this new investment in Victoria, but it has been very pleased with the level of facilitation and support provided by the state government. In fact my attention was drawn to an article in the *Australian* — my recollection is that it was late last year — which quotes Mr Shibata, who is a representative of Saizeriya, stating:

As a matter of fact our company has been heavily dependent on the cooperative attitude of the current Labor government.

He is obviously referring to the first Bracks government. Whilst the article appeared in December last year, the events he is talking about relate to the first term of the Bracks Labor government. The company was very supportive of the support it has received from our government and has been endeavouring to work closely with us to address some of those issues. It is true that there have been delays. I understand the work is now either completed or very close to completion. There are some minor commissioning works still being addressed, but the work is either very close to conclusion or it has actually concluded.

Mr FORWOOD — So it is not far away — —

Mr HOLDING — We are not far away from being in a position where that firm can commence operations, which we are very excited about.

In relation to Alcoa, it is true that there are some discussions taking place. Those discussions are commercially confidential at the moment, so I would not want to go into any details in relation to those discussions with this committee, but the department is working very closely with the Minister for Energy Industries to identify what opportunities exist. I am really not in a position to comment any further than that.

Mr FORWOOD — But I take it that you are keen to see it happen?

The CHAIR — He has just said that he is not in a position to comment any further.

Mr HOLDING — With any new investment where there has been no announcement made or where there are still discussions taking place it is not assisted by a minister, certainly a minister for manufacturing and export, providing a running commentary on the desirability or otherwise of that investment and the terms or conditions on which we would want to see it occur. It is just not helpful to the process.

Mr MERLINO — My question is related to science, technology and innovation. I refer you to page 175 of budget paper 3. Minister Brumby has already provided some information on STI as the administrative minister, but I wonder whether you could provide some background on the manufacturing sector's share of these funds and the expected outcomes.

Mr HOLDING — Sure, thanks for that. I would say at the outset that this funding program is a very important part of the state government's commitment to promoting innovation within not only our manufacturing sector but across a whole range of different industry sectors, whether in biotechnology, pharmaceuticals or a range of other manufacturing industry sectors. The \$119 million STI infrastructure grants program is part of the five-year \$310 million STI initiative. As I mentioned earlier, this is building innovative capacity in our state economy. Of the 32 STI-funded science infrastructure projects, seven have direct relevance to the manufacturing sector — 22 per cent of them relate directly to manufacturing. I will touch on a few of them.

We have half a million dollars committed to the materials and surface science facility. This is STI funding for the acquisition of a time-of-flight secondary ion mass spectrometer and for laboratory renovation. It includes the La Trobe University Centre for Materials and Surface Science, the Deakin University School of Engineering Technology, Amcor Packaging Australia Ltd and CSIRO Molecular Science.

For the National Printing Laboratory there is \$900 000 in infrastructure grants. That will establish a laboratory for printing research and development with unique capabilities in surface science technologies. The lead parties in that new investment will be the Monash University Department of Chemical Engineering, Note Printing Australia, Amcor, Visy Industries, Fletcher Challenge Paper and Sicpa Pty Ltd.

There is a commitment of \$2.8 million for the Redlab test facility. This is a new high-speed electronic and optical test instrument that will assist in growth in the telecommunications area of optical transmission as well as providing a research and development platform for next-generation developments. The lead parties in that project are CEOS Pty Ltd and Redcentre, Pacific Broadband Networks, Nokia and ITEC Technologies.

We have committed \$100 000 for the Victorian Microtechnology and Manufacturing project, which involves the establishment of a multi-nodal open access microtechnology facility. The lead parties in that are the RMIT Faculty of Applied Science, Engineering and Biomedical Health, CRC for Microtechnology, CSIRO Division of Manufacturing Science and Technology and the Swinburne University of Technology.

We have committed \$12 million for Nanotechnology Victoria. This is an area that the state government has identified as an area where there are tremendous growth opportunities. Nanotechnology Victoria will coordinate research and development, investment attraction, commercialisation activities and industrial partnerships in strategic areas. The total project costs \$30 million, so it is a good example of the state government using its resources to leverage investment by others. The lead parties in that are Monash University, Swinburne University, RMIT and CSIRO.

There is \$5 million for the Victorian Centre for Advanced Materials Manufacturing. This will solve specific problems by directing industry to access skills and infrastructure that support its specific needs in terms of manufacturing in Victoria. It is another example of support that leverages resources from elsewhere. The total project cost of that is \$17 million for our grant of \$5 million. The lead parties are Deakin University, Monash University and CSIRO.

Finally, there is \$4.7 million for the Research Centre for Advanced By-wire Technologies. This is a world-class cooperative facility that will underscore a lot of our work in the automotive industry. We had the drive-by-wire technology car that Bertone in Italy supplied to the Melbourne International Motor Show earlier this year. It is fascinating technology. It really shows where our automotive industry is going.

We are very keen to support this project, which has a total project cost of about \$10 million, with a grant of \$4.7 million. The lead parties in the project are Pacifica Group Technologies, the University of Melbourne, Bishop Technology Group and Swinburne University of Technology.

The CHAIR — Thank you. I am sure Hansard will look forward to getting your notes on that.

Mr CLARK — My question relates to reductions in the budget and cuts and/or savings. I refer you to page 189 of budget paper 2 which lists the forward estimates for the Department of Innovation, Industry and Regional Development. It shows a fall from \$379.8 million in 2003–04 to \$281.8 million in 2004–05 and further falls in subsequent years. I also refer you to page 231 of budget paper 2, appendix A, which lists ‘General efficiencies in government administration’, and ‘Rationalisation and refocusing of programs’ as two areas in which there will be cuts; page 228 shows cuts of \$2.7 million and \$3.4 million respectively for those. In relation to your portfolio areas, how much of the reduction in departmental budget affects them? In relation to the efficiencies and rationalisation, how much will they affect your portfolio areas? How do you propose to implement those reductions?

Mr HOLDING — The most significant section of change, if you like, in terms of the funding Mr Clark referred to relates to the machinery-of-government changes which have occurred since the last election. From the Department of Innovation, Industry and Regional Development’s perspective that has meant a significant reallocation of different responsibilities to other departments within government. The most significant single item of those is the relocation of Multimedia Victoria and its activities and functions into the Department of Infrastructure. There have also been some minor changes out of business regulation, I think, in relation to weights and measures into the Department of Justice, as well as some employment activities which have been relocated from the Department of Innovation, Industry and Regional Development into the Department for Victorian Communities. That accounts for most of the changes that you have identified in your question.

In relation to the specific impact of changes on the elements of the portfolio for which I am responsible, there will be some savings. Those savings will be delivered through reduction in overheads and other costs, not through the cutting of any services or any programs. We will be working through that process in the weeks ahead in terms of exactly what that means.

Mr CLARK — Just on the first part of that answer, the figures I quoted, being the forward estimates figures, were supposed to be, according to the Department of Treasury and Finance, on a post-administrative rearrangement basis. You might want to take on board the answer you gave to that first part and check whether that is in fact correct because the changes you referred to should already have been reflected in those figures.

The CHAIR — Some of the previous ministers have referred to a six-month time frame as opposed to a 12-month time frame; I am not sure if that helps.

Mr HOLDING — I am happy to take that on notice.

Ms GREEN — I note on page 182 of budget paper 3 there is a new measure of client satisfaction with investment facilitation services. How is this intended to be measured?

Mr HOLDING — I am pleased that you have made reference to that because that is an area where the government is keen to better prioritise and focus some of its activities. It is true that we devote considerable resources as a department and a government to facilitating new investment in Victoria. It is also the case that we are keen to better measure the success or otherwise of the activities we undertake in relation to attracting new investment.

If you look at the budget papers you will see that there is a whole range of changes in relation to performance measures within our investment facilitation and attraction program. I know the committee has in the past had a significant interest in the performance measures that departments use and the relationship between those performance measures and the actual outputs, activities or results that the departments are trying to achieve.

You will see that we have rationalised considerably some of our performance measures. We have particularly attempted to rationalise those performance measures that were essentially activity based — that is, where we had a performance measure which said ‘number of visits’ or ‘number of presentations given’, we have sat down and tried to see whether in fact that performance measure really captures the sort of results the department is trying to deliver.

In relation to investment facilitation, we feel very strongly that we need an active program of after-care to underscore the sort of work we are doing in the investment facilitation area. One way in which we can better focus our after-care activities is to follow up with companies that have had some sort of interface with our investment facilitation and attraction group and assess their level of satisfaction with that interface. We will do that through a process of interviews to examine the level of investor or potential investor satisfaction, if you like, with the sorts of investment facilitation and attraction programs that we provide.

A lot of people have the view that investment facilitation and attraction is fundamentally about the state government giving money to companies to come and invest in Victoria. In fact, I would say that the majority of our investment facilitation work is actually not necessarily of that kind, rather it is working closely with companies to identify their needs and to assist them in identifying what they need to invest in Victoria — whether it is provision of industrial land or answering other investment-related questions. Therefore, it is very important that we make sure that that service is being provided in a timely way, that it reflects the sort of relevant information that companies wanting to invest in Victoria would want, and that we are measuring the level of satisfaction with that information. That is why we have introduced that measure. It will be done through a process of interview and interrogation post-support.

Mr FORWOOD — I would like to follow on with the same issue. Page 182 of budget paper 3 shows the total output cost for investment facilitation and attraction. I draw your attention to the fact that the total output cost target for 2002–03 was \$44.4 million, that the expected outcome was \$60.3 million, and the target for 2003–04 is only \$35.8 million. Why is it \$16 million higher as an expected outcome this year and why is it \$25 million lower in the budget for the forthcoming year?

Mr HOLDING — I guess I touched on this in some of my earlier answers — that is, essentially Victoria and Australia face a very different investment climate this year from what we faced in the years immediately passed. I do now want to reiterate all the things I went through earlier but we face a very different investment climate. It is a more challenging climate — a climate where we face a more challenging export environment. We face a more challenging climate in terms of the economic situation of a lot of our trading partners. It is a climate where we face a very significant downturn as a consequence of drought. It is a real challenge for us as a state government and our 2003–04 budget paper 3 measures reflect that.

Mr FORWOOD — Two comments — —

Mr HOLDING — Can I finish?

Mr FORWOOD — Sorry, I thought you had finished.

Mr HOLDING — In relation to the specific difference between the 2003–04 budget paper 3 figure and the revised figure — the \$15.9 million figure Mr Forwood alluded to earlier — the factors contributing to that essentially and overwhelmingly reflect \$11.4 million worth of investment support program and higher than expected carry forwards from 2001–02 as well as an increased level of recurrent funding which we can attribute to the closure of the Seoul office, saving \$1.2 million.

For 2003–04, it is \$35.8 million. The contributing factors for the \$24.5 million differential in relation to that and the budget figure for 2002–03 that was revised include a reduced level of carry forward compared to the prior year. That reflects the comment I made earlier about the carry forward from 2001–02: some moved to Regional Development Victoria outputs and there was the end of the initial funding for the San Francisco office. I might leave it there.

Mr FORWOOD — Can I follow it through?

The CHAIR — Yes.

Mr FORWOOD — If we are going into a more difficult environment, as you have told the committee, why would we not be trying harder and spending more money rather than cutting the budget for investment facilitation and attraction?

The CHAIR — That is a slightly different question. You were referring to how it was composed and the minister initially said that it was the reduced level of carry-forward factors for San Francisco.

Mr HOLDING — Unlike a service department, such as education, health or whatever, which tends to have a more fixed set of budget arrangements, we are a more dynamic department that responds to different situations and contingencies as they arise. Some of our programs are reaching the end of their life and there will be new programs coming on stream. Some of those programs are still to come forward to government to reach final determinations, and that process is under way. However, I dispute your contention that the government is doing less to support investment facilitation and attraction in this climate than it has done previously. What really is occurring is that there is a re-prioritisation across the department of the resources it commits to the process of facilitating new investment.

The CHAIR — Minister, I take you to your recent rail mission to Europe. I presume that was funded under trade fairs and missions, as described in budget paper 3 on page 182. Could you indicate what were the successes of the mission and how they fit in with budget performance measures?

Mr HOLDING — The allocation for the mission does not come out of trade fairs and missions; it comes out of the agenda for new manufacturing. The government made a commitment within the agenda for new manufacturing to allocate resources for four industry capability missions in each financial year across the four years of the agenda. We see those industry capability missions as focusing on showcasing our industry capability across a range of different industry sectors and using that as an opportunity to generate export growth or to generate import replacement opportunities, as the case may be.

For the first of these missions — the rail mission — at the end of last month I was pleased to lead to Europe a group of key manufacturers of our rolling stock in our rail industry. Our group went firstly to Madrid, where we attended the UITP Conference. We established a Victorian exhibit there, which enabled these manufacturers to showcase their industry capability to a range of key industry players across the rolling stock manufacturing sector of not only Europe but the world.

We travelled with these manufacturers firstly to Alstom in La Rochelle, France, which is the company that operates the Ballarat rail yard and has provided the X'Trapolis trains that are running on our network now as well as the Citadis trams that are being used by Yarra Trams. In Bautzen, just out of Dresden in the former East Germany, we visited Bombardier, which currently operates a rail manufacturing plant in Dandenong and has been awarded the contract for the provision of the VLOCITY train, which will be the train provided on the network for the regional fast rail project.

We travelled to Krefeld just out of Düsseldorf, Germany, and visited Siemens. It provides the three-car Combino trams, which are running on our rail network at the moment — the old National Express rail network — as well as Metro Trains which are being used by the business formerly operated by National Express.

At each of those locations we were able to, firstly, showcase the capabilities of a range of Victorian manufacturers: cabling companies such as Calex; companies that provide interior systems for trains; Innovonics, that as well as providing closed-circuit televisions also provides complete passenger information systems for both light rail and heavy rail vehicles; Taara, the Alcan Australia Rail Alliance, which provides a range of interior componentry as well as aluminium castings; McConnell Seats, which provides seating solutions for a range of public transport operators; UP Industries; Davies and Baird; and a range of different companies that provide production parts for rail solutions. We were able to use these companies to pitch for the spare parts contracts that are currently under way for equipment already running on the Victorian rail network.

We were able, secondly, to provide opportunities for these companies to access the global supply and purchase policies of these three key rail providers — they really are the biggest rail manufacturers anywhere in the world — and thirdly, to provide an opportunity to showcase the local content opportunities for these companies, were they to pitch for work connected with the replacement of our light rail vehicle rolling stock as it becomes disability compliant in the years ahead.

It was a terrific mission, well supported by the industrial supplies office, the Victorian government and industry, taking first-class companies that are already export oriented in a key manufacturing sector for us to ensure that we make the most of opportunities that exist locally, but more particularly opportunities that exist globally.

The mission was tremendously successful in terms of the access that we got. In the coming weeks and months we hope to be able to quantify the success of the mission in terms of export orders written and other opportunities. I look forward to reporting that either to next year's hearing or at some stage to the Parliament.

Mr FORWOOD — A quick supplementary question, Minister. The agenda for new manufacturing out of *Building Tomorrow's Businesses Today* shows industry capability missions expenditure at \$930 000 a year. Did you say you were doing four missions a year?

Mr HOLDING — The aim is to do four a year. Do you want to know the current status of those?

Mr FORWOOD — Does that mean that each one is going to cost \$250 000, if you are doing four for \$930 000?

Mr HOLDING — The ballpark budgeted figure for an industry capability mission is something in the order of \$200 000. It will depend on the mission — the number of participants, obviously the locations you are going to, the exchange rate and a range of different things.

Mr FORWOOD — How many have you done? Just that one?

Mr HOLDING — There is a wine mission under way at the moment. The expectation is that some of these industry capability missions will be ministerially led.

Mr FORWOOD — Will they take members of the opposition?

Mr HOLDING — Those who are ministers can come, Bill. Obviously some industry sectors having a representative from government present makes a big difference in terms of the sorts of people you can get in to see. We are at the back end of approving an industry capability mission in the precision engineering field for later this year, which is an area where there are key opportunities for growth. We want to work closely with that sector to grow the export opportunities that exist in that area.

But we want to make sure that we focus on those areas, where there is the best opportunity for generating export activity and generating export opportunities for Victoria. That will be an ongoing process of identifying where those opportunities exist.

The CHAIR — Thank you very much, Minister. That concludes the estimates hearings for the portfolios of financial services industry and manufacturing and exports. Thank you to the minister, the departmental staff and Hansard. It has been a very useful session. We will be communicating with you in relation to questions on notice.

Witnesses withdrew.