

# CORRECTED TRANSCRIPT

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into budget estimates 2005–06

Melbourne — 23 May 2005

#### Members

Mr W. R. Baxter

Ms C. M. Campbell

Mr R. W. Clark

Mr B. Forwood

Ms D. L. Green

Mr J. Merlino

Mr G. K. Rich-Phillips

Ms G. D. Romanes

Mr A. Somyurek

Chair: Ms C. M. Campbell

Deputy Chair: Mr B. Forwood

#### Staff

Executive Officer: Ms M. Cornwell

#### Witnesses

Mr A. Haermeyer, Minister for Manufacturing and Export and Minister for Financial Services;

Ms F. Thorn, secretary;

Dr L. Williams, deputy secretary, business support; and

Mr B. Mapperson, executive director, Office of Service Industries, Department of Innovation, Industry and Regional Development.

**The CHAIR** — I declare open the Public Accounts and Estimates Committee hearing on the 2005-06 budget estimates for the financial services industry, manufacturing and export, and small business portfolios. I welcome the Honourable André Haermeyer, Minister for Manufacturing and Export and Minister for Financial Services; Ms Fran Thorn, Secretary of the Department of Innovation, Industry and Regional Development; Mr Bruce Mapperson, executive director, Office of Service Industries; and Dr Lynne Williams, deputy secretary, business support, all from the Department of Innovation, Industry and Regional Development; departmental officers, members of the public and the media.

In accordance with the guidelines for public hearings, I remind members of the public that they cannot participate in the committee's proceedings. Only officers of the Public Accounts and Estimates Committee secretariat are to approach PAEC members. Departmental officers, as requested by the minister or his/her chief of staff, can approach the table during the hearing. Members of the media are also requested to observe the guidelines for filming or recording proceeds. All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript early next week. Before I call on the minister to give a brief presentation on the more complex financial and performance information that relates to the budget estimates for the portfolios of financial services industry and manufacturing and export, I ask that all mobile telephones be turned off and pagers be put on silent. Thank you very much. Minister.

**Mr HAERMEYER** — Thank you very much, Chair. Originally I understood that financial services and manufacturing and export were being done as two separate presentations, as per last year. But I understand that they are now being amalgamated, so I will have to race through some of these. But I am happy to elaborate on anything people want.

#### **Overheads shown.**

**Mr HAERMEYER** — As to the financial services part of the portfolio: this is the only state in Australia that has a Minister for Financial Services, and really what that is about is, whilst the legislation that covers financial services, the levers responsible for that primarily sit in the commonwealth, what we are about is trying to create an environment that is conducive to attract financial services to base themselves here in Melbourne. The portfolio covers the finance and insurance services, but it also covers contact and shared services centres, professional and business services, and building and construction services. If we can move on to the second slide. It is important because it is the third-largest industry sector within the Victorian economy behind manufacturing and property and business services. In 2003-04 it amounted to a \$16 billion industry, which contributes about 9 per cent to the state's economy. It is also a key driver of our state's economic performance, and has been one of the highest-performing industries in Victoria in recent years, with growth reining in at an average of 11.7 per cent a year since 1999 and 8.5 per cent a year since 1990-91.

Significantly at February 2005 there were 108 400 jobs in our financial services industry, which represent about 4 per cent of the state's total work force, and 28.5 per cent of national financial services employment. Employment within the sector here in Victoria has actually risen, where it has declined in what has been traditionally the home of the financial services sector — New South Wales. Here in Melbourne alone over 800 financial service organisations employ around 45 000 workers, and financial services contributed over \$400 million to Victoria's exports. Since November 1999 we have had some 25 000 new jobs created in the financial services sector. Whilst we are not a global centre for finance, the size of the industry here in Victoria is comparable, in terms of employment, to those of Hong Kong or Singapore. That is quite significant, given the importance those two markets play in financial services internationally. Also very significantly, we are a world player when it comes to managed funds services here in Victoria. Australia is the fourth-largest player in the world when it comes to managed funds, and we here in Victoria have seven out of the 10 largest funds in Australia. So we are really one of the focal points internationally, as far as managed funds go.

Also in terms of Australian Bureau of Statistics figures, Victoria has been consolidating its position as a significant financial service location here in Asia and in the Asia Pacific. On our share of national financial services, employment has risen from 26 per cent to 28.5 per cent over the same period; New South Wales shares fell from 45 per cent to 42 per cent. A lot of that growth is attributable to our continuing strengthening sectors, such as banking and insurance; emerging and growing clusters of excellence in sub sectors, such as funds management, research and venture capital — and, very significantly, GE Money's decision in 2004 to invest close to

\$100 million to expand its head office and establish an Asia-Pacific training centre here in Melbourne is a key example of what is a very desirable investment growth, and it is creating a significant amount of sustainable new employment.

I will just flick through the remainder of these so we can move on to manufacturing. In some of the achievements that I think have been responsible for our performances is, obviously, the establishment of the Melbourne Centre for Financial Studies and that is very much a part of making us a focal hub for people who are working in those sectors and who want to work in those sectors. Monash, Melbourne and RMIT universities are part of a joint venture which is establishing this particular centre.

**The CHAIR** — Minister, if it helps, these are all being tabled in our reports.

**Mr HAERMEYER** — I might just move on at that point, because I think the majority of the interest from the committee may be in the manufacturing and export component of the portfolio. I will move on to the first slide under that. Manufacturing is the engine room of the Victorian economy — it always has been. There are some people who think it is a rust-bucket industry of the past. The reality is that we actually see it as very much a part of Victoria's future and a key part of Victoria's future. It contributes something like \$26.7 billion to our economy, it contributes 339 400 people, or 13.8 per cent of the total work force. It is our largest provider of full-time jobs — some 17.2 per cent of the full-time total. It is the lead export sector, with over \$7.3 billion of advanced manufactured exports, and a total of \$14.5 billion in 2003–04, and it accounts very significantly for 60 per cent or over 60 per cent of Victoria's expenditure on R and D. One of the challenges confronting the manufacturing export sector is really the issue of skilled shortages. Whilst there are some sectors of the economy where there is perhaps an oversupply of labour, it has in recent years — it is not unique to Victoria or Australia — become a situation where we have a shortage of people in skilled trades prepared to go into certain sectors of manufacturing industry.

I am happy to go into detail later as to what we are doing to deal with that, but the Careers in Manufacturing strategy pilot is a critical part of attracting people into that industry. We also have our Innovation Insights initiative, which has been highly successful. That involves players or businesses in the industry going to successful manufacturers and learning about what it is they are doing differently and what it takes to become a successful manufacturer. We have had 3000 visitors through that program, and it is a highly successful program based on successful models overseas.

Our keynote speaker program is very much about making sure that Australian industry does not become isolated because of its geographic proximity and does not become isolated from ideas or networks. It is about bringing international experts and people who are key practitioners in industry to Australia so our businesses can develop their networks and can also benefit from and contribute to the ideas that are at the forefront of manufacturing at the moment. Quite interestingly it is not a one-way process: we are doing some of the most innovative things in manufacturing in the world, but similarly there are things we have to learn from others as well. The Industry Capability Network, which has been around for a while, is about import replacement and I think it is doing a significant job there.

The big one confronting us at the moment — and hopefully it will come to a head shortly — is the Air Warfare Destroyer project, which I think is the largest defence contract probably ever. It is certainly of comparable size to the Anzac frigate program. We think Williamstown is the most appropriate location for that particular bid. It is a proven shipyard, not a submarine-building facility like the one it is competing against; and also, unlike the one it is competing against, it has a history of developing a high-quality project on time and on budget. So I think the record of Tenix Defence at Williamstown stands out. The Victorian government has been very instrumental in providing assistance to the Tenix bid, and I am happy to talk further about that later. This is a \$6 billion project and it is worth many, many thousands of jobs both directly and along the supply chain here in Victoria. It is also about securing the future of a ship-building industry for the long term here in Victoria. Similarly in the defence area, Hawker de Havilland is another company that I think is making some significant inroads. Recently at the air show we were able to announce its participation in the Boeing 787 Dreamliner project, which will create around 200 jobs at Hawker de Havilland and about another 100 in the supply network. There are in the documentation here some further indications of significant success stories, investment in research and development and investment in productive capacity here in Victoria, which I am happy to elaborate on further. To save the committee's patience I will leave it at that and then elaborate on those matters the committee would like me to elaborate on.

**The CHAIR** — Thank you, Minister. Thanks for keeping to time. I would like to take you to your overheads in relation to the financial services aspect of your portfolio, where in slide 8 you referred to the financial services industry action plan. Could you please give the committee some information in relation to that on its key performance indicators and how those are being met?

**Mr HAERMEYER** — Funding of over \$1.8 million over two years from 2005 was allocated for the establishment of the Melbourne Centre for Financial Studies and some of the initiatives associated with that. There are five working groups consisting of senior representatives from industry, academia and professional bodies, and they have been established to assist in the implementation of the Melbourne Centre for Financial Studies initiatives.

Also the Melbourne Centre for Financial Studies is the centrepiece initiative of the plan. As was announced in 2004, that centre is being established by a consortium of leading Victorian universities — Melbourne, Monash and RMIT. It will be co-located with the Australasian Institute of Banking and Finance, and we expect it to be opened in early July. It was originally anticipated to commence operations in March, but because of the availability of the person who has been chosen to head that up we have had to put that back a bit simply because of their availability. Ultimately, if an initiative like that is to succeed it really has to work around the person whom you expect to make it work. There are 29 initiatives overall in the financial services action plan. That does not include additional subsidiary initiatives. Currently 9 of those initiatives have been implemented, 15 have been partly implemented, and 6 are under development. I think highlights to date include the establishment of the new funds management networking forum, the Finance Industry Victoria Exchange, which has had a couple of highly successful events at Federation Square, and the attraction and staging of major international industry events, including the Ethical Investment Association conference in October 2004, and also the inaugural venture capital forum in 2005.

We had the Melbourne Financial Services Symposium which I opened in March of this year, and we also have an export mission to China, which is there to promote financial education and training expertise based here in Victoria. So there is a lot happening on that front and it is about making sure that we keep the momentum that we have developed in this area going.

**The CHAIR** — You mentioned the appointment of a senior person to head that. Could you tell us who that is, or is that still under wraps?

**Ms THORN** — It is still under wraps.

**Mr HAERMEYER** — Yes.

**Mr FORWOOD** — How much was originally allocated for the establishment of the centre, and how much was spent this year on that process?

**Mr HAERMEYER** — As I indicated, the total funding for the plan was \$1.8, and the budget allocation is \$1 million.

**Mr FORWOOD** — And that has all been spent this year?

**Mr HAERMEYER** — Sorry?

**Mr FORWOOD** — Have you spent the \$1 million?

**Mr HAERMEYER** — Three hundred and seventy-five this year.

**Mr FORWOOD** — So a lot of it is going to be carried over?

**Mr HAERMEYER** — Correct.

**Mr FORWOOD** — Is there not some issue about carryover of funds this year with your department?

**Mr HAERMEYER** — There are always issues with carryover of funds within this department. The main reason is because the majority of the department's funding is in terms of grants programs and sometimes the times at which those grants are made might be late in the cycle. Sometimes it is because the companies that grants have been given to are late in reaching particular milestones and benchmarks and so progress payments are then not made if they do not achieve those benchmarks.

**Mr FORWOOD** — Can I just follow this through? Page 10 of the department's response under the heading 'Income from transactions' talks about the output appropriations dropping from \$323 million to \$274 million this year. The footnote says that the appropriation has reduced due to lower carry-forward provisions. I know that this is not your responsibility entirely, but what I am keen to know is: of the areas that you have responsibility for, how can we be sure that — like that example — the funds that have not been spent will be carried over if the department's budget has been dropped by \$50 million?

**Mr HAERMEYER** — I will hand that over to the secretary.

**Ms THORN** — The carry forward is not actually appearing in the budget figures at this stage. As the minister explained, the majority of the carry forward is subject to the large grant processes and its cash flow issues, both in terms of existing recipients of grants who may well be slower than expected in going forward, or the scheduling of the grant payments during the year. In respect of the financial services and manufacturing and export carry forwards, they are not substantial and we will be putting in a request to receive carry forward and are reasonably confident of receiving approval for those.

**Mr FORWOOD** — I want to take this one step further. Page 129 of budget paper 3, which is your output summary, shows under note A that:

These figures do not account for carry forwards from 2004–05 to 2005–06.

I put it to you that somebody reading the budget papers for this department would have no idea how much money this department will have to spend this year.

**Mr SOMYUREK** — What page was it?

**Mr FORWOOD** — Page 129 of budget paper 3, the output summary. These figures do not account for carry forwards. Because I get extra information, I know that it is in fact down \$50 million on last year. How do we know what funds are available to the department if at this stage of the game we have no idea what the carry forwards are going to be?

**Ms THORN** — The funds that are in the budget are the baseline funds that the department would receive. Over a number of years the department has had substantial carry forward which fluctuates year-on-year. So it has not actually been the same every year. The reason we have not finalised the carry forward is that we are actually very keen to make sure that there are not inflated requests for carry forward when they are put forward into the process. So we are currently going through a very rigorous process to estimate what the carry forward requirements are for 2005–06. They will then be submitted to Department of Treasury and Finance for its approval, or not as the case may be. If I could also add to that the department's budget varies year-on-year regardless of carry forward because of a range of additional funding sources that come into the department where there may well be a special investment attraction process, as you would be aware, where additional funding is sought from the government over and above the standard amount provided to the department for investment attraction services.

**The CHAIR** — The question was on the financial services industry action plan. We have established that and we have established how much has been carried out and we have explored a little more on carry forwards. Minister, my understanding is that carry forwards are documented when it is decided what the carry forwards are. Could you outline to us where they are put in the public arena, and when? I understand that there are some additional budget papers provided to the public, the Auditor-General and so on?

**Mr HAERMEYER** — Yes, I will get the secretary to elaborate in a moment, but I think the important thing to acknowledge is that simply because of the nature of its funding this department is very different to most other government departments. Often we are dealing with grants funding which is allocated over a number of years — sometimes significantly longer than over a single budget period. Sometimes it is not known until quite late in the piece exactly what that carry forward is, but the secretary might care to elaborate.

**Ms THORN** — I would just add to my previous comment, which is that we are going through a very detailed process at the moment to determine precisely what carry forward is required. That is brought into the public domain once that request is put forward and approved — or rejected as the case may be.

**Mr FORWOOD** — Through its budget update?

**Ms THORN** — Yes.

**Mr RICH-PHILLIPS** — Minister, I will start with the big one — the SEA4000 contract with Tenix. Can you please outline to the committee the extent of the government's commitment in supporting that project? Obviously there has been the \$22 million, I think, announced for the college of shipbuilding. There have also been other figures of \$60 million and \$80 million mentioned in the public domain. Can you please tell the committee what the total commitment is, and the nature of that commitment; also, what the obligations are on Tenix in terms of receiving that funding should it be successful with the Williamstown bid?

**Mr HAERMEYER** — The commitment to Tenix is primarily around infrastructure support. It is important to understand the nature of this bid. The federal government is seeking bids for construction when at the moment there is not yet a chosen design for the frigate. There are three types of designs: two European proposals which are smaller ships, and an American design which is a larger ship. The larger one would require a floating dry dock facility and we have indicated that we would offer some support in regard to that.

There is also support in terms of a heavy lift crane there and of course, the College of Shipbuilding and Marine Design which has been proposed in that precinct as well. So they are the essential types of assistance that are being developed. I suppose we will not know until such time as the federal government has decided what design is chosen, and until that is done we will not know exactly what is required here, and we do not have a final figure on it. I might also point out that traditionally under governments of both persuasions, these things are normally funded through the industry support program, and those funding amounts are not generally made public.

**Mr RICH-PHILLIPS** — Can you tell the committee what the obligations will be on Tenix in terms of reciprocal delivery? Is it jobs, is it employment?

**Mr HAERMEYER** — Again, the finer detail of that is going to have to be the subject of a contract between ourselves and Tenix, but it really comes down to the outcome of the federal government's decision. It is not just simply a choice between Williamstown and South Australia. Whichever way it goes, there will be an amount of work that goes to Victoria and an amount of work which goes to South Australia. The break-up may be affected by the way in which the federal government makes that decision. So a lot of the final details of that are very much dependent on decisions that are yet to be made in Canberra.

**Mr RICH-PHILLIPS** — I have a supplementary on that as well. Given Tenix has bid for the Osborne site in South Australia, do you anticipate that if that were successful there would be a Victorian element to that Tenix bid, and would that require or involve Victorian government support?

**Mr HAERMEYER** — Correct me if I am wrong; it is my understanding that the bidders have been narrowed down to the ASC bid from South Australia and the Tenix bid — —

**Mr RICH-PHILLIPS** — From Williamstown.

**Mr HAERMEYER** — From Williamstown.

**Ms THORN** — Obviously that is still subject to the federal cabinet and as the minister quite rightly said, whoever wins this contract, nobody has facilities big enough to build the whole of the three ships and there will be work farmed out, in fact to probably around five facilities around Australia. That is as we understand it at this stage, although that is obviously solely by inference from comments that have been made, that it is the two sites, the ASC and Tenix in Williamstown that are being looked at.

**The CHAIR** — Thank you.

**Ms ROMANES** — Minister, one of the new outputs for the portfolio is export promotion. I ask, with respect to business and professional services, what has been established to facilitate export promotion and can you comment on the key performance indicators on page 131, which have not moved much over the last two financial years, and tell us how robust those targets and expected outcomes are?

**Mr HAERMEYER** — I suppose export is pretty much our largest challenge, particularly on the manufacturing side. We have actually been recording increases recently in terms of our exports, and that has been against a backdrop of many industrialised nations like the United States recording significant falls in their exports. We are doing that also against a backdrop, regardless of whether the free trade agreements are entered into with

Asia and with China in particular, with Japan and ASEAN and the Middle Eastern countries. We will continue to be even more exposed to those economies so there are significant challenges ahead of us. Ultimately the terms of those free trade agreements will determine our performance. But as I say we have invested quite considerably in developing firstly, our export networks. Our target — it is a very ambitious target — is to achieve a goal of \$30 billion in exports and to increase the number of countries involved in export by 2010.

We have established our Export Networks program which was launched in January 2005, and our Next Step Exporter which involves six export advisers being appointed. That was funded in April 2005. Again, their role is to work for organisations such as the AI group and VECCI with its members going around to assist companies in identifying their opportunities for export, what to do to get into export and to increase their potential for export. We have also put in place the export round table, and meetings of that were held in November 2004 and May 2005. Very significantly our appointment of our special trade envoys recognises the importance of where we think our markets in the future are — to India, north Asia and the Middle East. So we have met the requirements of our budget paper 3 target there.

In terms of Next Step Exporter we have actually exceeded that. We said we would do five and we have done six. With Access China we have opened our Hong Kong chapter of that in 2004. In fact I was in Shanghai just recently, in April, to open that side of it. If I may just for a moment explain, China is the most dynamic economy in the world and will have a huge impact on Australia in the years to come. There are some enormous challenges there. It is a country that has an almost limitless supply of extremely cheap labour and it has a managed exchange rate. All of that poses issues for us. It is soaking up a lot of manufacturing operations that were previously operating in western countries. I suppose that what we have tried to do is to focus on what our strengths and niches are that we can develop. We do not need to basically become the biggest supplier of everything to China. We actually need to take a leaf out of the books of countries like Sweden, Switzerland and Finland which spend a lot on R and D, going in to elaborately transformed manufactures.

What they have done is to identify what their strengths are and they have gone and invested heavily in those strengths. They operate in a relatively small number of economic sectors and they are net exporters to a variety of countries including China. That is where our future lies, but we also need to understand that it is not just that. One of the biggest focuses has been to try to get the small business sector involved as well. Some of the most innovative businesses around are in the small business sector, and some of the ones making some really significant inroads overseas are small to medium size enterprises. They do not have access to all the necessary expertise that some of the big businesses have in getting into export, but they are very innovative and have a lot of dynamism that sometimes does not exist in some of the bigger companies, so what we are seeking to provide them with is the expertise, knowledge, know-how and contacts which will enable them to make a success of their business in overseas markets.

**Ms ROMANES** — Thank you very much.

**Mr FORWOOD** — I am still confused about how your budget works. If you look at page 10 of the response it says grants and other payments in 2004-05 were \$191.5 million and that anticipated for 2005-06 is \$142.7 million — in other words, your anticipated grants and other payments, and they would primarily be grants, is \$50 million down on last year.

**Ms THORN** — Sorry, page 10?

**Mr FORWOOD** — Page 10.

**Ms THORN** — Grants and other payments?

**Mr FORWOOD** — I think a lot of — —

**Ms THORN** — I have a different page 10

**Mr HAERMAYER** — Were you looking at the department's response to the questionnaire?

**Mr RICH-PHILLIPS** — To the questionnaire, yes.

**Mr FORWOOD** — Financial information, question 7.

**Ms THORN** — Sorry, it is page 9 on mine.

**Mr FORWOOD** — I promise you, page 10 on mine.

**Ms THORN** — I am sure it is.

**The CHAIR** — With a little colour picture at the front.

**Mr HAERMEYER** — Now we are on the same page, what was the question again?

**Mr FORWOOD** — If you look at that line, it shows that grants and other payments from the department in the coming year, 2005-06, is \$50 million down on what it was anticipated to be last year. Is all of that due to carry forward because of timing?

**The CHAIR** — Can I just have clarified this question in relation to the Minister for Financial Services and for Manufacturing and Export?

**Mr FORWOOD** — I think it is probably more to do with his grant programs, and most of his grants clients are manufacturing and export as opposed to financial services.

**The CHAIR** — So if we could just keep it clear in relation to this portfolio, that would be a good start then for the minister's response; and if you want a general comment, we will have the secretary comment if the minister wishes.

**Mr FORWOOD** — It is a financial question.

**The CHAIR** — If you wish, you can get back to us.

**Mr HAERMEYER** — I understand that that differential is overwhelmingly Rural Infrastructure Development Fund which I do not have responsibility for.

**Dr WILLIAMS** — If you look at footnote 4 do you see the little 4 next to 'grants and other payments'?

**Mr FORWOOD** — Reclassifications of additional \$19.3 resulting in a variance of \$68.1 million.

**Dr WILLIAMS** — Read the third dot point.

**Mr FORWOOD** — I cannot tell which is which, Lynne, or how much belongs to what.

**The CHAIR** — A lower level of planned expenditure — —

**Mr FORWOOD** — I guess what would be useful for the committee is if we could have, for your portfolio responsibilities, which I take it are manufacturing, export and finance and probably small business where you do them together, what are the grant programs that you anticipating running this year, and how much are you going to put into each grant program? That would be terrific.

**Ms THORN** — Yes.

**Mr HAERMEYER** — Sure.

**Ms THORN** — If I could just add that, as I said earlier, the department's budget fluctuates year on year from even against the target budget, particularly in relation to the investment support program. In some years there may be tens of millions of additional funds because of very strategic investments. In fact you were asking questions just before about one of them, which — even though I cannot talk about it because we do not know what it will be — —

**Mr FORWOOD** — One hundred million is the figure going around the town!

**Ms THORN** — I think someone is exaggerating.

**Mr RICH-PHILLIPS** — Sixty to eighty million!



**The CHAIR** — We are not at an auction!

**Ms THORN** — What that means is that the budget figure fluctuates. We cannot anticipate what that will be because we do not know what the investments are going to be.

**The CHAIR** — That has been taken on notice.

**Mr SOMYUREK** — Minister, the federal government's changes to the superannuation choice are coming into effect in a few months. Can you outline to the committee what is Victoria's position in the funds management industry compared to other states and the possible effects of this change?

**Mr HAERMEYER** — As I indicated earlier, Australia is the fourth-largest managed funds market in the world. We rank only behind the USA, France and Luxembourg. We have some \$700 billion under management, and it is projected that the national funds pool will continue growing by at least 10 per cent a year until 2016. Our share of the funds management industry is very high in proportion to our share of GDP. We are the main centre in Australia for industry superannuation funds — 7 of the top 10 industry funds and 65 per cent of the total industry funds are managed out of Victoria. Our strategy seeks to consolidate the existing strengths of our financial services industry and position ourselves as a significant financial services centre for the Asia-Pacific, and that includes in the area of funds management.

As you pointed out, from 1 July this year most Victorians are going to have the right to choose a specific superannuation fund for the deposit of contributions sourced from their employers. It is possible, resulting from the introduction of that freedom of choice, that our industry-based super funds may actually gain advantage compared with some of the other major funds which are traditionally based in Sydney and which we refer to as retail funds. That view is based on the lower fees charged to industry super fund members and also the recent good returns that those funds have posted as against the retail funds.

The superannuation funds industry does not, however, expect that there will be a very high level of requests from members to switch funds. One estimate is that probably less than 5 per cent of members might request a switch, and another possible consequence of super choice — depending on advice that is given by financial planners and accountants — is a proliferation of self-managed super funds. But we do not expect that there is going to be huge shift in funds as a result, and Victoria will certainly continue to be the major player in Australia as far as managed funds go.

**Mr RICH-PHILLIPS** — Minister, three years ago, I think it was, there was a substantial investment by the government in terms of facilitating the Holden engine plant, the new V6 engine plant — I think the total package was \$60 million. The collapse of Ion in South Australia has created issues for that plant, and, as you would be aware, the closure in July of the casting plant of cylinder heads will add further pressure. What role is the government playing through the ICN or elsewhere in finding an alternative supplier of castings for Holden domestically?

**Mr HAERMEYER** — We have a number of irons in the fire — excuse the pun — and so as not to jeopardise that, I will have to be a little bit circumspect. Holden is at the moment importing its engine blocks. What we are seeking to do is get an alternative to Ion setting up an operation here in Victoria. We have had some discussions in Asia, and I will be having some discussions very shortly in the United States around doing that. We believe engine blocks can be manufactured cheaper here in Melbourne than they can where they are currently being sourced from in Mexico, provided we can also provide an export market for those engine blocks and provided they are not just about supplying Holden's requirements. We are working on a number of options there. It is going to be a very difficult challenge for us, but we think our supply of reliable, cheap electricity is an important component of that pitch, particularly if you are talking about exporting into China. We have a lot of container ships coming over here full to the brim with Chinese goods, and they go back half or three-quarters empty. We want to change that. China has difficulty manufacturing engine blocks simply for the reason that it does not have that plentiful, reliable and cheap electricity. We can actually do it cheaper here than where they are currently sourcing them from. We are exploring a number of options along that front, but, as I said, it is not an easy task.

**Mr RICH-PHILLIPS** — You are basing it on there being two collapses with Ion — obviously there is the engine block issue, but there is also the cylinder head issue with that plant ceasing production in July. Do you have an indication from Holden that it has found an alternative source in the short term for cylinder heads and that it will continue engine production here in Melbourne beyond July?

**Mr HAERMEYER** — It will be doing that, but, as I said, we are concerned more about the long-term future of that, and that is why we are focused on getting an alternative to the Ion plant established. Let me say that the manufacture of cylinder heads is a more difficult issue because it is more labour intensive than the casting of engines, and we have a short-term window in which we can try to address this issue, but it is not going to be there forever.

**Mr RICH-PHILLIPS** — Is that work being done through ICN or elsewhere in the department?

**Mr HAERMEYER** — That work is being done through the department.

**The CHAIR** — Minister, I would like to take you to slide 11 where you talked about priorities and challenges for 2005–06 creating greater international linkages for a world-class centre for financial services and financial research. I am interested in where your department is up to on that and what you have put in place for key performance indicators.

**Mr HAERMEYER** — Financial services is one of the seven priority Victorian sectors for international investment. Melbourne has been internationally benchmarked against its peers as being particularly competitive in funds management, as I indicated earlier. As part of our Investing in Victoria's Future plan new activities are being undertaken at the moment to attract investment and conferences to Victoria and also to promote exports of our services. In November 2004 we had the Treasurer post a successful business seminar in London promoting Melbourne as a financial services location, and the intention of that is to follow up with further promotions in the UK and the US involving the very extensive ex-patriot community that we have operating there in financial services and also to leverage into key events, including the Commonwealth Games and the 20th anniversary of the Melbourne-Boston sister-city relationship.

During the year we have also successfully supported the attraction of major finance events to Victoria including the Asian bankers association annual conference, which will be held here in October 2005, and the International Banking Summer School, which will be held here in April of next year.

Overseas investment has been targeted and the state has been promoted at key global events including the ICA conference in Washington DC, the premier conference for North American fund managers in May 2005, and the European equivalent of that, the fund forum, which is being held in July of this year. In addition, \$150 000 was made available to Monash University to market Victoria's financial services training and expertise overseas. We also gave financial support to a trade mission of six Victorian-based providers of financial education and training, comprising university and professional associations, when it visited China in February and March of this year.

We think our standards in terms of financial services and our supply of highly qualified people in that area stands us in very good stead. We have very high credibility overseas and there is a lot of interest, as exemplified by the location of GE over here, in terms of the potential for Melbourne to become a regional centre for operations into Asia, particularly where there is not the same confidence in the standards and the level of skills required in some of the countries people want to operate in. We think it has a fairly big future. However, it is a difficult thing. As I say, we do not have a lot of the legislative levers and the regulatory levers that are predominantly controlled from Canberra.

**Mr RICH-PHILLIPS** — In 2003-04 the department made 52 grants for investment projects worth around \$42 million. Can you tell the committee whether all those grant recipients are acting in accordance with the grant agreements in terms of their targets? Are any in breach of their agreements? Are there any actions by the department at the moment to recover any of those grants that have been paid, either for 2003–04 or prior years?

**Mr HAERMEYER** — I am advised that effectively they are all in compliance with those agreements. Most or many of them are based on milestone payments so where they have not achieved their milestones the funds are withheld until those milestones are achieved. We have not yet, as I am aware, had any cases where we have had to terminate where we have had a legal agreement. Sometimes there has been a slowness on the part of some of the grant recipients in terms of achieving the milestones but I do not think there have been any outright failures.

**Mr RICH-PHILLIPS** — Could you tell us, perhaps on notice, with respect to this list — —

**The CHAIR** — 'This' being?

**Mr RICH-PHILLIPS** — The annual report list — how many are in the situation of not having met their targets as yet?

**Mr HAERMEYER** — I might take that on notice.

**Mr RICH-PHILLIPS** — Just to clarify, the figure here of \$42 million, that refers to the total grants —

**The CHAIR** — In the interests of transcripts, can we have the page?

**Mr RICH-PHILLIPS** — The annual report, page 86. The total here of \$42 million for grants, does that refer to the amount that was agreed to be paid over the life of the agreements or the amount that would be paid in the financial year?

**Dr WILLIAMS** — I will have to take that on notice but my understanding is it would be the amount we paid in that financial year. That is what the annual report usually records, rather than amounts committed and still be paid over the life of the agreement.

**Mr RICH-PHILLIPS** — So with respect to these grants there could be other amounts payable?

**Dr WILLIAMS** — Yes.

**Ms ROMANES** — In your presentation you touched on the Victorian aeronautics industry. Can you update the committee on any recent developments in this industry?

**Mr HAERMEYER** — I was actually at the Australian International Airshow earlier this year. I might note in addressing this that that airshow is now the fourth largest airshow anywhere in the world. It provides an excellent opportunity for us to build a series of aeronautic conferences and other activities around that. The airshow is also our largest aerospace and defence trade expo. We had some 500-plus exhibitors there this year. I might note also that some significant announcements were made at the airshow this year.

Hawker de Havilland announced the investment of \$175 million and the creation of 200 jobs to design and build wing components of the Boeing 787 Dreamliner aircraft here in Melbourne. Seven companies — Hawker de Havilland, GKN Aerospace Engineering Services, Productions Parts, Lovitt Technologies, Marand Precision Engineering, Adacel and Cablex — have all won contracts on the largest defence contract in the world: the joint strike fighter project in the US. Also at the airshow, Thales ATM, which has its regional headquarters here in Melbourne, delivered the last of three air traffic control centres to China. That was developed here in Melbourne largely. It was a contract valued at around \$160 million.

Let me focus on a small company which is making a big splash in the aeronautical industry and that is Morwell-based Gippsland Aeronautics. It has had some significant export success with its GA8 Airvan utility aircraft. Forty-two of those have been exported to date, including 12 to the US Air Force's auxiliary civil aviation patrol. I understand that that is the first time a non-American company has been able to break into that ground. That is an enormous feather in their cap. It is a small company operating in a regional centre and it is going from strength to strength. In the current year they expect volume of aircraft manufacture to reach somewhere in the vicinity of 150, of which more than half is to be exported. As I say, this is a small company which started off very modestly. I think that is an enormous credit to the quality, the innovation, the ingenuity and the dynamism of some of our smaller manufacturing enterprises.

**The CHAIR** — Before we go to the next question, there are no attendants to assist Hansard so when you mention acronyms and business names could you pass them over?

**Mr HAERMEYER** — If they have any queries, I am happy to help. Is the lack of attendants due to your budget cuts as well?

**Mr RICH-PHILLIPS** — Yes. It is all due to budget cuts.

**Mr HAERMEYER** — Can we ask you about that?

**Mr RICH-PHILLIPS** — Please!

**The CHAIR** — Ask a question, Mr Rich-Phillips.

**Mr RICH-PHILLIPS** — Can you tell the committee what was the impact on Victorian manufacturing of the protracted dispute down at BlueScope Steel from the middle of last year through to early this year with the Electrical Trades Union industrial issues? It is obviously the biggest steel supplier in the state. What role did the government play within the Department of Innovation, Industry and Regional Development in resolving that?

**The CHAIR** — The second part of the question is in order.

**Mr HAERMEYER** — I cannot deal with the second part because it is dealing with the responsibility of the Minister for Industrial Relations, notwithstanding the fact that it has impacts upon manufacturing industry. I will have to take that one on notice if you do not mind.

**Mr RICH-PHILLIPS** — I assume there would have been some assessment by the department?

**Mr HAERMEYER** — I have no doubt on that but I will take that on notice and provide more advice to the committee.

**Mr SOMYUREK** — Moving on to research and development and manufacturing, I noted in your presentation earlier that manufacturing contributed over 60 per cent to Victorian business expenditure on research and development. In terms of the state, what financial expenditure has the government allocated for research and development to support the manufacturing sector?

**Mr HAERMEYER** — I think R and D — as I indicated earlier — if I could try and address that question in an international context because I think it is very important. Countries like Switzerland and Finland — and I am happy to give the committee some figures here — do very, very well. These are small countries population-wise so in one sense quite similar to Australia but they do very well on research and development expenditure compared to us and that is I think, the secret to their success in terms of their manufacturing industries. But if we have a look a percentage of GSP or GDP, Sweden spends nearly 4.5 per cent on research and development; Finland, 3.46 per cent; Switzerland, 2.57 per cent and even Korea at 2.91 per cent. Unfortunately, Australia sits there at less than half en masse to those cases at 1.62 per cent. So we need to invest very significantly more in R and D than we do, and I think it is critical if we are going to continue to have a manufacturing industry in the future.

We are not going to compete by producing shirts, cheap t-shirts cheaper than the Chinese; we cannot do that. What we can do is go for elaborately transformed manufactures; do it better, do it more innovatively and do something that is newer and different to that done by our trading partners and competitors. That is the success to it. Victoria, I have to say, stands very creditably when it comes to R and D expenditure, despite the fact that we are dragged down by the Australian national total. At 1.84 per cent of GDP we are still significantly above Australia. I think that Australia as a whole does need to lift its game, and I would like to actually see at a federal level some more tax incentives towards R and D because I think ultimately that is the future of our manufacturing sector.

Can I just say that we have a science and technology and innovation infrastructure grants program which is one of the premier programs under our \$620 million science, technology and innovation (STI) initiative. It is also the biggest state government grants program of its type anywhere in Australia and it provides grants for leading edge health, environmental, agricultural, manufacturing, design, energy and information and communications technology projects that are generating economic, environmental and social benefits across both metropolitan and regional Victoria.

There were around three grants for STI announced in April and they include grants allocated to research and development to support the Victorian Centre for Advanced Materials Manufacturing. It was given \$5 million towards developing capabilities focused on coating technologies, a vehicle dynamics laboratory and residual stress materials. This is all fairly detailed stuff so I will not go too far into it. Advanced Ceramic Materials for Armour Applications were given \$950 000 over three years towards development of pilot production facilities in Bendigo to confirm the results of research and development by producing samples of suitable size for ballistic testing.

Again, there is the Advanced Centre for Automotive Research and Testing and I could go on quite extensively in terms of some of the grants that were given. In a whole variety of very high tech areas we are doing lot of interesting things with nanotechnology which puts us very much at the cutting edge. As I say I am happy to provide further details if the committee wants it; I could talk for an hour on some of this stuff.

**The CHAIR** — There is a supplementary question from Mr Somyurek and also from Mr Forwood.

**Mr SOMYUREK** — This is a very important area. If we do increase our R and D I am sure it will go some way towards tackling some of the problems in our lop-sided economy at the moment. I presume that the 1.8 per cent is of GSP: what was it five years ago in Victoria?

**Mr HAERMEYER** — We will try and find out for you. I dare say — —

**Mr FORWOOD** — The economy is growing quite quickly.

**Mr HAERMEYER** — Sorry?

**Mr FORWOOD** — The economy is growing quite quickly. R and D is growing quite quickly. It is probably pretty much the — —

**Dr WILLIAMS** — We think it is up.

**Mr HAERMEYER** — I think I am guessing; we think it is up. But on one hand whilst there is a lot of extra activity happening in Victoria in R and D — and as I indicated the manufacturing sector leads in terms of R and D expenditure and because we are the manufacturing capital, we are very much dragging the Australian average up — but at the same time that there has probably been some downward pressure by the abolition of the 150 per cent tax incentive that was previously there and is now abolished. As I say if we are really serious about our manufacturing sector in the country it is vital that we take the bit between our teeth. We can do so much in Victoria but it requires a national approach and we really need to provide some significant incentives way beyond what the state is capable of providing to get the sort of level of investment in research and development that I indicated earlier. Countries like Sweden, Finland and Switzerland and when Korea is investing twice as much in R and D as we are, that does not look good.

**Ms THORN** — If I could just add to that by saying that it is also getting what I would call a demand side focus on the R and D particularly where the public sector support for this is concerned. A lot of it goes to universities which is fabulous of course because they have the concentration of expertise and we certainly are doing a lot of work in the department with universities to make sure that their R and D is being driven by business and industry demands rather than their own research desires. I spoke to the Australian Industry Group the other day and sought their advice on how we could make it more demand driven.

**The CHAIR** — Mr Forwood had a supplementary question.

**Mr FORWOOD** — I could not agree more. I think that this is an area where we do need to take a national approach. I wondered whether or not the government has prepared work arguing for a change in a tax system, if not back to the 150 but at least more federal tax incentives, and if so — —

**Mr HAERMEYER** — I am not aware of any that have been undertaken to date but it is something that I have made a priority in this portfolio since I have taken it over, and we will in all probability be making some sort of submission to the federal government on that issue because it is absolutely critically important. The secretary just indicated before the support that we are offering to the universities but we would also like to see some substantial incentives provided to industry itself to invest in R and D. That is to provide support to smaller or medium-sized companies that do not have the wherewithal at the moment, or alternatively a lot of the R and D is undertaken by our large companies, most of which companies are companies that have their head offices in the US and Europe. So what we are doing is derivative development work quite often, not the R and D, the intellectual capital that the things that flow from that which ultimately are going to give us a real head start. What I think is absolutely important is to ensure that we provide an incentive for those big players as well as the smaller companies which actually do a lot of their R and D over here because we have been falling way behind the mark internationally.

**Mr FORWOOD** — I think all of that is true. I suspect that one good way of doing this would be to use the industry ministers' conference to push the line. The second thing I would say is that a lot of research work is being done overseas and we should not be replicating it here, but what we need to do enough to buy ourselves a seat at an international table and I think that is vitally important. The other thing is that I think it is disappointing when something like the \$100 million for the coal research program is in fact not state government funds; it is done

on a levy from the industry because you are not going to get industry to do that sort of research if you are going to levy them and say that it is the government doing it. It is a complex area.

**Mr HAERMEYER** — Can I just say that what you have raised is an interesting point. I guess it is a balance that a government always has to reach in the sense of when is it going to invest in industry support and R and D. Obviously industries have a lot of self-interest in doing that. We have got to establish where our responsibility kicks in and where does the industry's self-interest — because of the benefit that it gets down the line — kick in. It is interesting balancing act.

**Mr FORWOOD** — Can we finish this conversation?

**The CHAIR** — Yes, you can and in part of the answers could we have any information that you wish to supply post this meeting to the committee because it will assist us in our recommendations on research and development.

**Mr FORWOOD** — I think if we are going to make it work we are going to need to have contributions from the federal government, the state government and from the manufacturing industry itself. All three have to be in it not equally but fairly committed to it. It gets skewed if the way the state puts its money levies the industry because they are not going to both put their money in and be levied. To make it work you actually need to have three separate groups committed to it.

**The CHAIR** — Thank you for your comment. The minister might like to ask you a question!

**Mr FORWOOD** — I am sure he would. I have to think about what I am going to ask. On page 131 of budget paper 3 — —

**Mr HAERMEYER** — We are back to that again are we?

**Mr FORWOOD** — It shows that export promotion for the forthcoming year is \$7.6 million. I wondered if you could outline to the committee how you plan to spend the \$7.6 million. Given that we have not in the past reported in this way, I wonder if you could give the committee some idea about how much funds have been spent on export promotion over the last couple of years as well.

**Mr HAERMEYER** — As I indicated, we have our Opening Doors to Export plan, which is really the centrepiece of export promotion. That is committed to funding \$11 million over three years. There will be \$3 million for new programs under Opening Doors to Export, and \$5 million — —

**Mr FORWOOD** — Is that part of the \$11 million?

**Mr HAERMEYER** — Yes, that is part of the \$11 million. Five million dollars has gone towards our participation at the World Expo in Aichi.

**Mr FORWOOD** — Is that part of the \$11 million?

**Mr HAERMEYER** — It is, and \$3 million will go to Victorian government business offices.

**Mr FORWOOD** — So that makes the \$11 million?

**Ms THORN** — Only part of the Victorian government business offices will contribute to the export.

**Mr FORWOOD** — Of the \$7.6 million that is allocated to spending this year, how much comes from the \$11 million?

**Ms THORN** — What \$11 million are you referring to, Mr Forwood?

**Mr FORWOOD** — The minister has just said there is \$11 million over three years in the Opening Doors to Export plan.

**Ms THORN** — Right.

**Mr FORWOOD** — The total output cost is \$7.6 million. What I want to know is: how much of the \$11 million are we going to spend? Is it 3, 4, 4 or 4, 4, 3 or 9, 1, 1 or what? I do not know. Of the \$7.6 million some must surely be coming from the Opening Doors to Export. Do we know how much is coming from Opening Doors to Export?

**Mr HAERMEYER** — We need to get back to you on that breakdown.

**Mr RICH-PHILLIPS** — As far as the Victorian government business offices go, the Premier has announced Bangalore within 6 to 12 months, or so he said. How is that funded? There is no separate allocation in this year's budget.

**Ms THORN** — There is no particular funding for Bangalore at this stage. We will be seeking additional funding to supplement the budget to assist with the opening of the Bangalore office. The Bangalore office will take some time to get open, even with the establishment of a special task force which we are currently pulling together. That would merely do all the planning and start to get in place the arrangements with the appropriate state — I think this is the correct term — for the sub-national government unit in India. The appropriate state government of Karnataka. We would therefore not until well towards the end of this financial year actually be moving into a full Victorian government business office in Bangalore. The expenditure for probably the first half of the year will be the cost of the task force which we will be bringing together from inside the department. We would only be seeking a very small additional cost this year. Therefore the additional budget increase we would be looking for would be as a part of our bid in 2006-07.

**Mr FORWOOD** — Are you going to the opening?

**Ms THORN** — I have not planned it.

**Mr RICH-PHILLIPS** — It was not an announcement on the run, was it?

**Ms THORN** — No, it was not an announcement on the run. It was an expected announcement.

**Mr HAERMEYER** — Sometimes these initiatives are developed outside of the budget cycle. That is why the announcement is not necessarily reflected in the budget.

**Mr FORWOOD** — It will come in the Treasurer's advance won't it?

**Ms THORN** — Certainly, just for the start up costs.

**The CHAIR** — Can I refer you to the agenda for new manufacturing? That was first announced three years ago. Could you update the committee on progress and particularly indicate how you intend to measure the success or otherwise of that project? In other words, how will you be able to verify that value for money has been achieved?

**Mr HAERMEYER** — Careers in manufacturing —

**The CHAIR** — The agenda for manufacturing is much broader than just careers.

**Mr HAERMEYER** — That is part of it. It has a number of components. Careers in manufacturing are an important part of it. As I indicated earlier, we have a skills shortage. The government has done quite a lot in terms of trying to encourage extra young people going into apprenticeships, but at the same time it is not just a structural issue, it is also an attitudinal issue. A lot of young people are very reluctant to go into manufacturing because it has a stigma about it. It is still seen as a dirty rust-bucket industry. It not seen as a career but as a job that you do for 50 years repetitively until you collect your gold watch. We have to turn that around because the reality has changed and has changed very radically. We have focused very heavily — —

**The CHAIR** — Can I interrupt you then. Given you are talking about that attitude of young people, would you like to make comment on the attitude of many parents?

**Mr HAERMEYER** — When I say it is an attitudinal thing, I was not just referring to young people. It is often the children of people who worked in skilled trades who are the ones that have been told, 'Make sure you do not have to go out there and work in manufacturing. Make sure you do not have to go out there and work with your

hands'. My dad told me, 'Make sure, son, you don't go out there and be a bricklayer. Make sure you go to university and get a degree'. I asked my dad recently how many bricks he used to lay a day and he said, '700 to 1000'. I said, 'They are earning \$2 a brick now'. Manufacturing offers some very high skilled and interesting careers. It offers some very highly paid jobs. We need to change the attitude of not just the young people but careers advisers and parents. It is a whole social attitude that needs to be turned around. It is a little bit like turning around the *Titanic*, I guess, but we have to attempt to do it.

**Mr FORWOOD** — André, the *Titanic* sunk!

**Ms THORN** — Raising the *Titanic*!

**Mr HAERMEYER** — It is a little bit like turning around an advanced warfare destroyer. Also we have our Innovation Insights Visits program which I touched upon earlier. That has had 2500 people visit some of Victoria's best manufacturers. The idea behind that is basically sharing the understandings and knowledge that breeds excellence. We have had some major industry capability missions to Europe, Asia and the Middle East. Orders in excess of \$285 million have resulted from those missions. That is a very successful outcome for those particular missions. We have created two high performance manufacturing consortia. These two groups of quality companies have been working together to list their performance in relation to the world's best practice. The Victorian Manufacturing Hall of Fame has also been a great success this year. We had over 700 people attend the induction dinner. That is a great way to signal the successes of our industry, to assist the networking that is necessary for an industry to be successful, and to again set the high jump bar in terms of what is necessary to achieve excellence in manufacturing and to be world leaders.

We also have our export communication network, which I addressed a function for the other night. There are some 1300 companies registered there, and they do an absolutely fantastic job. It is basically a Web-based system, whereby companies access information or are able to receive information that is relevant to their particular sectors about what is going on. Again, I think that is a very, very successful initiative. Our agenda scholarships program is stimulating partnerships between industry and universities. Seventy-four scholarships and bursaries involving most of our universities have been provided, the Partners at Work program has provided matching grants to over 60 organisations funding projects to improve the industrial relations culture, enhance workplace relationships and also improve employee participation. We have also had our keynote speakers program, which has ensured the success of the Australian Change by Design conference and the Lean Enterprise Australia Summit. Over 3000 people have been attracted to hear leading international speakers since that program commenced. Again, I cannot underline how important it is to have the key players, the key decision-makers in our industry over here listening to what is going on overseas, what the leading-edge stuff is, but also to have people come over here and find out what we are doing, because I think there is still a lot of ignorance overseas — there is a lot of ignorance internationally — of just what Australia is capable of. We still have this image of sheep and kangaroos and beaches, and we are doing some really high-tech manufacturing, some very leading-edge stuff. It is important that, whilst we are learning and picking up on best practice overseas, decision-makers overseas and influences overseas are also seeing what we are capable of.

**The CHAIR** — Thank you. I have a supplementary and so has Mr Forwood. Minister, you outlined a number of really good initiatives, some of which had outcomes and value for money clear in your answer. Would you mind taking on notice how the department is ensuring that these very good initiatives are actually providing value for money and meeting performance indicators that might be measurable? As you are well aware, this committee tends to home in on that particular aspect of portfolios. So rather than having an even longer answer — and that was very interesting — if you take it on notice that would be helpful.

**Mr HAERMEYER** — Yes. If I may, however, Chair, just very briefly — and I think it is important to — acknowledge with a lot of these programs that we know they work, but it is sometimes hard to link any specific expenditure to a specific outcome. But as —

**The CHAIR** — Where you can.

**Mr HAERMEYER** — As we can, we will.

**Ms THORN** — If I can add to that, the department does have quite tangible targets which relate around jobs, investment-attracted export, and number of exporters, so we can provide those sorts of things. But as the minister quite rightly says, there are a lot of intangible benefits that flow from programs like this, and often they are



things as simple as a sense of pride about the industry and a collectiveness about the industry to also want to get up and help itself.

**Mr FORWOOD** — Where is the hall of fame?

**Mr HAERMEYER** — Where is it? I do not think there is a building.

**Ms THORN** — It is virtual.

**Mr HAERMEYER** — Look, the hall of — —

**Dr WILLIAMS** — You can hang it on your wall — —

**Mr HAERMEYER** — It is basically a series of inductions that are made each year. They are there, I think, on our web site for anybody to see — are they Bruce?

**Mr MAPPERSON** — Yes.

**The CHAIR** — You will not have criticisms from us for excessive rental then, will you?

**Mr FORWOOD** — I just hope it was more successful than the sporting one or the racing one.

**The CHAIR** — There is no expenditure on rental or overheads.

**Ms THORN** — I can certainly say that I had lunch the other day with one of the recent inductees, and he was enormously proud to be there.

**Mr RICH-PHILLIPS** — I would like to ask the minister about overall targets. You have targets for exports — obviously, \$30 billion and doubling the number of exporters by 2010, the food and fibre target — ultimately against which you can measure your programs. What are your targets for the manufacturing industry, above and beyond your direct facilitation? Do you have a target for the growth of the Victorian manufacturing industry, or for overall employment and manufacturing in Victoria, or for the level of investment in manufacturing in Victoria? Do you have global targets for the state industry in manufacturing — by 2010 or 2015, or whatever?

**Mr HAERMEYER** — Again, I think it is important to understand that the industry is not — it is hard for us to set targets because the levers are not entirely ours. At the end of the day the success of an industry — we can control a lot of the inputs in terms of trying to create an environment that facilitates investment in R and D, facilitates investment in productive capacities, facilitates export — is still subject to the vagaries of the international marketplace as quell.

**Mr RICH-PHILLIPS** — I guess I can accept that to a point, but you have set a target of \$30 billion for export, which you obviously do not directly control; why can you not set a target for \$30 billion of gross state product for manufacturing?

**Mr HAERMEYER** — Again, as I say, we can tell you that investment projects which have been facilitated by the Office of Manufacturing since 1 July 2004 we expect to result in over \$430 million worth of capital investment.

**Mr RICH-PHILLIPS** — I understand that, but unlike your export target, you do not have a manufacturing target for the overall industry, whether it is a growth rate, whether it is a level of employment of, say, 350 000 employees in the manufacturing industry. You do not have an overall industry target above and beyond the direct facilitation that the department undertakes — just like your export target.

**Ms THORN** — There is not one specifically for the manufacturing industry. We have general targets for investment attracted to the state for exports and for jobs. We are realistic and opportunistic enough to go for the best of all of those that we can get, because the benefits that accrue to the state are enormous regardless of where they come from. Having said that, obviously in our efforts we spend a lot of time on an industry such as manufacturing because it makes up such a large part of the Victorian economy and it is something we are proud of. We are particularly focusing our efforts, as the minister was speaking about earlier, in some of our grant programs around the R and D end — attempting, as far as possible. We are loath at this stage to put specific targets on

manufacturing, because that can actually be quite distorting, particularly in investment attraction, where it is a bit of a competition. If people know that we have some things that we want to achieve, they may well bid up what they are looking for in support from different governments. But I think it is fair to say that sitting behind the targets is a view in our organisation that a very large amount of our effort should go towards high-quality manufacturing investments and exports, and certainly that is where a significant amount of the resources of the department are focused.

**Ms ROMANES** — Minister, as part of the Open Door to Export plan the government announced the appointment of three special trade envoys. Can you outline the objectives and success of these appointments?

**Mr HAERMEYER** — Yes, as you might be aware we have appointed three special trade envoys to areas where we think essentially Victoria's export future lies. The trade envoys are not just about export but also attracting investment into the economy of Australia itself, but we have focused particularly on the areas where we think our economic future lies.

We have a special trade envoy for North Asia, a special trade envoy for India and a special envoy for the Middle East. We have Mr Jock McGregor, who is heading up that role in North Asia, and he has extensive experience in dealing with China, Korea and Japan. In February Darren Gribble became our special trade envoy for India. When we are talking about Asian economies it is often forgotten that India is a country that in a very short period of time will probably replace China as the most populous country on Earth. It is a country with a middle class estimated variously at somewhere between 150 million and 250 million people. That is a huge middle class. It is a country that is rivalling China in terms of its economic development. So that is an important appointment, along with the establishment of the Victorian Government Business Office (VGBO) in Bangalore. Of course we also have the Victorian trade office, or the VGBO in the Middle East, where we have Charles Jamieson heading that up, and he is incredibly well connected in the Middle East.

In terms of some of the outcomes let us look at what we expect those officers to do. Firstly, we expect them to provide advice on the development of market-based strategies to promote the export of Victorian products. Jock McGregor has already provided advice on the development of whole-of-Victorian-government market strategies for China and Japan. We have developed very comprehensive strategies dealing with those particular markets. Darren Gribble is currently providing advice on the development of a whole-of-government market strategy for India. Secondly, we expect them to identify market opportunities for our companies in those respective markets. All three of those special trade envoys, largely through leveraging their in-market contacts during trade missions, have helped to identify opportunities for Victorian companies.

Thirdly, we ask them to represent our government in an official capacity in market, particularly during trade fairs, missions and industry capability missions. Each of them has led at least one trade mission to their respective markets. Jock McGregor led an electronics ICT capabilities mission to Taiwan and Hong Kong in October 2004; Charles Jamieson led Victoria's participation at the Big 5 trade fair in the United Arab Emirates in November 2004; and we have had Darren Gribble recently lead a building and infrastructure mission to India in February this year, primarily to explore opportunities for Victorian companies, including those associated with the 2010 Commonwealth Games in Delhi.

Fourthly, we want to provide specific advice and training to Victorian firms preparing to do business in North Asia, the Middle East and India, and all three have done that and done it well. We asked them to represent the government in a high and official capacity in Victoria. Sometimes trade is not just about going out to those markets. Sometimes we have inbound trade missions where we try to introduce them to suppliers, manufacturers, companies and businesses over here. Again, we have had a number of those and they have been highly successful.

Finally, we asked them to promote the importance of trade and investment with North Asia, the Middle East and India, and that is about getting out to, I suppose, Victorian-based businesses the opportunities that exist there and the importance of trying to seize upon them. I daresay that if you ask any of the companies that have had dealings with these special trades envoys, they will say they have benefited from dealing with them. As I say the envoys are people who know their stuff, who have good connections, who know the opportunities that exist in those markets, and who know the pitfalls or the landmines not to step on. So I think it is a great initiative for us.

**Mr RICH-PHILLIPS** — Minister, I want to clarify something you said in that answer. You said that Charles Jamieson is heading up the VGBO in the Middle East. Can you clarify that?

**Mr HAERMEYER** — No, he is a special trade envoy.

**Mr RICH-PHILLIPS** — But do you wish to clarify? Is that not correct?

**Ms THORN** — No.

**Mr HAERMEYER** — Did I say that?

**Mr RICH-PHILLIPS** — You did, yes.

**Mr HAERMEYER** — Sorry, that was a slip of the tongue. I apologise.

**Dr WILLIAMS** — In fact all three of the special trade envoys are actually based in Melbourne.

**Mr RICH-PHILLIPS** — That was my understanding.

**Ms THORN** — And our danger, of course, is that they are only very part time and we have a vast amount of things we would like them to do. So the difficult issue for us is making sure they focus on the most strategic of things to assist companies both to export and those based locally to also bring back into the country.

**Mr FORWOOD** — How do you do that?

**Ms THORN** — We are very much relying on the country strategies that we are busily developing to give a more strategic focus to what we are doing, and the envoys are major contributors to that. We have found the missions to be particularly successful in leveraging exports, and these three were all chosen for their expertise, so much of this is their judgment about what is the best way to influence the outcomes.

**Ms ROMANES** — Are they employed on an as-needed basis?

**Ms THORN** — Their contract is 40 days a year and we will be reviewing that over time. It is a very cost-effective way for us to get the kind of expertise we need. The kind of expertise we are getting with those three is nigh impossible for us to develop inside the department.

**Mr RICH-PHILLIPS** — Minister, I would like to ask you about the target of doubling the number of exporters by 2010. Last year, your predecessor told us that the baseline for that was that in 2001–02 the ABS said there were 12 250 Victorian exporters, and therefore the department's target in 2010 is 24 500. Can you tell the committee as at the end of each of the subsequent financial years, 2003–04 and this year, what level had been achieved?

**Mr HAERMEYER** — I will have to get back to you on that.

**Mr RICH-PHILLIPS** — Do you have targets for the subsequent years out to 2010?

**Mr HAERMEYER** — We do at this stage. Essentially it is a strategy to 2010. It is a deliberately ambitious target. It is not a target that we have set because we expect it is going to be easily jumped. It is a target that has been deliberately set high to make us strive all the harder to achieve it. It is one of those things where we would expect exponential growth over the period within which we expect it to be achieved. So it is not going to be pro rata growth.

**Ms THORN** — Interestingly, if you look at Victoria's exporters, for such a highly urbanised place we still have a very large proportion of our exports in resources and particularly our agricultural products which have been significantly hit by the droughts of the last couple of years. So we recognise that the target for 2010 is very tough. Obviously part of the program is to get a broader balance across the export focus, which is why we are looking to double the number of exporters.

**Mr RICH-PHILLIPS** — One criticism I have of the commonwealth target — the Austrade target — of doubling the number of exporters by next year is that it does not refer to sustainable exports and someone who exports once, and once only, will be counted in that. I think that is the case with your target as well. If you export — whatever the criteria is — \$10 000 worth of goods once, you are counted in the target. Do you have any targets in terms of sustainable or repeat exporters?

**Mr HAERMEYER** — Ultimately, the more meaningful target comes down to the value of the exports themselves. As I said, it is not a precise science. Obviously our exports — and Australia's exports — in the last year have been affected by virtue of the fact that we are highly dependent. A large proportion of our exports are still in the primary sector. We have had a drought that has had a significant impact upon that. So a few years of drought can create an abnormal result in that regard. Ultimately it is in value. Ultimately we can benchmark a particular year and say, 'Look, this has been achieved'. We have set that target at 2010 but probably what is the most important thing to us is the trend that is developed over that time in pursuing that target. It will be subject to all sorts of peaks and troughs created by a whole variety of factors, some of which we can influence and some of which we cannot.

**Mr RICH-PHILLIPS** — Can you give us the figures on that?

**Mr HAERMEYER** — Yes.

**Mr SOMYUREK** — Minister, earlier you touched on the importance of China and India as markets. You also touched on the free trade agreement with China. Can you expand on what you have already outlined to the committee with respect to the government's initiatives in positioning Victoria to take advantage of the very significant opportunities in China, and the greater ASEAN region?

**Mr HAERMEYER** — Certainly. I have already spoken about the special trade envoys, and they have been targeted into those regions. Let me also say that the Prime Minister has recently announced that Australia has taken the first steps towards negotiating free trade agreements with China, Japan, ASEAN and Malaysia and that has some potential opportunities for us. I think in the primary sector in resources and in primary industry it is almost unambiguously good. In the service sector, I would say there would be a net balance in favour. In manufacturing it could be reasonably beneficial to us or it could be enormously disastrous to us depending on the content of those free trade agreements.

We have developed our country strategies — and we are developing an India strategy as well as a China strategy. We have developed those strategies regardless of whether FTAs are in place. So regardless of whether an FTA goes ahead with those countries, we are going to be increasingly exposed to those economies full stop, whether we like it or whether we do not. I suppose what we are trying to do is make sure that our businesses are focused on that. We are going to lose business activity and jobs to those countries. We have to make sure that we replace them with more jobs and more activity over here. That is why I was talking before about that niche approach.

We also need to make sure that if we are going to negotiate these free trade agreements that there is an appropriate adjustment phase for our manufacturing sector in particular. As I said, that is the sector most exposed to it. It is a sector that requires time to adjust. Fifteen years ago people said that our car industry could not survive. Its tariffs have come right down and it is operating on very low levels of protection and it has probably never been healthier, because there was a plan to enable it to do that. If you do it cold turkey, you kill it off. So we need to make sure that occurs.

I suppose we also need to make sure that there is legitimate free trade, that it is on a level playing field, particularly with China where you are dealing with an economy that regulates its currency, and an economy that does not have free association of labour. There needs to be intellectual property protection where we are taking hi-tech industry into those countries, and that is a minefield for us. So there is a lot we have to weigh up there. We now have three Victorian government business offices in China; it is the only country other than the United States of America where we have three VGBOs.

Those people do an absolutely fantastic job in terms of our businesses over there, providing resources for them when they are moving into those markets. They do a fantastic job in terms of helping to identify market opportunities. It is a very difficult thing doing business in another country where the culture of doing business, the laws and everything are so different. I think they do an absolutely great job. Again, we have had a lot of trade missions going through China and Japan and they all speak very highly of the work done by our VGBOs over there.

**The CHAIR** — Thank you. You may like to take this on notice, but I am particularly interested in the effect of the free trade agreements with Thailand and Singapore, and if you have anything to report in relation to exports and sectors affected. Mr Rich-Phillips has also got a follow up on free trade agreements.

**Mr RICH-PHILLIPS** — Also on the Thai and Singaporean FTAs. The Vic Export web site is supposed to be the source of export information but I can find absolutely nothing about either FTA. I wonder what the government is doing in terms of initiatives for exporters to maximise those opportunities, given the Singapore one has been there for two years now and the Thai one started at the beginning of this year?

**Mr HAERMEYER** — We can provide you with advice on that.

**The CHAIR** — Okay. Good.

**Mr SOMYUREK** — You might like to take this on notice, Minister. I am interested in the area of intellectual property rights. Just how big an issue is it for some of our innovative firms in places like China and the region?

**Mr HAERMEYER** — It is a huge issue — for example, to get to work in China you are pretty much required to have a joint venture partner. One local business that I met over there basically told us how they set up a manufacturing operation with their joint venture partner only a year later to find that there is an identical factory being built next door, and to find out that it is their joint venture partner's. Even though they have national intellectual property laws the enforcement of those is done at a local or regional level and the enforceability is a really difficult issue for our companies. One priority I have identified is not just with respect to China. I am aware of another case where a local manufacturer has developed quite an innovative product that a large motor manufacturer from Europe has effectively copied.

Again, you are talking here about a small to medium-sized enterprise that does not have a huge legal department at its disposal, so perhaps one of the areas we need to look at in the future, in terms of what we do, is providing advice and support to protect intellectual property, especially when we are saying to companies, 'Be different; put your effort into research and development'. They are doing that only to find they are being ripped off, so we need to make sure that does not happen.

**Ms THORN** — Even some of the world's biggest producers are finding that there is no way they can manage this, so their way of dealing with it is like Sony, for example, which realises that it cannot protect its Internet intellectual property. Anyone can buy a piece of equipment, de-manufacture and re-engineer it, so it actually licenses — and you can buy them in China — absolute Sony products with a different brand on it, at a much different price. That way they at least get some protection for what they are doing.

**Mr HAERMEYER** — I might also add that we met at the airshow one major aerospace player who has developed a sort of very high-tech pilotless reconnaissance aircraft. One South Asian customer said, 'We would like one, please'.

**Mr FORWOOD** — For the price of a couple of hundred more!

**Mr RICH-PHILLIPS** — You said small business!

**The CHAIR** — There is one final question from Mr Rich-Phillips, then we will move on to small business.

**Mr RICH-PHILLIPS** — Minister, in your China documents you have announced an Access China program. I notice that it is modelled on the Access America program. Can you tell the committee how successful or otherwise Access America has been? How many people have actually used the VGBOs in the states and how do you measure its success?

**Mr HAERMEYER** — I am advised that over the last 12 months we have had about 70 businesses that have accessed that program. We are talking about \$50 million to \$60 million worth of exports that I understand have come out of it over the last 12 months. I think it is important to ask that question because whilst we are very much focused on Asia and particularly the new markets of China and India we should not forget our traditional markets in Europe, the US and particularly Japan.

**The CHAIR** — At this point could I say thank you very much to Mr Bruce Mapperson for his attendance.

**Witnesses withdrew.**