

PROOF VERSION ONLY

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2008–09

Melbourne — 30 May 2008

Members

Mr G. Barber	Mr G. Rich-Phillips
Mr R. Dalla-Riva	Mr R. Scott
Ms J. Munt	Mr B. Stensholt
Mr W. Noonan	Dr W. Sykes
Mr M. Pakula	Mr K. Wells

Chair: Mr B. Stensholt
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Executive Officer: Ms V. Cheong

Witnesses

Mr T. Theophanous, Minister for Industry and Trade,
Mr H. Ronaldson, Secretary, and
Mr B. Foskett, Deputy Secretary, Department of Innovation, Industry and Regional Development.

**Necessary corrections to be notified to
executive officer of committee**

The CHAIR — I welcome to the committee Ben Foskett, deputy secretary of the Department of Innovation, Industry and Regional Development. Minister, I understand you are going to give us a presentation, which I hope is acceptable to the committee, on both industry and trade, which will be a brief one, and on information and communication technology. Then we will have 40 minutes of questions for industry and trade, and then we will have half an hour on ICT.

Overheads shown.

Mr THEOPHANOUS — Thank you, once again. Let us move to the first slide. I think the first thing that would be of interest to the committee chair is the integration of new responsibilities for DIIRD. DIIRD has become a much bigger department than it ever was in the past. It has increased its budget from \$276.9 million in 2006–07 to \$2.1651 billion in 2008–09. It is a very significant increase and it is because there has been an integration of some new responsibilities into the department. There are new responsibilities for skills, ICT, film and TV that have been added to workforce participation, major events and, most recently, major projects has also been drawn into the department.

DIIRD now supports six ministers across nine portfolios and I am the coordinating minister. As the committee can see from the list there are a number of other ministers as well — tourism and major events, regional and rural development, skills and workforce participation, industrial relations, small business and innovation. Obviously that means DIIRD is a much bigger department than it ever has been before. I might say it is part of a deliberative strategy by the government in order to try and have in one department the responsibility for what is essentially delivering on the economy, delivering on jobs and delivering on our economic future, as well as building infrastructure that supports that economic future. This is an important development that is a major change over the last year or so.

I now turn to the priorities of my portfolio area. Investment attraction and facilitation remain of critical importance as a driver of economic growth, job creation, innovation, skills technology, transfer and so on. Export development is also a high priority as the global economy becomes increasingly integrated with some significant challenges in the export area, including the rising dollar and so forth. A key focus in the context of creating a competitive business environment is the development and management of strategic projects and major economic assets of the state, such as the new convention centre that I have mentioned before. Reflecting Victoria's rich diverse industrial base we are also developing a specific sectoral focus addressing these particular challenges and unique opportunities that each individual industry that I am responsible for faces. We have a whole-of-economy approach which is mirrored in our international activities, including initiatives such as the establishment of an international coordination office, reform and expansion of the Victorian Government Business Office network and other initiatives that will strengthen our international engagement, avoid duplication of effort and promote the state brand overseas.

I want to just show a couple of slides in relation to how this is going. This is the investment attraction and facilitation. We have a strong record in investment attraction, and it is demonstrated, as you can see, in the chart where in 2006–07 we had a significant increase on previous years. The 2007–08 figure will, of course, once again achieve the annual target of 1.6 billion and we think it will actually surpass that target significantly.

I will move on to the next one. This is the investment attraction and facilitation in terms of total exports and exports of services. As you can see, there has been a modest increase in the export of goods, and goods and services together. We are coming back again to the 2001 total and starting to get past that total. We have gone through a bit of a dip in 2003, but we are coming back again strongly. A lot of this is driven by export services where, as you can see in the second graph, service exports have grown by close to 60 per cent since 2000, including in the areas of education and tourism. In fact there was a 12 per cent rise in 2007 alone, and education services increased by 25 per cent to 3.9 billion. They have more than trebled since 2000, so you can see that education is a big part of our exports going forward.

I am turning to ICT achievements. I have only one slide on ICT. This is an important sector for us. It employs almost 85 000 Victorians — sorry, it employs almost 24 000 Victorians.

The CHAIR — Third time: 84 600.

Mr THEOPHANOUS — It employs 84 600 Victorians, an increase of 24 000 over the last four years. The annual revenue is now \$24.4 billion; it has grown by \$4.2 billion over the last four years as well. And there are

\$1.8 billion per annum exports and revenue gained from overseas operations. To put this in perspective, that level of exports in the ICT space means that it is bigger than our wine industry in terms of exports and many other industries as well. It is an up-and-coming industry, but it is also an enabling industry, and I will be happy to answer questions on it. It is not only an industry in its own right but it employs a lot of Victorians, and it is an industry which enables other industries to perform better than they otherwise would. In fact some figures suggest that more than a third of productivity improvements over the last 20 years have been as a result of ICT improvements. This is a space that is very important to us.

I want to mention some key investment wins we have had, and I want to thank the department for its work in it as well. They include Satyam. Satyam will result ultimately in a 2000-job facility at Geelong. It is a phenomenal achievement to get Satyam to make this investment, because it reverses the traditional notion that Indian ICT companies are places which are taking ICT jobs away from Australia. In fact this is an example of an Indian company bringing 2000 jobs into Victoria and trying to gear itself up into the more value-adding high-quality jobs in this space.

There are a number of others listed there. I will not go through each of them, but I am happy to answer questions. We have been very proud of the way we have been able to help increase the size of this sector. It is a very important sector for our economy.

Ms MUNT — In the Treasurer's speech he noted that we have to rely on our people to build the Victorian economy. Can I refer you to budget paper 2, page 79, the second paragraph, that actually refers to the Victorian schools plan to rebuild government schools. Education, of course, is an important part of the capital of our people. Could you please outline how Victoria's human capital — of course that is not just our men but our women who are an important part of our manufacturing sector in our competitive local environment — is all coming together?

Mr THEOPHANOUS — Thank you for the question. Some years ago many people had given up on manufacturing. It was described as a sunset industry, and described as an industry without a future. I am pleased to be able to be a part of a government that has taken up the challenge in relation to manufacturing to build capacity. We did not give up when we could have given up. What we did was we recognised that we had to do things smarter if we were going to survive. Even in the export area where you saw the graph coming down in goods exports, they are coming back up again as we build our capability. If you think about this, manufacturing now contributes almost \$30 billion to Victoria's economy and employs 330 000 Victorians. This is a huge industry and it accounts for 50 per cent of all expenditure that takes place on research and development. This is what has allowed us partly to grow our GSP by an average annual rate of 2.9 per cent, which is the highest of the non-resource states, and achieve all those other things that I mentioned earlier.

How have we done this? We have done this with innovation. We have done it, and you are aware that the Premier has put great stock in our capacity to innovate. That is how we have been able to do this achievements: innovation to deal with the challenges of climate change, for example, which we are currently seeking to do; innovation through research and development; innovation to be globally competitive; and alongside of innovation, developing skills in education and our capacity. We have had to learn to do things in a lean, clean and green way if we are going to stay ahead of the game in manufacturing.

I am happy to talk about individual parts of manufacturing, but I do make the point that two of the traditional areas of manufacturing — the TCF industry and the automotive industry — I am pleased to say still provide a significant amount of employment in this state. They are very important industries for us going forward and we look forward to being able to build our manufacturing sector even further in the future.

Mr PAKULA — Minister, I refer you to page 146 of the *Service Delivery* budget paper 3, and the section headed 'Sector development'. There is a line item there 'New investments facilitated in financial/shared services'. I want to know what has been the performance of Victoria's financial services industries since 1999, and what policies do you have in place to further develop that sector?

Mr THEOPHANOUS — Mr Pakula, it is an infamous statement made by the previous Premier at one point when he said that we had some strengths in Victoria and the financial services sector was not one of them. It was one that ought to be given over to Sydney and that we should concentrate on some other areas instead.

One of the things that I think the Bracks and Brumby governments can be proud of is the way in which we have developed this sector, the financial services sector. It now is the third largest economic sector of Victoria. It

contributes nearly \$18 billion to our GSP and it employs over 106 000 people, so by any standards this is a huge sector. And how it has been developed? If you think about it, it has happened through new infrastructure. Infrastructure, you know, is not just something which government's build. The private sector builds them as well. We see a brand new National Australia Bank building down at Docklands, and the commencement of construction of a new 6-star ANZ building down at the Docklands as well, so that we have two of the four biggest banks now centring themselves squarely in Melbourne in the Docklands area. We see the Future Fund being put into Melbourne as a major financial institution, and we have our own Victorian Funds Management Corporation which itself has about \$40 billion that it manages. To look at all these things developing and to see this industry go from strength to strength with an annual growth rate of 9.2 per cent since 2000, you can see how that has built an industry. We now have 7 of the top 10 funds management players in Victoria.

I think this is the untold story of how Australia has been built. You might remember, and I am sure you do, Mr Pakula, because you would have been one of the big supporters of this when the Keating Labor government decided that superannuation was going to be compulsory, which was a very brave decision back then. But let me tell you what it has resulted in. It has resulted in Australia now having more than one trillion — some estimates put it as high as \$1.2 trillion — of funds under management, and those funds are building Australia. They are building new infrastructure. It is the fourth largest amount of money as funds under management in the world, and this is in a country of 20 million people. This was, by any stretch of the imagination, a forward looking decision by the then Keating government that has had long-term ramifications.

What it means for Victoria is that we are now in the space of trying to position ourselves as having the expertise to do funds management in a comprehensive way. We are doing this not only now in Victoria but also we are trying to export our expertise into Asia and into other parts of the world as well, and we do it through a range of activities. Recently I launched the Melbourne APEC Finance Centre and we gave them \$1.4 million, again to help position us as an international financial services centre.

Our vision is to make Melbourne the premier place for funds management and a finance centre of the Asia-Pacific region. We want to be the Boston of the Asia-Pacific region, if you like, and I think we can do it. We are well on our way to doing it, and it has been partly because of decisions that have been made both at a federal level by a federal Labor government and the fantastic commitment that has taken place under the Brumby government and the Bracks government.

Mr RICH-PHILLIPS — Minister, I would like to ask you about investment facilitation incentives. The budget bill notes that your department obtained \$500 000 from Treasurer's advance for Jetstar International. Can you tell the committee please what requirements were imposed upon Jetstar to obtain that grant and, in a similar vein, what incentives were offered to Tiger Airways?

Mr THEOPHANOUS — Thank you for your question, Mr Rich-Phillips, and I guess the answer to your question is that yes, the government does provide a range of facilitation to companies to bring them into Victoria. We make no apology for that. That facilitation takes a number of forms, in fact. It can be facilitation in joint marketing programs, it can be facilitation in developing R and D, it can be facilitation in skills development or in a range of other ways that we may assist companies in establishing themselves in Victoria.

It is a highly competitive space, however. You mentioned Tiger Airways, which I was directly involved in getting into Melbourne; Jetstar occurred before I became minister so this is just part of an existing arrangement in relation to Jetstar. But Tiger Airways was one that I got into Victoria with the help of a terrific department that works in partnership with the minister. The way this works is that if you want to get the business you have got to go and develop a personal relationship with the CEO. That is the first thing. And you need other people in the department to do the same thing with other members of the same company. So getting to know Tony Davis was absolutely critical to getting Tiger Airways to come into Melbourne. It was not only me that did that, but people within the department and at lower levels within it. Let me tell you, there were facilitation packages which they had access to from South Australia, from Queensland and from New South Wales. Now you are either in the space and you find ways to get the business or you do not. Around the corner from Tiger might be another airline that might want to come in. It might be an Etihad, it might be a Korean Air, it might be some other airline that wants to come into Australia, and is trying to make a decision about whether it sets itself up in Melbourne or somewhere else.

The last thing you want Queensland to know, South Australia to know, New South Wales to know or Western Australia to know is what kind of package we put together for Tiger Airways. Whilst I am happy to talk about the

fact that we do put such packages together and we provide an overall figure of investment assistance to companies, our policy is not to provide individual figures in relation to specific companies and the break-up of the type of assistance that we provide to those companies.

Mr RICH-PHILLIPS — How is that different from the figures provided for Jetstar international then for \$500 000 listed as Treasurer's advance?

Mr THEOPHANOUS — This is a special case because in this instance it came out of a different package of funds; the Treasurer's advance is different. There is a different fund which is available for investment attraction. I think there is another number in the budget for that this year. I cannot remember what it is; it is some millions of dollars.

Mr RICH-PHILLIPS — But the point being whether it came from TA or whether it came from appropriation, the Jetstar figure was publicly disclosed. You are saying that the Tiger figure cannot be publicly disclosed. What I am asking you about is the difference.

Mr THEOPHANOUS — I do not think the 500 000 you were referring to is the entirety of the Jetstar package. I think this was disclosed because it was required as a Treasurer's advance and therefore it was put into the budget. But it is an unusual circumstance in that sense. It certainly does not reflect the entirety of the arrangement with Jetstar international. I think that was simply from the point of view of accountability the Treasurer had to put it in because it was a special Treasurer's advance. But in the normal course of events, we would not disclose and have not disclosed. I would give you exactly the same answer if you asked me about Satyam or if you asked about a range of other ones, like Pilkington or Ford, or other companies we have managed to provide this kind of assistance to. I could not give you the numbers for the reasons I have outlined.

Mr SCOTT — I refer you, Minister, to budget paper 3 on page 10 where it refers to the Victorian industry and manufacturing strategy which will aim to be:

preparing Victorian industry for the global challenges ahead.

I note Ms Munt's earlier question when she reflected on the fact that employment in this area is not just for men but for women as well. I also note your response that while some see a darker future in this area, the Victorian government is much more proactive in this area in its view. Minister, could you please explain to the committee further how Victoria industry is dealing with these challenges?

Mr THEOPHANOUS — I have to say to you that the Victorian industry and manufacturing statement has probably been a bit later in coming than what we would have liked. We would have liked to have done this statement a bit earlier. In fact we had some concerns from the Australian Industry Group about the timing of this statement. But a couple of things happened which meant that we needed to consider the timing of this particular statement.

One of the things that happened was that the federal government decided to do a number of reviews, including a review of export policies and programs, a review of the automotive sector and a review of the textile, clothing and footwear industries. Those three reviews are due to report on 30 July. We took the view that rather than put out a statement before those reviews were made, which would not encapsulate the findings of those reviews, we would look to put out a significant and substantial statement in August of this year or at least following these reviews. That is the trajectory we are on for what will be a very significant statement. It will have funds attached to. It will set out the future and how we are going to meet the challenges in manufacturing and maintain and improve our productivity and performance while dealing with multiple pressures.

Those pressures include environmental issues. Environmental issues are both a cost and an opportunity, and we have to work out how we are going to take up the opportunities and how we are going to minimise the costs; how we are going to work in the face of an increasingly strengthening Australian dollar; and how we are going to deal with skills shortages going forward, because what is happening in manufacturing, of course, is that increasingly it is based on highly skilled people. To cite one example for you, the automotive industry employs in the order of 30 000 people; 4000 people out of the employment in the automotive sector are designers and engineers — 4000 people.

I was amazed when I went up to the Ford factory a while ago. If you go across the road from the Ford factory where it has its design and engineering facility you will find 4000 people working on all sorts of designs for motor vehicles and engineering on motor vehicles some of which in fact are never going to be built in Australia. Ford designed its four-cylinder Indian vehicle and its four-cylinder South African vehicle out of Ford Broadmeadows. The space we are occupying is increasingly in manufacturing reliant on highly-skilled people doing things.

Ms MUNT — I think George Polites was a major part of that turnaround out at Ford Broadmeadows too. He has recently passed away.

Mr THEOPHANOUS — That is true, and it was a sad occasion.

We have to work out how to maintain and get the right skills into the right places to keep manufacturing running. We have to work out how to minimise the rising input costs, and those input costs are significant. The Victorian government has done a lot to reduce input costs. The WorkCover reductions that have taken place, which are now very significant, are increasing the competitiveness of this sector. The reductions in payroll tax are also increasing the competitiveness of this sector. But it is always a balance. For everything we do to try to reduce input costs, something else comes up. Petrol is a major cost factor at the moment for these industries, and so we need to work out a way overall to remain globally competitive and to have a plan for the future of our manufacturing industry, and we will be doing that through the VIPP statement later in the year.

The CHAIR — Thank you, Minister. You were practically waxing lyrical on that. You will be becoming poetic and using iambic pentameters or quoting from *Ode on a Grecian Urn* or something.

Mr NOONAN — Minister, I wonder if I could stay with the automotive review, and it is the Bracks automotive review that I am referring to. I wonder whether you can outline how the Victorian government stands up for the local industry, given it has been a significant contributor to the Victorian economy and employed, as you say, tens of thousands of people for quite a considerable period of time. I am interested in the submission to that review, and also whether you will be appearing before that review to present the government's case?

Mr THEOPHANOUS — Thank you, Mr Noonan. I know you have a big interest in this area as well. The automotive industry has gone through a significant set of changes over the years. Over the last few years it has gone from an industry which produced cars for the Australian market to one now which produces half of the cars for export. It is a huge export earner for Victoria; in fact it is in our top three export earners. This is an important industry for us. That means it has got to remain internationally competitive. If you want to produce a Pontiac and send it to America you have got to be able to produce that Pontiac and get it over there at a lower price than they can do it over there, and that is what we are doing at the moment.

But there are cost pressures, and one of them is the question of tariffs. The current tariff level is 10 per cent. Bear in mind that years ago it used to be 70 per cent, so there has been an enormous reduction in tariffs. That has forced the industry to become internationally competitive. The question now is: do we drop those tariffs from 10 per cent to 5 per cent in 2010? We do not just think it because we think it is a good idea; we actually went out and did some economic modelling. Lateral Economics and Monash University did some economic modelling for us, which showed that the economic benefit of going from 10 per cent to 5 per cent is absolutely minimal and that the optimum level is something different to that. It has come back to me, as a matter of fact, with a final number. This is a preliminary economic estimate. But based on their preliminary advice we decided that we would support a position of holding at 10 per cent, not only because of that economic factor but also because our other competitor nations were not dropping their tariffs below the 10 per cent level. So we decided that we would support the retention of 10 per cent through to 2015.

I must say that I was very surprised to hear the opposition manufacturing spokesman, Peter Ryan, say on radio, or reported on radio as saying that he thought Australia's economy was strong enough to absorb any job losses caused by further tariff reductions, which is a pretty incredible statement to make. You might expect this from a right-wing, rabid sort of economist working for the Institute of Public Affairs, but you would not normally expect it from the National Party, which has had a tradition of wanting to protect Victorian industry. They have come out with a statement like that and gone on to criticise the government because we wanted to have it both ways. They cannot call us on the one hand globally competitive, and yet on the other to be wanting to change the structure in relation to this tariff, which was put in place after a number of reviews. I do not know whether this is the official

policy of the opposition, but if they are saying that they will drop the tariffs or advocate the dropping of tariffs, then they should turn up to the Bracks review.

The CHAIR — Minister, on the question please.

Mr THEOPHANOUS — I am intending to turn up to the Bracks review and give a point of view on behalf of the government, which is the one I have outlined. But if their view is that tariffs should drop, they should have the courage to go to the Bracks review themselves and put their view that they should drop from 10 per cent to 5 per cent.

Mr DALLA-RIVA — Minister, I refer you to your second overhead about the total budget for DIIRD, which has increased from 276 to 2.1 billion. Just looking at the investment support program, the ISP, and the TA for 06–07 was 26.9 million. Will the ISP now, given that there has been a substantial increase, be of the same sort of figure into the forward estimates, or are you anticipating that the call on the TA will not be as high for these types of programs under DIIRD? Where do you see it falling, given the growth?

Mr THEOPHANOUS — Again, one of the reasons you have a TA as part of a budget structure is to do what might be the unexpected, Mr Dalla-Riva. I cannot tell in advance, 12 months in advance, who is going to come to the Victorian government and put up a proposal to do something in Victoria. But if a big company was to come along and say it wanted to do something in regional Victoria which was going to create 5000 jobs down in the Latrobe Valley and it was going to be billions of dollars of investment and so forth, and it wanted some Victorian government support in the form of infrastructure, or something else that we might need to do in order to help it make that decision, I would be in there fighting for it. It might mean that the TA might have to increase as a result of that. So this is one of those issues with investment attraction where you can put up a figure as being the approximate figure that you think you might need for the coming year, but ultimately it will depend on how good we are at attracting big investments. In a funny sort of way, the more successful we are — the better we are at it, and the more large investments we get into the state — the more draw there is probably going to be on this particular line item.

Ms MUNT — Minister, you briefly mentioned that you were involved in bringing Tiger Airways to Victoria. I was wondering if you could just outline if there are any other opportunities to develop aviation in Victoria. It is very important for our tourist industry. It is important for the economics of the state, and I was just wondering if you could let us know if there was anything else on the horizon?

Mr THEOPHANOUS — Thank you, Ms Munt. Aviation services is a huge industry, and it is an important industry for us. It is another one of those big policy questions, just like the automotive industry where policy decisions are going to be made at a federal level. This is another one that falls into that category. The history up until now has been that there has been a policy of protection of major airlines, and that policy of protection has resulted in a less than optimal situation for Victoria. It can be seen by the figures that we have collated, where at the present moment 15 per cent of Victorians who travel overseas are forced to fly through Sydney. We think that is an unacceptable situation. If you just look at one of those routes, the Pacific route, it is even worse. On the Pacific route through to America it comes in at about 38 per cent of passengers forced to go through Sydney. This is an unacceptable position from the point of view of the Victorian government.

We would like to see an opening up of the skies. We cannot see how increased competition can do anything but good. It does good not only in terms of the fact that people do not have to fly through Sydney, I have to tell you; it does one other very important thing: it reduces prices.

We have an extraordinary situation at the moment where the overseas flights are just totally packed out. It is very difficult to get seats. One way of increasing capacity is to open the skies up. Just let airlines, if they want to fly into Melbourne — so long as they meet the regulatory requirements — do so. We have been a supporter of an open skies approach, alongside of trying to attract these airlines in. We have been fairly successful. Tiger is only one of the ones we have managed to get to come to Victoria. Korean is another one from an international perspective that is coming. I went on the inaugural flight, as a matter of fact; it is good. Even Qantas, through this kind of pressure, has increased some of its flights. Cathay Pacific has increased its Melbourne to Hong Kong services from double daily to triple daily. Emirates has increased its services from double daily to triple daily through to Dubai. We are getting incrementally more direct flights into Melbourne, but we think a lot more can be done — particularly if there was a change of policy, which resulted in an open skies to approach.

Ms MUNT — I cannot understand why airlines go through Sydney anyway. Is there some particular reason why they come through Sydney?

The CHAIR — Particularly with a curfew.

Mr THEOPHANOUS — I can tell you one thing: it is not distance, because it is actually closer to fly to Singapore from Melbourne than it is from Sydney.

Ms MUNT — We have an integrated domestic-international terminal and capacity.

Mr THEOPHANOUS — And our airport is cheaper to fly into. It is an integrated airport; it is a curfew-free airport.

Ms MUNT — It has an extended runway.

Mr THEOPHANOUS — It has an extended runway. We have got a lot of competitive reasons why they should be flying into Melbourne, but there is a bit of history to this. I can tell you we are working very hard to reverse it. One of the reasons of course is the one I mentioned about lack of competition.

Mr RICH-PHILLIPS — Does the Victorian government still undertake joint marketing with Qantas?

Mr THEOPHANOUS — I do not want to be wrong on this — we are certainly doing it with Jetstar, which of course is Qantas's subsidiary. I am not aware of anything with Qantas, but I am happy to come back if that is the case.

The CHAIR — We can ask the minister for tourism on Tuesday.

Mr PAKULA — The federal government is conducting a review on Australia's export policies and programs. Given the chairman waxing lyrical before about iambic pentameters and Grecian urns, I am wondering whether cultural exports might be our next big thing. But more generally, I am wondering whether the state government is going to be addressing the issue in the forthcoming industry and manufacturing statement and making a submission to the federal government review.

Mr THEOPHANOUS — Yes, we are. We are going to do submissions into all of the federal government reviews, at least the ones that come under my portfolio responsibilities, and this is one of the important ones for us. This export review will look at a range of export policies. How it comes out in the end will have a significant effect. We have some real interests here. One of our big interests is that, particularly in the negotiation of free trade agreements, which the federal is responsible for of course, we do not get a circumstance where so many non-trade barriers are established, even when there is an FTA, that those non-trade barriers make it impossible for Australian products to be exported to those countries.

To cite some examples for you, there is one particular country which decided that you could not send in a four-wheel drive unless it was of a certain length. It was subject to a different tariff based on the length. One of our products, the Ford, was one inch too long. It made it so uncompetitive that it meant it would have cost more than the Mercedes in that particular country. Or another example is where the engine size is used for similar purposes to protect a local manufacturer. We are very concerned about that. There is also myriad free trade agreements across different nations and how that is affecting our export capability. We are very keen to protect our exports.

To cite another example, our exports of Toyotas, which is huge into the Middle East, is subject to a 5 per cent tariff at the moment. If a third country were to develop an FTA with the Middle East where they could send Toyotas into the Middle East with zero tariff, that would make life very difficult for us. How this comes out is going to have a very significant effect on our export capability. We are very keen to make a submission.

Mr DALLA-RIVA — In the *Service Delivery* budget paper, pages 150 and 151, I note the actuals across the exports for 2006–07, and if you look at the actual spend for that period, it was \$8.1 million, and the anticipated in the forward estimates is 11.6 million — so there is an increase there. Yet if you look in terms of the quantity, the outcomes that are proposed, the targets, on four of the six targets measured there is actually a drop, even though the budget has gone up. Do you want to explain exactly why that would be the case in the forward estimates with an increase in budget yet a decrease in quantity?

Mr THEOPHANOUS — Which ones are you referring to exactly?

Mr DALLA-RIVA — Companies provided with export assistance — you had 4266, and you are now going down to 3250; exports facilitated and imports replaced, 1.5 billion to 739; number of firms participating in individual export-specific programs, 1283 down to 800; trade fairs, 36 down to 29; and then, if you look at page 151, the total output cost in 2006–07 was 8.1, and in the forward estimates it is 11.6.

The CHAIR — So you are comparing the actuals for 2006–07 with the targets for 2008–09.

Mr DALLA-RIVA — Yes, the forward estimates.

The CHAIR — There is also 2007–08 to consider.

Mr THEOPHANOUS — I guess the point I would make, Mr Dalla-Riva, is that there are two sets of figures there: one is the targets and the other is the actual outcomes. What happened in 2006–07 is that we achieved actual outcomes far in excess of what our targets were. We revised the targets upwards as a result of that, so in some of the figures you have quoted there, such as the number of firms participating in individual export-specific programs, our target is 800 when it was 700 last year; so in fact our target has gone up relative to last year's target. However, it is true to say we had a very good year in 2006–07, and the actual outcome was well in excess of the targets. I am hopeful that the new increased targets on the previous targets for 2008–09 will similarly be exceeded significantly by the actual outcomes for 2008–09.

Mr DALLA-RIVA — We will ask you that question next year.

Mr THEOPHANOUS — I look forward to it.

The CHAIR — This committee has often commented on the fact that in terms of output measures and deliverables realistic targets and outputs should be set, so I am sure the secretary will look at these in the coming years.

Witnesses withdrew.