

VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2006–07

Melbourne — 19 June 2006

Members

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Witnesses

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

Ms F. Thorn, secretary;

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

Mr L. Bruce, executive director, business innovation and strategy; Department of Innovation, Industry and Regional Development.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearings on the 2006–07 budget estimates for the financial services industry, manufacturing and export and small business portfolios. I welcome the Honourable Andre Haermeyer, MP, Minister for Financial Services, Minister for Manufacturing and Export, and Minister for Small Business; Ms Fran Thorn, secretary; Dr Lynne Williams, deputy secretary, business support; and Mr Lachlan Bruce, executive director, business innovation and strategy of the Department of Innovation, Industry and Regional Development; departmental officers and members of the public and media.

In accordance with guidelines for public hearings I remind members of the public they cannot participate in the committee proceedings. Only officers of the PAEC can approach PAEC members, and departmental officers, as requested by the minister or his chief of staff can do so. Members of the media are requested to observe guidelines for filming or recording proceedings.

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. This year, Minister, you will be given proof versions of your transcript by email, and you have two working days, as do all the other witnesses, to respond to that email.

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 phones and pagers be turned off or to silent. Thank you very much. Over to you, Minister, and thank you very much for your presentation that you have distributed beforehand.

Slides shown.

Mr HAERMEYER — I understand that in the first hour and a half we will be doing financial services and manufacturing and export, which are two discrete portfolios, so I will do the presentations separately.

The first is financial services. As I have pointed out before, this is the only state that has a financial services portfolio. We are quite aggressively going after financial services in this state, and I have to say with some success. It has been a significant growth area. The portfolio covers finance and insurance services, as you can see from the slide, but also extends to contact with shared service centres, professional and business services and building and construction services.

Some of the key themes that have been using to build on Victoria's strengths are particularly the \$1.8 million worth of initiatives, which were associated with our financial services action plan. I have skipped a page of the presentation — sorry, I should have pointed out that financial services is the third-largest sector in the Victorian economy. It contributes 9 per cent to our economy, or \$16.8 billion. It has had an average growth rate since 1999 of 10 per cent and employs around 100 000 people, or 4 per cent of the total Victorian work force. It is important to note that the Victorian financial services industry measured by employment is now similar to that of Hong Kong or Singapore.

If we go to the next slide we can see that \$1.8 million of initiatives associated with the financial services action plan build on a number of what we think are our strengths: the outstanding research capabilities in our financial services, our strengths in education and training and the skills that come with that, positioning of Victoria internationally as a financial services sector and attracting investment from overseas. We also see Victoria as a growing centre for venture capital, and we are exploring new growth and investment opportunities for the state in emerging sectors.

Key achievement in 2005–06 — we launched in August last year the Melbourne Centre for Financial Studies, which was part of our financial services industry action plan, and also new investment facilitated has produced approximately 700 new jobs and \$40 million worth of new investment across the financial services portfolio.

The establishment of new financial service operations include the decision to locate the \$140 million future fund here in Victoria, and recently the Premier and I attended the opening of the new GE Money head office, which was a \$100 million investment and is producing something like 1500 new jobs for Victoria.

The CHAIR — You are halfway through your time, Minister.

Mr HAERMEYER — The rest of the financial services presentation is there on the slides, and people can look at those, and if they wish to ask questions later, I am happy to do so. I will move onto manufacturing and export.

Manufacturing remains the engine room of the Victorian economy. It contributes nearly \$30 billion to our economy and employs 327 500 people, or 13 per cent of our total work force. It is the largest provider of full-time jobs, at 284 200, and therefore it contributes about 16.2 per cent of Victoria's full-time total. It is also the lead exports sector — \$15.4 billion in 2004–05 with over \$7.2 billion of elaborately transformed manufactures in 2004–05. Manufacturing, as you can see, accounts for 60 per cent of Victoria's business expenditure on R and D.

Over 2005–06, particularly important was the announcement of the investment in Ford, which is a very significant investment of \$1.8 billion over 10 years, and it will result in the creation of up to 1500 direct and indirect jobs. Very significantly, for the first time Ford has agreed to develop a left-hand drive version of the Falcon and the Territory, which will give it far greater export capability.

Tenix Defence — we also won the race to establish an aerospace systems centre here in Melbourne's CBD. The company will be investing some \$6 million resulting in the creation of 240 very high-end jobs. Also, Metaltec Precision International Pty Ltd has facilitated the purchase and installation of a large floor borer machine into which the company has invested \$5.1 million. That creates six jobs, but again very high-end jobs. I can give further examples of that if required.

At the end of last year we held the National Manufacturing Summit at which over 230 industry representatives, governments and employer groups and unions attended. I think it was universally acclaimed as being a very successful summit in terms of setting out some of the challenges and some of the priorities. Out of that summit has been formed a national manufacturing forum which embraces governments, unions and industry. That forum is entrusted with the development of a strategic action plan for manufacturing by September of this year.

There are some very significant challenges confronting manufacturing as part of the ongoing globalisation of the international marketplace and the emergence of countries like China and India and also countries like Brazil and Eastern Europe. The whole idea of this summit is to develop a way forward to enable Australian industry to strategically reposition itself to compete in that new environment.

I think again there is more detail further into the presentation. I am happy to let people digest that as they will and am happy to answer questions about any of that later on.

The CHAIR — Do you want your overheads put up on the web site with your transcript?

Mr HAERMEYER — I am happy for that to occur.

The CHAIR — That will help, given that you have had to hurry through the overheads.

I would like to take you to the financial services industry. You mentioned in your presentation investing in Victoria's future, the Victorian government's action plan for the financial services industry. Last year at this committee hearing we heard that of the 29 initiatives in the plan, 9 have been fully implemented and 15 have been partially implemented. Could you please bring us up to date on the current situation and advise us of any further implementation of the plan and the impact that plan has had on the financial services industry here in Victoria?

Mr HAERMEYER — Certainly. The plan was released in 2004, and it resulted from some very extensive stakeholder consultation, It outlines something like 29 separate initiatives which were the product of the five working groups that we had set up to develop the plan. Of the 29 initiatives, not including additional subsidiary initiatives which have been undertaken by the five working groups, something like 25 have been either fully or substantially implemented and the remainder are progressing towards implementation. Examples of some of the initiatives that have been completed include a series of higher education forums, a launch of the Careers in Finance web site, attraction of major international finance services events and conferences including the Melbourne Financial Services Symposium, which is becoming a major international event as far as the international services are concerned, and also the Ethical Investment Conference in October 2004.

Also we have explored opportunities in emerging financial services markets. Again, with the gravitas that we now have in terms of funds management here in this state, I think I indicated previously that Australia has something

like the fourth largest funds management market anywhere in the world, which for a country our size is quite remarkable. The majority of activity there is in the industry funds which are centred here in Victoria. We have 7 of the top 10 industry funds and 65 per cent of the money. That is generating a lot of interest from financial services overseas keen to provide products. As a result we are getting a lot of cutting-edge services seeking to get a piece of that action, so we are really developing a lot of opportunities in emerging areas in the financial services. I think we have been doing particularly well on that front. As I say, I am confident that the remaining initiatives are well on track.

Mr CLARK — Minister, as you know, red tape and compliance is an area which all sectors of industry often raise. Your government has made announcements about various policies in that regard including most recently reducing the regulatory burden measures. Could you tell the committee what you have planned, specifically in relation to your two portfolios of financial services and manufacturing and exports, to reduce the regulatory burden?

Mr HAERMEYER — I think the Treasurer made clear the \$42 billion initiative in the budget which was designed to reduce red tape in the first three years by something like 15 per cent and over five years by 25 per cent. What we have done specifically in this portfolio is establish the Victorian business master key, which is a very significant commitment that the government made to \$6 million over three years. What VBMK is about is acknowledging that even when you remove a lot of the unnecessary regulation, there will always be some regulation. Many businesses have complained that it is not actually the regulatory compliance itself that takes up their time but finding the right place to go, or getting the run-around, so to speak.

VBMK is largely one point of entry, where you go through a very simple step-by-step process. Ultimately it will embrace all of the key agencies at local, state and federal government levels. A lot businesses do not necessarily know and do not particularly care which level of government is responsible for whatever it is they need to do or whatever piece of information they need to find, they just want to get it done. So VBMK is, as the name suggests, the master key that opens all doors as far as regulatory compliance is concerned. We think it will save businesses significant amounts of time and money particularly through processes such as business registration, tax, business premises, licensing, WorkCover and employment issues as well as knowing what assistance is available from the various levels of government that they might be able to tap into from time to time.

Mr CLARK — That is useful in terms of how to find the way through the red tape maze. Is there anything specific you have in mind in terms of cutting back on red tape to reduce the regulatory burden?

Mr HAERMEYER — As I said, part of the answer is reducing the regulatory burden, and that is about going through legislation to determine where legislation is obsolete or where it can be done in another way. The Victorian government has set up the Victorian Competition and Efficiency Commission as part of its efforts in that regard as well.

In addition, business impact statements are required on any legislative or regulatory initiatives that may have an impact on business, and so there again it has to jump through certain hoops to determine whether that regulation or that legislation is in fact necessary, whether it can be simplified or whether there is a better way of doing it. As I said, VBMK is about acknowledging that even if you got rid of all of the red tape and regulations that are unnecessary, there will still be some, and it is about making that process as simple as possible.

Dr WILLIAMS — If I could just add to that, the reducing the regulation burden was, as you correctly pointed out, Minister, an initiative put forward by the Treasurer in the recent budget. The implementation process for that has not yet been agreed but all departments are being asked to look at the regulation for which they are responsible and come up with ideas for how to reduce the administrative burden in complying with that regulation. DIIRD, which is the minister's department, is in the process of looking at the regulation for which it is responsible to see whether or not there is, for example, a better way of collecting the three signatures that might be required on various forms. The point the minister makes about also reducing the administrative compliance through providing information on what has to be complied with in one place, will be part of what DIIRD identifies as being a very important contribution to reducing the regulatory burden.

Mr MERLINO — If we can turn to manufacturing and export, in your presentation you referred to the challenges facing Victorian manufacturers by competition from China and India. Could you inform the committee

what future, in your opinion, Victorian manufacturing has in the face of such competition, and what can governments do to help local manufacturers in meeting these challenges?

Mr HAERMEYER — I think certainly China and India have burst on to the global stage in a big way and there are the other economies as well which the Treasurer has referred to as the BRIC economies — Brazil, Russia, India and China. China is now the most dynamic economy of anywhere in the world, followed by India. I think we need to acknowledge that these economies have very, very low cost structures which makes it difficult for some of our manufacturers. I suppose over time some of our manufacturers are going to have to do other things than what they are doing now. The reality is that a structural adjustment is going to be required. If we want to compete with China we are not going to do it on a lower cost structure than China unless we are prepared to accept a 30 cents-an-hour wage rise.

It is also an economy that at the moment is underpinned by a very heavily supported currency, and that makes it difficult for our manufacturers. We called the national manufacturing summit last year to try to address some of these issues to enable our industry to adjust. We think we have very imaginative, very innovative, very enterprising people within our manufacturing sector, but what they really need to be doing is looking at the higher value-added end of the value chain and producing at that value-added end. That means differentiating the product through things like innovation and through things like good design, service, quality and finding the right niches too.

Economies like China and India have middle classes of about 200 million people and growing rapidly. We are a small country. If we can do what countries like Singapore, Sweden, Israel, Finland and Ireland have done and find the right niches, then we can do very well out of doing that, particularly now we are no longer at the arse end of the earth, so to speak, but right here in the middle of part of what is now the most dynamic economic region in the world. But it requires government to offer assistance to industry to make those strategic adjustments and particularly, one of the things that keeps being identified is R and D expenditure.

Those economies I talked about before are expending something like 2.5 per to 5.5 per cent of their GDP on research and development to differentiate their products, to keep ahead of the game. We are doing 1.6 per cent per annum and our private sector R and D is about 0.8, which is the second lowest in the OECD. It is something which requires us to play as a team. It requires the federal government, the state government and industry and unions all to be focused on the main game.

The CHAIR — Mr Somyurek, with a supplementary question.

Mr SOMYUREK — Minister, do you have any historical figures for R and D investment?

Mr HAERMEYER — Any historical figures?

Mr SOMYUREK — Yes, data going back from about 1996.

Mr HAERMEYER — We will have to take that on notice, but I think our relative percentage of R and D, just off the top of my head, has come down quite significantly since the days of the 150 per cent R and D concession. That has eaten into our research and development and our innovation quite significantly. It is important to understand that a lot of the big R and D is really done by overseas corporations. They can pretty much do that anywhere, so it is a competitive business getting the R and D done here. If you do the R and D here, usually you have the manufacturing capacity here as well.

It is important to be in the competitive business of encouraging companies in Australia to do R and D but also to attract international companies with their R and D dollar. We have good skills, we have good infrastructure here for that R and D to occur, but we need to understand that there are other governments out there putting some very valuable consideration on the table.

Mr RICH-PHILLIPS — Minister, last year when you appeared before the committee you spoke about the work that was being done on the bid to win the air warfare destroyer contract.

Mr HAERMEYER — Yes.

Mr RICH-PHILLIPS — At that stage the government had a package on the table in the order of \$60 to \$80 million. There was a shipbuilding college plus the infrastructure assistance for Tenix. Given that contract has now gone to ASC, what funds are available and what assistance is the department able to give to those Victorian

manufacturers who will be competing for the subcontract work, given there will still be a lot of subcontract work available to Victorian manufacturers? Is there a package available?

Mr HAERMEYER — Certainly, the AWD contract was one which I have to say I am bit perplexed as to how it ended up going to ASC — —

Mr MERLINO — Three reasons.

Mr HAERMEYER — I have to say certainly the proposition that was put on the table by Tenix and by the Victorian government was an excellent one. You really have to wonder about a situation where a contract goes to a submarine manufacturer to build ships when that submarine manufacturer had some difficulty in building submarines properly. But I have got to say we are certainly very keen to attract as much of that work as possible. Our assumptions were always that Victoria would always have to get at least 40 per cent of that subcontract work simply because those skills and infrastructure do not necessarily exist in South Australia. If there are companies bidding for that, we usually rely on the companies to come to us. If there is some way we can provide them with assistance in terms of facilitating them being awarded those contracts, we will do that.

We have set up a defence unit within DIIRD. Its role now largely is to ensure that we are out front and competitive in terms of attracting defence-based contracts. That unit will be identifying some of strategic imperatives that we need to address. In terms of the specific companies which may be looking to bid for that work, anything that we can facilitate we are happy to talk to them about. We have our investment support program. They would need to come to us and talk to us about what their requirements are. We would then need to evaluate those requirements against the criteria that apply to our investment support program or our various other means of support that we offer companies.

Mr RICH-PHILLIPS — Are those funds that were put on the table for Tenix still available to assist other would-be subcontractors? Were they part of your ordinary assistance budget, or were they separately appropriated funds?

Mr HAERMEYER — The ISP is basically an opportunistic thing in the sense that when an opportunity arises, a company comes to us with a particular proposition and then, as I say, we would work out some sort of package with them. It was not part of the regular budgetary allocation.

Ms ROMANES — Minister, I refer to page 316 of budget paper 3. There is an output initiative right at the top of the table of the APEC Regional Finance Centre, with \$1.6 million being allocated over four years starting with this next financial year. I have a few questions. The first is what research evaluations have occurred to justify establishing the centre? Secondly, the \$400 000 allocated for 2006-07 — how will this expenditure be spent? Thirdly, how will the local financial services industry benefit from the new centre?

Mr HAERMEYER — The APEC Regional Finance Centre at Monash, just to provide background, is a training facility for regulators and bankers within the APEC region. It is an expansion of the APEC study centre which was previously located here. As you have identified, we have allocated \$1.6 million over four years to pursue the development of finance sector opportunities within the APEC region including support for the APEC Regional Finance Centre. The establishment of that centre will develop and strengthen APEC training in financial services regulation and develop new training products for regulators in the region and conduct research activities. It has already attracted over 250 international bankers and regulators. The expansion of the regional finance centre's activities is going to assist in attracting hundreds of regional regulators to Victoria. That will generate significant export income for the state as well as showcasing our financial services.

In particular it is important in terms of enabling us to showcase Victoria as a centre for financial services; it also adds to that gravitas that we are rapidly developing here. By having all these people come through, it enables us a critical marketing opportunity to show the strategic strengths we have. We have a very strong education sector that is highly regarded the world over. You will find Victorian graduates out of our financial services disciplines in any financial centre anywhere in the world and they are very highly regarded. Secondly, our infrastructure is highly regarded.

We have a number of strengths that underpin the tendency of these financial services, particularly in the managed funds area and services associated with that, to come to Victoria. The APEC centre is another feather in that cap in terms of firstly, anchoring that strength we have, but secondly, enabling us to market those strengths.

Mr RICH-PHILLIPS — Just as a follow-up to that, what is the time line for the centre to be operational? Are there are opportunities to leverage off next year's APEC leaders meeting in Australia?

Ms THORN — We will be working with Monash University to get that going as soon as possible. I cannot give you a precise time line at this stage, but the intention is to have it up and running so that we can indeed leverage off the APEC meeting next year and any other arrangements in the general region. That was one of the reasons we also put in a particular bid around that.

Mr RICH-PHILLIPS — You would expect it would be running this financial year?

Ms THORN — I would expect so, yes. It is building on the existing centre and there has been a lot of pre-thinking about this. We certainly expect it to be well and truly up and running this year and ready to go.

The CHAIR — This financial year — 2006-07?

Ms THORN — Yes.

Mr CLARK — ABS statistics and figures show Victoria's share of Australian total manufacturing investment was running a bit under 35 per cent for most of the 1990s and through until mid-2002. It is now fallen to 25 per cent or a bit lower. What is your assessment of the reasons for that decline and what are you doing in relation to your manufacturing portfolio about that?

Mr HAERMEYER — I query your figures. My information is that we are still round about that percentage of local manufacturing. That said, Victoria is really the hub of local manufacturing. No other state has the same volume and output of manufacturing we have here in Victoria. But what affects our manufacturing industry nationally also affects manufacturing here in Victoria. I suppose the stresses that have been put on the industry are not dissimilar to those that are being felt anywhere else in Australia or, might I add, anywhere else in any other what you might call first-world or developed country. That is the challenge that is being thrown down by China and other developing economies.

This has been a progressive process even since the 1980s where we found our textile, clothing and footwear industry and our motor industry under significant challenge. The Button plan was put in place in terms of the car industry. I think that helped the car industry to strengthen and adjust. That car industry would not be able to survive right now if those actions had not taken place. We need to have similar plans in place for our core industries, particularly the car industry and a lot of our heavy manufacturing industries. They are under serious challenge from those low-cost economies. It means, as I say, strategic repositioning; it means investing in innovation and R and D and producing the sorts of things that China cannot or will not, and producing the sorts of things that people are prepared to pay a premium for.

I used the analogy last year — if you take a TCF analogy — there are a lot of people walking down Collins Street wearing \$50 worth of Australian wool, yet they paid \$4500 for it because it is an Italian suit. Why do they do that when you can go and buy a suit for \$200 or \$300? The Italians have really found their niche. We need to develop ours. Some of our manufacturers are doing it very well; others will need assistance to do it.

The figures for manufacturing for the year to March actually showed growth in employment in manufacturing here in Victoria over the last year. That is not to say that we do not need to make some critical adjustments, but at the same time we would really implore the federal government to engage with us, as we have engaged with industry and with the union movement, to really try and take a national approach to this, because it really requires integrated policy responses at a federal and state level as well as some agreed strategies with industry, because that is really the only way we are going to meet those challenges.

Ms THORN — I was just going to add, if I might, we did a fairly significant piece of work looking at the structure of the manufacturing industry towards the end of last year and this year. I think it is available on our web site. It is an analysis of industry, and one of the more interesting things that emerged from that is the nature of employment in manufacturing is changing, which has not yet, I think, been picked up in formal national statistics.

What appears to be disappearing employment in manufacturing is in fact moving into the service end of manufacturing, that the more transformed manufacturing is as much about the delivery of the services following the actual manufacture of the products, so that is very significant.

The other issues that emerged strongly for Victoria are the importance, as the minister said, of the automotive industry in particular and R and D but that there are a number of very significant companies that are driving R and D in manufacturing, and that needs to be supported broadly.

Mr CLARK — I appreciate that. The figures I was referring to were for manufacturing investment. Employment is also down, but manufacturing investment is showing a particularly stark decline — that is, our relative share compared with the rest of the nation. It is not just that Australian manufacturing is doing it tough; Victorian manufacturing seems to be doing worse than the rest in terms of investment levels.

The CHAIR — Given it is on the Internet and we cannot hand the minister or the secretary a sheet of paper, could you make specific reference to the source of ABS?

Ms THORN — We can take it on notice.

Mr CLARK — It is the ABS figures on private new capital and expenditure.

Ms THORN — Okay. I can take that on notice.

The CHAIR — Is there a date, because it is a big web site?

Mr CLARK — I will try to get that range for you.

Mr HAERMEYER — I am happy to take that on notice, but I would point out that in fact since October 1999 this government has facilitated some 17 000 new jobs and some \$9.3 billion worth of new investment in manufacturing. I think that, in the climate that we are talking about, is pretty impressive. We also need to bear in mind that manufacturing is also suffering by virtue of the fact, as you will have heard, of a sort of dual economy, where you have got the terms of trade being pushed up by the high resources prices, and that is actually making the cost of our exports less competitive. That is something we need to address as well. In the face of all of that, that \$9.3 billion worth of investment and 17 400 new jobs, particularly in those elaborately transformed manufactures areas, is a very significant step forward.

The CHAIR — There is a supplementary from Mr Merlino.

Mr MERLINO — Ms Thorn, to your comments about the change in employment could you give me an example of what kind of activity you are talking about in terms of servicing.

Ms THORN — In the past you would be talking about a manufacturer who merely created the product and it got sold to someone else, and another firm would then do the servicing, so you would have a different set of servicing people. What is increasingly occurring is that it is integrated within a particular organisation which will also not just create the product but will create the services that add value to that product.

Mr MERLINO — Such as? Do you have a product in mind?

Ms THORN — Let me see — —

Mr MERLINO — That is okay. I have put you on the spot. But it would help in terms of — —

Mr BRUCE — In terms of green manufacturing, one that we have come across is the idea of leasing carpet. You not only manufacture the carpet but you get a package of financial services with it as well. So you lease it over a 10-year period, and then at the end of the life of the carpet you do not have to worry about disposing of the carpet, because it is a lease arrangement, and you would probably buy another leased carpet.

Mr HAERMEYER — It sounds like a PPP!

Mr BRUCE — That is an idea of manufacturing and services wrapped up together. Whereas in the past you went and bought your carpet by the metre, now you buy it by the year.

Mr HAERMEYER — I might add that is not just a means of adding value; it is also a means by which you differentiate your product.

Ms THORN — GE Money is an example of what is now probably the more successful part of General Electric. General Electric once just created manufactured goods. GE Money is now providing a set of extensive financial services in association with that.

The CHAIR — Now we can go to a different topic with Ms Green.

Ms GREEN — Not too different, I think. Minister, you correctly identified one of the priorities and challenges in the portfolio as the rise of China, which Mr Merlino questioned you on before, but at present the commonwealth government is negotiating a free trade agreement with China. What do you see are the opportunities and potential pitfalls of such an agreement for Victorian industry?

Mr HAERMEYER — I am glad you have identified there are both opportunities and there are pitfalls or challenges. Firstly, Australia has traditionally very good political and trade relationships with China. We are geographically close to China. It is a country of 1.3 billion people with a rapidly growing middle class, so there are niche markets there for us to exploit and really get into.

At the same time it is an economy that is taking on manufacturing with gusto, particularly low-cost manufacturing. It will not always be at that end. I guess it is a little bit like 15 years ago when we were all worried that South Korea was going to take away all our jobs. The reality is that I went to South Korea last year and saw on the front page of the local daily there Hyundai warning its workers that it would move its plants to China if they did not cut their wage expectations.

China is already experiencing that escalation in costs as well. It is noticing it already in terms of resources, and it is noticing it in terms of pay. We made a submission to the federal government about the China FTA, and we are doing our own study which is being finalised at the moment, but we identified some areas that we think need to be addressed if there is to be an FTA with China. Firstly, we think the issue of China's managing its currency is something that needs to be addressed in that FTA as a matter of priority, because it creates an artificial trade barrier whereby they are artificially subsidising their own manufactures.

Secondly, we think issues of intellectual property need to be addressed. There are issues of environmental standards, occupational health and safety, also making sure that there are very strong anti-dumping provisions and that the FTA, if it is to go ahead, embraces agriculture, because quite often everybody is keen to enter into an FTA that deals with manufactured products but excludes agriculture, and also that it embraces all tariff and non-tariff barriers. At the end of the day I am not sure we are in an incredibly strong bargaining position, but we need to make sure that such an FTA is in our interests before we agree to it.

The CHAIR — Thank you. Mr Rich-Phillips?

Mr RICH-PHILLIPS — Thank you, Chair. Minister, your predecessor established a target of doubling the number of exporters by 2010 and also increasing the value of exports to \$30 billion. The base data this committee was given for that was in 2001–02, of 12 250 exporters.

Last year in our estimates report we recommended that the department set interim targets and also sector targets between last year and 2010. Is the department going to set those interim targets for different export sectors and different levels up to 2010, and can you tell the committee, please, what the current number of exporters are expected to be for the 2005–06 year against your target of doubling that?

Mr HAERMEYER — No. I cannot tell you what the number of exporters is expected to be. I think it is fair to say we have modified our target somewhat. We believe that the target in respect of the value of exports is still highly achievable. However, we, as has the federal government, have moved away from the notion of tying ourselves to the number of exporters. We still are setting ourselves a target of increasing the number of exporters, but to double it, I think, buys into all sorts of assumptions.

I think at the end of the day what we want to do is achieve increases in exports. We will certainly be doing everything we can to encourage smaller companies to get into export, and a lot of them are doing that, but the big gains are going to be achieved out of our medium to larger organisations, so we have effectively agreed with the commonwealth that to tie ourselves to a specific number of exporters is perhaps not the way to go.

I am not sure if these figures address you specifically, but in 2002 the Victorian government set a target to increase goods and services export revenue to \$30 billion and, as you said, to double the number of exporters. As I say, we have modified the second component of that.

Mr RICH-PHILLIPS — Do you still have a target in terms of numbers?

Mr HAERMEYER — In terms of numbers of exporters, no. I think we are simply saying ‘increase the number of exporters’ because too many other things come into play. Sometimes companies merge, sometimes they are absorbed. Once they start to develop a good export market, bigger companies swallow them up. It is too unstable a figure to rely on.

Total exports in Victoria grew by 3.5 per cent, \$923 million in 2004–05 to reach a total of \$26.8 billion, \$8.3 billion of which was services exports. If that current growth rate continues, the export target of \$30 billion by 2010 will certainly be achieved. I think there are also some figures here in terms of the March quarter 2006. Goods exports increased by 11.7 per cent compared to the March quarter of 2005. This includes increases of \$53 million in dairy products, 12 per cent; \$41 million in fruit and vegetables, 43 per cent; \$25 million in metalliferous ores and metal scrap. That is an increase of 69 per cent; \$110 million in non-ferrous metals, 42 per cent; \$140 million in road vehicles — an increase of 26 per cent. They are pretty good and encouraging figures and probably go against what is the pub myth, so to speak.

Mr RICH-PHILLIPS — As far as the committee’s recommendation of interim targets, is the department going to set sector targets and interim time targets to 2010?

Mr HAERMEYER — In terms of?

Mr RICH-PHILLIPS — Interim targets on both time and sector. It is obviously a bit closer than it was last year when we made the recommendations.

Mr HAERMEYER — No. I think if you check we did not accept that recommendation and gave some reasons for it. It may go partially towards answering previous questions. From July 2004 to 2006, some 6460 companies were provided with export assistance and advice under Opening Doors to Export.

Mr SOMYUREK — If we can go back to the financial services industry, in your presentation you refer to the rapid growth of the Victorian services industry. What are some of the recent investments made in this sector and can you outline to the committee what is expected for future development of the industry?

Mr HAERMEYER — Thank you for that. Since January 2003 we have benefited from something like \$500 million of new investment in financial services. During the last three years that has included some very major financial services institutions. I already spoke about GE Money. Their Asia-Pacific headquarters, and also their global imagination training centre has been set up at Burnley.

We have also had the decision taken that the Future Fund would be located in Melbourne. We have had expansions from organisations like Morgan Stanley, Citigroup, Liberty Financial and St George Bank. They have all committed significantly to expanding their presence in Victoria. As I said, GE Money is probably the big one. That means 1500 new jobs. It is \$100 million worth of investment and, very importantly, I met with Mr Tom Gentile, the Australian CEO of GE Money, and he is going to New York shortly to sing Melbourne’s praises as a destination to locate financial services. He could not be more praiseworthy of the fundamentals that we have here in place and the support that the Victorian government has provided.

Just dealing with some of the emerging opportunities that you dealt with in your question, our action plan for financial services, which I talked about earlier, has identified emerging markets such as energy and carbon trading, water rights, sustainable finance and investment, infrastructure and hedge funds as areas for further research — areas where we might be able to establish centres of excellence and attract further investment into the future. I can give you further information on that if you wish, but I am trying to keep the answer short.

The CHAIR — So there is nothing further required on that.

Mr CLARK — As you would know, services exports are a big slice of Victorian exports. Could you outline to the committee what the government’s current thinking is about how to assist in exports of educational services from Victoria and what the government’s attitude is to facilitating the entry of foreign students to study at

Victorian educational institutions or for those institutions to provide educational services overseas, both in academic and in trade sectors?

Mr HAERMEYER — You rightly identify education services as a significant area of our services exports, and I believe they have experienced some significant growth. We are getting good uptake from Asia but also from the UAE, and we have recently signed a memorandum of understanding with our VGBOs to facilitate educational services exports to the UAE, so our VGBOs are acting very proactively overseas. We have had a number of trade missions overseas from the education sector to encourage that sort of investment or encourage those sorts of exports. I do not have the figures here, but I can provide some figures in terms of the growth in that technical area — sorry, we do have them: it is \$1 billion in education services since 2000.

The CHAIR — Thank you. In your presentation, Minister, you referred to changes in trade and investment flows. I want to take you to Australia's free trade agreement with the USA. It has now been in operation for over a year. Could you outline for us how that agreement has worked? Has it been successful in opening any US markets to Victorian businesses, and are you able to quantify in financial terms what those benefits have been, if there have been benefits?

Mr HAERMEYER — Yes, I do not have the exact figure here, but the analysis that was done on that FTA over the first year actually showed that in its first year it was marginally beneficial to the United States at Australia's expense. But I will get those figures for you.

I actually believe that the US free trade agreement can be hugely beneficial to Australian businesses. I think there are a number of things that I have written to Minister Vaile about that need to be addressed in terms of the review that has taken place one year on from the signing of the Australian-US FTA. Particularly there are some issues in the United States about 'buy America' regulations, which basically exist within often state jurisdictions, particularly in some of the big areas of acquisition like buses and rolling stock infrastructure and stuff like that for transport services. They seem to be, whilst not particularly covered within the FTA, certainly outside of the spirit of the FTA. That is something that we are hoping the federal government will take up.

The other area is the automotive industry, where it seems to be that some of the automotive manufacturers over there seem to have, with the United Auto Workers, a de facto quota in place in relation to imports. This is something we also would like to have addressed, because if our unions try to impose some sort of import quota by virtue of an industrial agreement, I think we would never hear the end of it.

These are two particular issues. But that said, also there are just enormous opportunities. Last year I met with one of the senior heads of the US goods and services administration, together with one of our representatives from our San Francisco office in terms of how we can really access government purchasing in the United States. Just through the goods and services administration alone there are over \$10 billion worth of contracts that we can access each year.

Our officers in the United States are now taking that advice and helping Australian businesses to identify opportunities in the American market. But also I think a lot of Australian businesses, and that is a role that we aim to take up here, are perhaps not aware of the opportunities that are available to them in the American marketplace as well, because it is still the world's largest economy by a country mile and the opportunity to get into government purchasing — it is a matter of knowing how to get into that marketplace. It is a very difficult, very competitive marketplace, but the expertise that we have in our Victorian government business offices over there I think can tremendously assist our businesses in establishing a footprint in that market.

The CHAIR — By way of follow up, you thought that in the first year the US had marginally benefited. Do you have those figures here with you?

Mr HAERMEYER — No, I will provide those to the committee.

The CHAIR — And you keep mentioning the Victorian government business offices and the potential with them.

Mr HAERMEYER — Yes.

The CHAIR — Has anyone looked in key performance indicators with them that would clearly indicate to them that there is an expectation that they facilitate whatever it is that the Victorian government required? And would that be your responsibility, or somebody else's?

Ms THORN — If I can take that one: the Victorian government business offices are part of our department and, yes, we have a set of performance indicators with each; primarily they have in the past focused on investment attraction, but they are also turning their attention to exports as well. I do not have the precise performance indicators with me at the moment, but I cannot see any reason why they would not be available. And we do set targets for them, a set of indicators, on a wide range of services they provide because they also provide support to businesspeople who are visiting the country. They are less easy to measure, other than in numbers of supports. A number of the VGBOs run what we call access desks, which are around providing export services to people who are visiting those countries. We have an access desk in the US, do we not, Meg?

Dr WILLIAMS — We do, in New York.

Mr HAERMEYER — And San Francisco.

Ms THORN — And in China.

Dr WILLIAMS — In Shanghai and Hong Kong.

Ms THORN — And I think in Dubai.

Dr WILLIAMS — And we are about to make that appointment in India, in Bangalore.

The CHAIR — Thank you. Mr Rich-Phillips?

Mr RICH-PHILLIPS — Minister, I would like to take you to your two output groups, export promotion and advanced manufacturing. On a question of the funding of those two output groups, there does not appear to be — —

Mr HAERMEYER — Which page are we looking at?

Mr RICH-PHILLIPS — Pages 148 and 151. There do not appear to be any significant, in terms of dollars, initiatives in the budget. I wonder if you could explain the difference between last year's budget and this year's budget for export promotion, having gone from \$7.6 million up to \$11 million — an increase of \$3.4 million or 50 per cent — and for manufacturing, again from \$6 million to \$11.5 million — an increase of \$5.5 million or roughly 100 per cent. Could you reconcile those figures, please?

Mr HAERMEYER — Export promotion has an output cost increase by \$2.1 million from the \$8.9 million in the 2005-06 estimated outcome to \$11 million in 2006-07. The increase in that output cost from the 2005-06 estimated outcome to the 2006-07 target is basically related to carryover of initiatives from 2005-06 into 2006-07. In terms of advanced manufacturing, the increase in the output costs from the 2005-06 estimated outcome to the 2006-07 target relates, firstly, to new initiatives — the design sector strategy, \$3.5 million; and careers in manufacturing campaign, which is \$1 million — and also that is offset by a reduction in the corporate allocation.

Mr RICH-PHILLIPS — Just a follow-up on the export one. The explanation given in the departmental response for the change from the 7.6 target up to the 8.9 expected outcome was carryovers, and now you are saying for the 8.9 up to the 11 is also carryovers. Why have those funds been carried over effectively for two years? What was the nature of the carryover from 2004-05 to 2005-06, and then from 2005-06 to this year's budget?

Mr HAERMEYER — If I could invite Dr Williams to answer that issue?

Dr WILLIAMS — The major carry forward from the 2005-06 target to the 2005-06 expected outcome, that carry forward was primarily for expenditure on the government's efforts in the Aichi World Expo. That was, as you will recall, \$5 million given in one year when it was known the expenditure would be over two years. So that carry forward just for that year alone was \$2.1 million, and then of course you lost that amount going forward to 2006-07. That was an automatic reduction in the budget between the 2005-06 expected outcome and the 2006-07 target.

The difference between 7.6 and 8.9, which is 1.3 million, is explained by a carry forward of 2.1 million for Aichi, and then we lost half a million, or 0.5, on trade fairs and missions, because we just did not spend that amount, which then got carried forward into 2006–07. There was a minor underspend on some of the other export programs.

If you look at the difference between 8.9 million and 11 million, which is a difference of 2.1 million, there you have your carry forward under the agenda for new manufacturing programs, the carry forward that I spoke before about trade fairs and missions, but then you lost the 2.1 million from Aichi. We also took some money out of all of our outputs for a business confidence campaign — so there is a little bit of loose change in there — which together explains the 1.1 increase between 2005–06 expected outcome and the 2006–07 target.

Mr RICH-PHILLIPS — Of 2.1?

Dr WILLIAMS — Yes, of 1.1.

Mr RICH-PHILLIPS — Of 2.1?

Dr WILLIAMS — I beg your pardon; 2.1, yes.

Mr RICH-PHILLIPS — Would you be able to provide the tabulation of that to the committee?

Dr WILLIAMS — Yes, we can certainly do that.

Mr RICH-PHILLIPS — There was also a carry forward in manufacturing of \$1.3 million.

Dr WILLIAMS — I will have to get back to you on that one.

Mr MERLINO — You referred earlier to the establishment of the Future Fund. Could you please advise the committee what were the factors that led to Melbourne being chosen as the location for the Future Fund and how the establishment of this fund in Melbourne will impact on Victoria's strengths in the funds management industry?

Mr HAERMEYER — I think the latter part of your question is probably the answer to the first. Our strengths in funds management, the skills we have available here, the presence of the industry funds and the sheer momentum of the growth in those industry funds was a large determining factor in terms of the Future Fund being located here.

As I have indicated, Australia is now the fourth-largest managed funds market in the world. We have something like US\$670 billion under management. Over the next 10 years we expect that to balloon out to about US\$1.6 trillion under management. The vast majority of that growth is coming out of our industry funds. We are becoming a bit of a honey pot for people who want to be involved in that industry. Simply, the skills we have here, the momentum we have around that sector within the managed funds industry, I think, was a major player in determining that — and also the very supportive business environment that exists here in Victoria.

Mr CLARK — Could I raise again the subject of education, this time from the point of view of skills shortages in trades and other occupations relevant to manufacturing? Does the government have a view about the appropriateness on a short-term basis in particular of facilitating skilled migration to Australia and facilitating the training of foreign apprentices in Australia in order to address the skills shortages that are affecting various areas of the manufacturing sector?

Mr HAERMEYER — I think our preference is to deal with skills shortages internally. As you are probably aware, a couple of months ago the education minister and I released a skills package worth \$240 million. That is intended to address a lot of those skills issues not only in terms of the way we deliver vocational education and training and the way we deal with apprenticeships but also in dealing with the stigmatisation of manufacturing and skilled trades.

That said, all of that takes a bit of time. The skills shortage is not unique to Victoria, it is not unique to Australia — it is pretty much all over the world. I think those economies which deal with skills shortages best are the ones which are going to flourish in this new environment. However, in terms of the short-term addressing of them, we would firstly prefer to attract those skills from interstate. If we have to, as a short-term solution and where it can be

proven that those skills are not available locally, to prevent an industry being hamstrung by the shortage of skills, then I certainly would not have an issue with the importation of those skills in the short term.

However, I think we need to be making a very serious effort to address those issues internally. We still have significant areas of unemployment in this country. It is sectoral, and we have to try to enable those people to develop the skills to move into those areas where there is demand. That is really our priority. However, I think as a short-term initiative where there is no other alternative, then that has to be done. I think even the union movement would acknowledge that.

Mr CLARK — Do you have any proactive policies to encourage skilled overseas workers to come to Australia or students to train in those sectors where there is the sort of pressing need you are talking about?

Mr HAERMEYER — I think that sort of initiative largely comes out of the federal government. Industries themselves will go out and identify those needs but what you are dealing with there is predominantly immigration policy, and that is outside of our purview.

Ms ROMANES — On page 4 of your presentation on your manufacturing and export portfolio you mentioned the national manufacturing summit which was hosted by the Victorian government at the end of last year. Can you advise the committee about any actions and outcomes that have arisen from the summit and how this process will benefit Victorian manufacturers?

Mr HAERMEYER — As I indicated, we took the initiative last year as a result of a meeting of state and territory industry ministers to organise a national manufacturing summit. We got very a good response from industry, from industry organisations, from unions. The federal government had representation from a senior public servant. The whole idea behind that was to try to get a team Australia approach to these industry issues. It was quite remarkable to listen to Heather Ridout representing the AI Group and Greg Combet from the ACTU.

Listening to their contributions, there was a 95 per cent overlap in terms of what they were saying. That says to me that industrial relations is an issue that is part of our competitiveness but it is not the full picture. They were saying there are things we need to do in terms of repositioning the manufacturing sector to enable it to appeal, to identify niches, to make structural adjustment into the areas where it needs to be working and to encourage that sort of product differentiation, whether it be in innovation, research and development, design, quality or service.

As a result of that a broadly representative working group was set up, representing the governments, industry groups and unions. Bob Herbert is chairing that forum. We hope it will be reporting back to us by September this year with a package of measures to show the way forward, which no doubt will require action from state government, federal government, industry and unions. As I say, while states will have differences with each other and with the federal government, while unions will have differences with employers, I think there is a bigger agenda at play and we need to start playing a team game on this one. Some of the economies I mentioned before are not playing these internal, knock-each-other-off games, they are coming out to eat our lunch if we do not do what we have to do and do it as a team.

Mr RICH-PHILLIPS — I would like to ask you about your target of \$689 million for exports facilitated and imports replaced on page 148 of budget paper 3. Can you tell the committee what methodology you use to determine what is an 'export facilitated' and what is an 'import replaced'? Is it a case of a company which has used Opening Doors to Exports programs and then goes on to export and you count that as an export facilitated or is it an exporter which has been through one of the Victorian government business offices or used one of your envoys? How exactly do you measure what is an 'export facilitated', by what criteria? And likewise for 'imports replaced', what criteria?

Mr HAERMEYER — Dr Williams will correct me if I am wrong but I believe it is pretty much any company that has been assisted by the Victorian government in its exports, whether it is participation in a trade mission, whether it is benefiting from an inbound trade mission, whether it is business-to-business contacts that have been set up by any of our offices. I think all of those would come under that heading. Is that correct?

Dr WILLIAMS — You are right in the broad. You can divide the \$689 million into three discrete components. We look to facilitate \$100 million through trade fairs and missions each year. We look to import replace to the tune of about \$89 million, and we work very closely with the industry capability network — that is one of its main KPIs, and to date it has met that KPI. There is \$500 million that is associated with investments that

we facilitate. They are companies that we help through a variety of opening doors programs but also through new investments that we facilitate back into Australia that have an export component.

Mr RICH-PHILLIPS — As far as the import replacement, how is that actually measured? Is it a case of the ICN specifically saying, 'We help this company to replace this particular import and therefore we can log it as X dollars.'? Is it as detailed as that, or is it some sort of assessment or estimation process?

Dr WILLIAMS — No, it is as detailed as that. They have to provide specific details of the companies and the imports that have been replaced.

Mr RICH-PHILLIPS — So you would be able to identify \$180 — —

Dr WILLIAMS — Just \$89 million for the import replacement target.

Mr RICH-PHILLIPS — So you would be able to identify that company X replaced import Y to the tune of X dollars?

Dr WILLIAMS — Yes, we would be. I am just not sure of the confidentiality of the individual companies in that instance. We would have to take that one on notice.

The CHAIR — It was not asked.

Mr RICH-PHILLIPS — It was not asked — until you volunteered it; if you are happy to take that on notice.

The CHAIR — We are trying very hard to understand; we were not asking for the details.

Ms THORN — I was just going to add that we would probably treat the exporters in the same way as we do the investors, which is that it is confidential arrangement, unless they say otherwise.

The CHAIR — You have explained that very clearly to us.

Ms GREEN — In your presentation you talked about the Melbourne Centre for Financial Studies. Could you outline the progress that has been made in establishing that centre, what its work to date has involved and how industry has received its establishment?

Mr HAERMEYER — Certainly. We launched the Melbourne Centre for Financial Studies in August last year. As I indicated earlier, it was a centrepiece of our financial industry action plan that was released in 2004. The main activity of that centre is to conduct academic and industry research. It is designed to build on those recognised strengths in financial services research as well as enhance our reputation for leading edge research. It will help to bridge the gap between universities and academic research and industry. That is one of the needs that was identified by the industry people on the Financial Industry Consultative Committee. They said we really have this sort of gap between the suits and academia, so to speak. This is about bringing the two together, so academia will actually be able to provide research that is useful to industry itself to enable us to identify areas where we can improve our performance and do it better.

The centre is a joint venture between the University of Melbourne, Monash University, RMIT University and the Financial Services Institute of Australasia, or FINCIA, which is a major industry organisation. They are founding members of the centre. They are providing some major financial and in-kind support, as well as AAMI, which will also be a member of the centre by providing significant sponsorship support over two years. The Commonwealth Bank has been supportive as well. The centre has developed a number of research projects, which it is now starting work on. As I said, it will certainly enable us to improve our understanding of the industry and improve the quality of the services that are able to be delivered by the industry.

Mr CLARK — Minister, I have just been looking at the AXISS web site, which, as you would know, is Invest Australia's arm for the financial services industry. It published a listing based on the Mercer Human Resources Consulting worldwide quality of living survey 2006. It did it, quite justifiably, to promote Australian cities as good places for expatriates to base themselves. It concerns me that Melbourne is listed as 17th in the world but Sydney is listed as no. 9. Have you looked at that survey, and is there anything within the scope of your

portfolio that you believe can be done to improve Melbourne's standing, firstly, in the worldwide listing, and secondly, vis-a-vis Sydney.

Mr HAERMEYER — No, I have not looked at that survey, but I can tell you that Melbourne has on three separate occasions been voted the world's most livable city by the *Economist* magazine. I can also tell you that we have had some comparative work done by, I think it was, IBM Consulting, which has compared Melbourne to its competitors in the region — namely, Sydney, Hong Kong and Singapore. Melbourne came up, certainly on a cost basis as very superior to Sydney and also in terms of our ability to provide services and skills. Sydney obviously has its strengths in areas such as investment banking, and certainly the majority of stock exchange activity moved up there throughout the 1970s, 1980s and 1990s, but where the real momentum seems to be in financial services is basically in managed funds. We are the centre of gravity for that — that is, most of the momentum is here in Victoria.

We do not see ourselves necessarily as being in direct competition with Sydney in some of those areas; it is more like, I suppose, a Boston-New York relationship in the sense that we have identified our area of specialisation, and when you have a look at that you see we are far superior to Sydney as a destination in terms of cost, in terms of livability and in terms of availability of skills. That said, Sydney will in some sections of the financial services sector continue to have an advantage simply because of the gravitas that it already has there. Our aim is to play to our strengths. Given the figures I indicated before, in terms of the employment growth in the industry and the investment in the industry that has taken place over the last six years, we are certainly delivering the goods.

Mr CLARK — You mentioned the IBM research; is that publicly available? If not, would you be able to provide the committee with a copy?

Mr HAERMEYER — We can give you the details on that. I have got them here.

Ms THORN — We have had it done for a number of sectors. I am pretty sure it is on our web site, but if it is not, we can make it available because we give it to other people.

Mr HAERMEYER — It has certainly been distributed widely around New York, I can tell you.

Witnesses withdrew.