

CORRECTED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2004–05 budget estimates

Melbourne – 22 June 2004

Members

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Mr G. K. Rich-Phillips

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Witnesses

Mr T. Holding, Minister for Manufacturing and Export;

Mr P. Harmsworth, secretary;

Ms J. Niall, deputy secretary, business development; and

Mr P. Rea, acting executive director, Office of Manufacturing, Department of Innovation, Industry and Regional Development.

The CHAIR — Before I introduce the new witness, I want to place on the record the committee's appreciation for the staff who compiled the documentation for the financial services industry portfolio, many of whom are not here. We would appreciate your passing that on. I welcome Mr Peter Rea, acting executive director, Office of Manufacturing. Minister, you have the opportunity now to give us a brief overhead presentation.

Overheads shown.

Mr HOLDING — To go through briefly just as I did the financial services industry, manufacturing is a significant contributor to the Victorian economy. In fact Victoria has always been famous for its strength in the manufacturing area. Manufacturing is a strong employer, the largest employer of full-time jobs. I will say more about this shortly, but manufacturing is also a lead exporter. You can see there the contribution both in terms of direct employment and gross state product as well as the turnover, and the business expenditure on research and development, an area where we want to do better.

In terms of the key achievements for 2003–04, you can see here the implementation of some of the programs arising from the agenda for new manufacturing. There have been 77 innovation insight visits — a very effective program for companies to come and benchmark themselves against leading companies in a range of areas — and technology evaluation and technology demonstration programs. The keynote speaker program has brought to Melbourne and Victoria speakers across a range of areas in lean manufacture and other supply chain and human resource management areas with some of the latest thinking from overseas; we have been very pleased to be able to benefit from those perspectives. In addition there has been a strong focus on our small and medium-sized grant programs working strongly in supporting manufacturers, as well as strong advocacy for the sector, particularly in relation to the textile, clothing and footwear industry and the recent Productivity Commission review.

Key initiatives in the financial year ahead include ongoing implementation of the agenda for new manufacturing which is obviously critically important. It is the most comprehensive vision by any state or territory government for supporting advanced manufacturing anywhere in Australia. We are very pleased to see the rollout of the very considerable initiatives connected with that agenda. There will be an ongoing focus on attracting new investment and reinvestment by some of our key firms here. The careers in manufacturing strategy will be developed in the second half of 2004. It is an important part of the government's work to improve the image of manufacturing and to attract the next generation of bright, young people to manufacturing and getting them to consider a lifetime of supporting manufacturing. In addition we are supporting the industry capability network (ICN), which used to be the industrial supplies office. Members may remember the old industrial supplies office, it is still there and focused on import replacement. We are providing additional support to the ICN in terms of its focus in regional Victoria as well as strengthening the role of the Manufacturing Industry Consultative Council and its leadership role at the national level.

I will quickly touch on exports. Exports are very important to Victoria. I will say more about that I am sure during the question time, but I will just say that our elaborately transformed manufacturing exports are still going strong. Our exporters face a very challenging time because of the high Australian dollar and recovery from the drought, but we think we will continue to see strong export growth in the years ahead. In relation to export specifically, we have released the Opening Doors to Export plan and we have supported a lot of companies in trade fairs and mission activities. We have had the industry capability missions, the VicExport web site as well as the export communication network. In addition we have been closely involved in discussions with the commonwealth on the development of the Australia-US free trade agreement..

In relation to the *Victoria: Leading the Way* document, the economic statement the Premier and Treasurer brought down in April this year, the Opening Doors to Export plan was an element of that. We also have the Next Generation Food Strategy and the Building Better Supply Chain Links, which will be important for Victorian companies. We have the focus on channel deepening and the wholesale market relocation which will help make the port more competitive, as well as the efforts to get the Dynon Road precinct sorted out. All of those things will improve the competitiveness of our exporters.

I will just touch on those targets for the export plan: to increase exports to \$30 billion by 2010 and double the number of Victorian companies exporting. That is the real stretch target. We are working hard to achieve that. In addition we have new funding to support additional programs in the export area and the ongoing focus on free trade agreements as discussions on a potential free trade agreement with China open up.

In summary, a vibrant and innovative manufacturing sector is obviously very important from an investment attraction perspective, but also in terms of providing high-quality jobs for Victorians. We want to continue the rollout of the agenda for new manufacturing and work in partnership with all industries in Victoria on implementing the initiatives in the Opening Doors to Export plan.

The CHAIR — Could you turn to page 44 of budget paper 3 where you refer to the Opening Doors to Export plan? I am very interested in that and would like details on the plan, particularly why it is necessary and how you will measure its success.

Mr HOLDING — I might at this juncture circulate copies of the Opening Doors to Export plan.

The CHAIR — You have come well prepared.

Mr HOLDING — I am very eager to promote this — —

Mr FORWOOD — You did not give her the question so she could distribute the document.

The CHAIR — I have had that on my bedside table wanting the minister to explain it to the world. Please feel free to do it expansively.

Mr FORWOOD — Any more documents? You can circulate them all right now.

The CHAIR — Thank you, I am chairing this meeting. Could you answer my question please, Minister?

Mr HOLDING — We anticipated that members would be very interested in the Opening Doors to Export plan. I was very pleased to launch this program with the Premier in April of this year. The plan contains a number of initiatives. The first thing I would say is we very much need to create an export culture here in Victoria. According to research which has been done for us by Austrade, of Australian companies only 2 per cent of Victorian companies currently export and only 4 per cent of companies generally plan to export at some stage in the future. Australia is a very small domestic market and we need to work very hard to create export opportunities if Victorian businesses are to reach the critical mass they need to be internationally competitive and be sustainable locations for future investment in the years ahead. That is the centrepiece of the Opening Doors to Export plan — creating an export culture in Victoria.

What are some of the key initiatives in the plan? Firstly, we will be working in partnership with industry — some of our most competitive exporters — to develop an export forum. The export forum will bring together some of our highest achieving exporters to provide advice directly to government on the sorts of things that we can be doing to better promote our exports.

We will also be supporting the formation of export networks which will provide support to Victorian companies that are either in particular regional areas or in particular industries where there are export opportunities. We want to spread that export message to those companies. At the same time we will be providing support for some new programs, one of which is the Next Step Exporter program, which will replace the previous agenda for new manufacturing programs such as Going Global, the Collaborative Export Marketing program and the global purchasing strategy. We felt these programs could be more effectively delivered within the context of a program called Next Step Exporter which will provide direct support to companies by enabling them to access a professional export advisor.

We will also be making the First Step Exporter program, which was specifically a manufacturing program, available to all companies — all small and medium-sized enterprises — whether they are service industry, tourism companies or whatever. They will all be able to access the support that is available under the First Step Exporter program. We will be appointing three trade councillors who are special trade envoys to targeted markets in north Asia, the Middle East and in India, where we see real opportunities for future growth for Victorian companies and where there are often impediments to companies from a cultural and language perspective. We want to overcome that by having some support from the people who are very experienced in dealing in those markets and providing that support directly to Victorian companies. At the same time we understand that in those markets in particular there is a value in government to government activity. Therefore having a Victorian government representative that is focused on those markets will yield real benefits from a trade perspective.

We will measure the success by the two goals that we have set ourselves. One goal is growing Victorian exports to the value by \$30 billion by 2010. I think we will achieve that goal. The stretch target is the commitment to doubling the number of Victorian companies exporting by 2010. That is a goal that we are working on in partnership with the commonwealth. It has set itself the goal of doubling the number of Australian exporters by 2006. The commonwealth has started from an earlier date than us, but the impact of the program that is rolled out by Austrade and the Victorian government will work towards the achievement of those twin goals. They are very difficult goals to reach. It is much easier to get a significant increase in the value of exports by increasing exports from a particularly successful exporter. Getting Toyota to send more cars to the Middle East has a very significant impact without it necessarily spreading the benefits of exporting right through the supply chain. More or less getting more companies to be export focused is a much harder role and one that will require us to work closely in partnership with small or medium sized enterprises if we are to achieve it.

The CHAIR — Have you got key performance indicators earlier than 2010?

Mr HOLDING — We do. Page 143 of budget paper 3 has some particular performance measures. I mentioned three trade councillors for those targeted markets. I am able to provide the committee with more information if they would like to know how we are going in relation to that. In regard to the export advisers, who are involved in the rollout of the Next Step Exporter program, we have set ourselves some goals for the next financial year. There are some direct goals as well as to have the companies provided with export assistance, facilitated exports and replaced imports. There is a range of specific performance measures within budget paper 3 which will enable us to track how we are going in terms of success.

Mr FORWOOD — Will you be measuring the success of each of the new appointees? You are putting these guys on — —

The CHAIR — People!

Mr FORWOOD — Sorry, I am not allowed to talk about guys. You are putting these people on. How will you know how successful they are? It is not the issue of appointing three new people. It is the issue of what they do once they are appointed.

Mr HOLDING — Their contract will go through a lot of the issues in terms of performance. We will be looking at things like how they measure up against the goals that we have set them and the missions led to the region. I should stress that they will not be based in the region, they will be based in Victoria. I am happy to provide members with more information about the trade councillors if they are interested. Missions led, inward buyers received — they have a key role to play in terms of receiving inward buyers from those markets when they come to Victoria. They will conduct forums in Victoria to promote those markets to Victorian exporters as well as providing strategic advice to government on export opportunities to those markets, which is, by its nature, a more difficult thing to tangibly measure, but which is probably the most significant element of their role.

Mr FORWOOD — But we would know at the moment what our total exporters are able to achieve. Surely the measure would be the increase that these people achieve?

Mr HOLDING — The key thing would be to the extent to which they are engaged in the increase in the exports that is taking place. As I mentioned before with the example of Toyota, you could very easily get a significant increase in the export of Toyotas in the Middle East, which does not actually reflect the efforts of that particular trade councillor?

Mr RICH-PHILLIPS — Councillor, commissioner or envoy?

Mr HOLDING — That is a good question. The official title will be special trade envoy. How that translates into Arabic, Mr Rich-Phillips, I am not sure.

Ms ROMANES — On page 142 of budget paper 3 there is a reference to investment facilitation and attraction, a major output, and the objectives to attract and facilitate new investment into the state. Could you tell the committee what sort of evidence or material the government has that suggests that Victoria is still a competitive investment destination for manufacturing?

Mr HOLDING — Mr Forwood will be very pleased to know that I do not have to circulate a document. The document has already been circulated. I refer members again to the Benchmarking Victorian research that I distributed. Not surprisingly it has a very strong focus on manufacturing because of Victoria's historical strengths in this area. You can see that there are a range of industries where Victoria stacks up very well. Some of those areas would be fairly predictable. We continue to be a very competitive location and destination in the area of automotive components, for example.

A particularly important one for Victoria is automotive design. We are obviously facing very stiff competition from low-cost manufacturers to our north; and whether all of the commodity-based manufacturing that was historically around automotive will continue to be done in Victoria. Over time I think we will see a change in terms of the focus of the automotive industry here in Victoria. One area where we see significant new investment is in the design area — for example, in the last financial year we were able to secure a significant new investment from Toyota, not just Toyota Australia but Toyota worldwide, for their centre in the Asia-Pacific region for new design. This is its new design of global platforms. If we are to continue to be a competitive location for research and development of automotive design, we need to make sure that those sorts of investments continue to occur in Victoria. From a research development perspective, that adds to the significant investment to companies like Holden and Ford and some of the component suppliers have already done for research and development. Not surprisingly we are very competitive destination for biotechnology in that area.

One area that people would not necessarily pick Victoria for is automotive tooling and manufacturing. We are a very competitive location against some of the key international locations from both a cost and a quality perspective. We will continue to use this research. It dovetails with other research. In an aside earlier, I know that Mr Forwood mentioned the work that is being done by South Australia to promote itself as an attractive destination for investment. I would not want to detract from the hard work being done by our friends in Adelaide at all. But that research that they based their activities on — the KPMG global competitiveness research — actually shows that in terms of all international cities with over 2 million people, Melbourne is the second most cost-competitive location in the world after Toronto. That is a significant achievement and one that we will be pressing when we make Victoria's case internationally from an investment attraction perspective.

The CHAIR — I am sure they would put that in all their publications.

Mr RICH-PHILLIPS — Minister, just as an aside, having a look through your benchmarking document and looking at aerospace in particular, I see for some reason that IBM, who were the consultants, have not included Seattle as an aerospace centre to benchmark against, which I find surprising. You might like to take it up with them.

The question I wanted to ask you related to an article in last week's *Herald Sun* regarding ministerial travel. It said in reference to you that the government's most junior minister spent more than \$35 000 on international flights and almost \$10 000 flying interstate. I say at this point that I fully support travel for the purposes of investment attraction and export facilitation, but I ask: can you tell the committee, please, what international delegations you have been involved in as Minister for Manufacturing and Export; the cost of each delegation, which you may like to take on notice; and in particular the objectives and the achievements against those objectives for each of the missions you have been on?

Mr HOLDING — I have had the opportunity of leading a couple of industry capability missions in the last financial year. The first of those was the mission to the Middle East, which I led in December last year. That mission focused on a key target market for Victoria, the Middle East, being a rapidly emerging set of economies from a building and construction perspective and also being a key industry area from a Victorian perspective as well — that is, in the building materials, the building services and the construction services industries. That mission commenced by participating in the Big 5 building and construction materials exhibition in Dubai and then visited all of the GCC countries — in the United Arab Emirates we visited Dubai, Abu Dhabi and Sharjah, which are the key markets in that country for building and construction, as well as visiting Kuwait, Qatar, Bahrain, Oman and Riyadh, and Jeddah in Saudi Arabia.

What were the objectives of that mission? The objectives of the mission were to promote Victorian exports into that market, and 29 Victorian companies participated in the mission, representing architectural products, glass, surface finishings, prefabricated products, specialty chemicals and a wide range of construction and design services. Direct immediate sales that occurred on the mission — you would be aware, Mr Rich-Phillips, that on a mission like this you do not actually conclude a lot of sales while you are on the mission itself — were \$770 000. Expected sales to

those markets in 2004 by the companies that participated in the mission are \$14 490 000, so that is a considerable achievement in terms of the 2004 figure. And the expected sales in 2005 — and this is where we start to see some of the real opportunities, because many of the companies that came on the mission are setting up representative offices in the region or are involved in the delivery of major contracts, some of which directly arose out of the mission and some of which were partly facilitated during the mission and have been the focus of follow-up activity — are \$29 050 000. So there will be something like \$44 million in direct economic benefit to Victoria as a consequence of the companies participating in that mission.

The second mission I had the opportunity of leading in this financial year was the automotive industry capability mission to China. This was a more targeted mission in that it was not related to an opportunity to participate in a trade fair or exhibition, it was rather visiting a range of locations where the automotive industry is particularly strong in China. This mission visited Shanghai, Nanjing, Guangzhou, Chongqing, Beijing, Tianjin and Shenyang. I left the mission at that point, but they also visited Chang Chun, which is further north. They are all the key automotive centres in China. As a consequence of that mission we were able to firstly sign some cooperative agreements with industry associations to further industry cooperation with both the Victorian Automotive Chamber of Commerce and the Federation of Automotive Parts Manufacturers, who were both participating in the mission itself, and we were also able to oversee a cooperative agreement that was signed between the Victorian polymer manufacturer Marplex — a Noble Park-based company — and the BCIRI, which is the Beijing Chemical Industry Research Institute. This joint cooperation agreement will enable Marplex to supply polymer technologies to the BCIRI, which will help develop the plastics industry insofar as it pertains to the automotive sector in China.

This is a booming industry. At the moment China has 10 cars per 1000 people, whereas in North America there are 750 cars per 1000 people, so you can see the prospects for growth going forward. We see this as a critical market for Victorians. It is a threat for Victoria from a competitive perspective, as well as being a real challenge for Victorian manufacturers in terms of imports from China. It is also an opportunity, and we wanted to take our most competitive companies to China to showcase the opportunities. This mission was completed in May, so in terms of being able to supply figures to the committee, I will take that on notice.

Mr RICH-PHILLIPS — Certainly. In terms of pay-off, would you expect to see some sort of activity within 12 months of a delegation returning? Is that the time frame within which you would expect to see some result?

Mr HOLDING — Are you talking about that mission in particular?

Mr RICH-PHILLIPS — No, I am talking generally.

Mr HOLDING — It would very much depend on the industry sector, on the market we were travelling to and on the purposes behind the travel. For example, we may visit a market because the Victorian companies are already doing a lot of business in that area and we want to showcase that capability, demonstrate some new capabilities and market some new technologies, some new products or whatever. Alternatively we might go to a market where Victoria is not strong, where Victoria has not traditionally been involved in any real export activity, maybe to take some companies that have recently acquired a capability in an area or maybe to take companies that are internationally competitive but have not been operating in that market in the past. So it would always depend on the nature of the market and the types of Victorian companies we were taking with us and why. Some companies we take are export ready, they are already exporting and they are going to explore new markets or build on existing customer relationships; other companies we take with us have never exported before, they are looking to do it for the first time and they are effectively putting their toe in the water. Our expectations about what a company going with that in mind would be likely to yield from the mission would be substantially more realistic and subdued than our expectations for a company that is a sustained and successful exporter.

Mr RICH-PHILLIPS — Can you come back to us on the cost of those missions?

Mr HOLDING — Yes, I would be happy to. You are looking for the total cost of the missions or the cost of my involvement in them?

Mr RICH-PHILLIPS — The cost to government.

The CHAIR — You might like to put the benefits alongside it.

Mr HOLDING — I would be happy to.

Mr MERLINO — Minister, on page 142 of budget paper 3 there is reference to an objective of increasing the capacity of Victorian businesses to compete, grow and employ. To what extent is this assisted or hampered by the Australia–US free trade agreement, and what role has the Victorian government played in the processes leading up to this agreement?

Mr HOLDING — This is a really good question and one that really has been occupying the mind of the Victorian government for some period of time and also the minds of Victorian industries across a whole range of different areas. We believe that an Australia–US free trade agreement will have a net positive impact on the Victorian economy. It was always our view that we would provide in-principle support for the Australian government as it worked to negotiate this agreement. It is often difficult to quantify what the exact impact will be across a range of industry sectors, but we have commissioned some modelling of our own and we have looked very carefully at the modelling the commonwealth government has done to see exactly what the impact will be. We would like to have seen a more comprehensive agreement and an agreement with faster phase-in times, particularly for our agricultural sector. I do not doubt for a second that the commonwealth and other states and territories would like to have seen that as well, but it is an agreement, and an agreement requires compromise. You can only get what the other side is willing to put on the table, and you have to make a judgment at the point at which you sign it as to whether you think there will be a net benefit or not.

We take the view that there will be a net benefit to Victorian manufacturers. There are some real opportunities in the automotive and aerospace areas as well as for our food industries. Processed food is a traditional strength in Victoria, and we would expect our dairy industry, for example, to be able to access some real opportunities out of the agreement.

We have had significant concerns in relation to the textile industry. The textile, clothing and footwear industry has a strong export focus. People often do not realise that, but we export more than \$1 billion of TCF every year from Victoria. We would have liked to have seen a value-added threshold rule-of-origin regime apply, but the Americans made it very clear that they were rule makers not rule takers in relation to free trade agreements, and so instead we have a product-based regime in place. Why we are so concerned from a Victorian perspective is that this will have the impact of declaring a lot of Victorian manufactured textile, clothing and footwear as being not subject to the free trade agreement; it will not be deemed to be local under the rule-of-origin regime that will be put in place. We have already made representations to the commonwealth that some sort of industry assistance or structural adjustment will be required to support our textile, clothing and footwear industry in Victoria, and we hope for a favourable outcome in relation to that.

More generally, we take the view that the real benefits of the free trade agreement will be not only in the trade area, where frankly both economies are already very open, but in the investment area, and from an investment perspective Victoria has an enormous amount to gain. If you look at the number of Victorians who are employed by companies from which the investment is sourced from the United States, that is profoundly important for the Victorian economy, but there are also real opportunities for Victorian companies to invest in the United States and to diversify their economic and commercial activities. So on the whole a net gain for Victoria. We would like to have seen a more comprehensive agreement, and over time we expect the trade relationship to become freer and more open, and that can only be good for Victoria.

Mr RICH-PHILLIPS — Good answer, Minister. It reflects the tenfold difference in population too in terms of — —

Mr HOLDING — Why am I not flattered, Mr Rich-Phillips?

Mr RICH-PHILLIPS — I was curious where you would go with that. I would like to ask you about manufacturing investment. In the budget papers last year you reported a figure of \$800 million of manufacturing investment achieved for the previous financial year and 1700 jobs created. The year before that you reported \$1.1 billion of investment and 3200 jobs. In this year's budget papers I cannot find a reference to the level of manufacturing investment expected to be achieved in the current financial year, and likewise the job target. So can you tell the committee how much manufacturing investment you expect to be achieved this year, and is it in the budget papers or has it been removed?

Mr HOLDING — Our manufacturing investment target for 2004–05 — —

Mr RICH-PHILLIPS — I should say ‘expected outcome’.

Mr HOLDING — The expected outcome for the financial year 2003–04. The target was \$800 million and 2200 jobs, the achievement was \$1.24 billion and 2379 full-time equivalent jobs. The target for financial year 2004–05 is \$900 million in capital expenditure, and that would equate to our target of 2500 full-time equivalent net new jobs.

Mr RICH-PHILLIPS — Is that expected outcome published in the budget? Where would I find the reference?

Mr HOLDING — No, I just provided it then Mr Rich-Phillips. I do not think it was published last year —

Mr RICH-PHILLIPS — It was in contained in the text on page 170 of budget paper 3 last year, as was the previous year, but it seems to have been removed this year.

Mr HOLDING — I am happy to provide the figure, and I just have. In fact I anticipated the question. Why we have not included it as a separate performance measure in years gone by and why we continue not to organise it as a separate performance measure is simply because obviously a lot of investment attraction is essentially opportunistic — that is, you chase investment opportunities as they come up. If you were to drill down too much in terms of providing too much industry-specific information, you would end up driving up the cost to government of new investment attraction. For example, if you take the automotive sector, in any given year the range of automotive investments on the radar is relatively predictable; the market knows. If the Victorian government has a pre-declared target in a budget paper with staff working to achieve that, investors know what the pitch to them will be and can therefore price the investment accordingly. We are not willing to subject ourselves to that level of disclosure, because it would have an adverse impact on our investment attraction efforts. But from a manufacturing perspective or a financial services perspective globally, we are willing to make the figure available.

Mr RICH-PHILLIPS — To the extent that you can, can you provide the committee with a list of investments within the \$1.24 billion expected this year?

Mr HOLDING — We can provide information in relation to public announcements. You know we never provide information about the Victorian government spend by project for obvious reasons.

The CHAIR — Thank you.

Mr HOLDING — I would like to just supplement the answer I gave to Mr Rich-Phillips.

The CHAIR — Is this on the visits, the trade missions?

Mr HOLDING — No, this is on the list of companies where there has been investment attraction. All of the companies where there have been investment attraction activities are listed in our annual report. Although we do not list the amount, the companies are all listed in there.

Mr FORWOOD — A discontinued measure that shows 150, I would think, would be listed.

Mr HOLDING — I am just taking Mr Rich-Phillips to the list of Victorian companies that have received assistance in relation to investment attraction.

Mr RICH-PHILLIPS — It is not a true list, is it, Minister?

Mr HOLDING — It is a full list of companies that have received investment attraction assistance from the Victorian government over the last financial year but not a dollar amount for the assistance they have received.

Mr FORWOOD — And if you turn to page 343 of budget paper 3, at the top of the page, under the discontinued performance measures, against investment facilitation and attraction it lists ‘150’ for companies provided with incentives and/or facilitation services.

Mr HOLDING — That performance measure would have duplicated the performance measure, the \$1.6 billion target, for investments facilitated and attracted.

Mr FORWOOD — I understand that, but the 150 will be shown in this year's annual report.

Mr HOLDING — Yes.

Mr HARMSWORTH — Whatever the final outcome is.

The CHAIR — So that information is in the annual report.

Mr RICH-PHILLIPS — That is not quite what I was after.

Mr MERLINO — The minister said it would be provided.

Mr RICH-PHILLIPS — I was trying to clarify, Mr Merlino, whether we are talking about the same list. I was talking about the manufacturing investment achieved for the state rather than companies in receipt of facilitation grants or other assistance. I was just wondering, Minister, whether you have a list against that \$1.25 billion of investment. Are you able to provide a list?

Mr HOLDING — I understand the point you are making. We have a list of companies about which we have made public announcements, and I am happy to make that list available in some shape or form. We also have the list of companies in the annual report for which there have been direct investment facilitation payments. That will be already there; I do not need to make it available, but if you — —

Mr RICH-PHILLIPS — And we agree they are not the same? That is what I think Mr Merlino did not seem to understand.

Mr FORWOOD — Yes.

Mr HOLDING — I have answered your question.

The CHAIR — If you go to page 143 of budget paper 3, where there is reference to exports facilitated and imports replaced, I am conscious that the tooling or precision engineering sector faces a number of challenges from imports and difficulty exporting. Can you describe measures that the Victorian government has taken to address that issue?

Mr HOLDING — This is a very important industry for Victoria, and as well as being very import exposed it is an industry in which there are export opportunities.

Just to give you a sense of this industry, it is an important industry to Victoria. You saw it appear from an automotive perspective on the benchmarking research, but it is also an industry that has important ramifications for industries as diverse as rail manufacturing, aerospace manufacturing and a range of other industries.

One of the great challenges for the tooling industry is that it is very much driven by the work patterns of other industries. For example, from an automotive perspective, when new models come online there is a lot of work for tooling companies to do — in fact, too much work — and they often have to outsource some of it and a lot of it goes offshore. Then when the new models are online that work dries up and the companies have nothing to do and often have to lay off staff. We have been working very hard to create opportunities for the industry that would enable them to access export opportunities.

In September 2003 the parliamentary secretary to the department, Joe Helper, led a precision engineering industry mission to Thailand and China. It was a very successful mission. It was auspiced by the Tooling Industry Forum of Australia (TIFA). That precision engineering industry mission included key players such as the Ford Australia's tool room in Geelong; ANCA, a company based in Bayswater that has been a very successful exporter for many years; Ronson Gears; Centre Tooling; H & H Machine Tools Australia; and the Australian Manufacturing Technology Institute Ltd, which many members would know as AMTIL.

It was a very successful mission, and it has built on successful mission activity by the Tooling Industry Forum of Australia with a lot of other areas as well. As well as the efforts of that industry mission we were very pleased to support an industry mission to Japan and the United States of America by TIFA Aerospace. The Tooling Industry Forum of Australia has formed an aerospace cluster of collaborative companies working together within the tooling

industry which is going to chase work connected with the 7E7 project, and so it was able to visit companies that are very important and well placed in relation to sourcing some of those opportunities.

The state government is also very pleased to support the formation of a defence and aerospace industry cluster company which will chase work not only connected with the 7E7 project but with projects like the joint strike fighter, the A380 project, and a range of significant aerospace projects which will generate a lot of benefits for the tooling companies, which are really the key companies for carrying out a lot of the manufacturing work connected with those sorts of projects. It is an industry that we are working very hard to support. We are supporting TIFA Aerospace and some of its mission activity. We supported the precision engineering industry mission in September last year. We have also provided \$20 000 for a technology road map for the tooling industry to conduct a road map and skills project to support that industry through TIFA. As well we are providing early stage development assistance for federal funding through the innovation access program. We have a range of initiatives which we think will support that very important industry.

The CHAIR — The skills availability is something that interests me, particularly in relation to Kangan Batman TAFE and the work that it is doing in my own electorate and a neighbouring electorate. Do you have any information on early indications of where we are up to with that skills mapping?

Mr HOLDING — I can come back to the committee with some further information about the skills mapping side of it. The skills side of the tooling industry is particularly important. We were very pleased last year to be able to support during manufacturing week some significant work by AMTIL, the company that I referred to just a few moments ago. Some significant work has been done by AMTIL in relation to supporting some skill-based activities during that week, as well as bringing young people who are interested in pursuing a career in manufacturing directly to the Melbourne Exhibition Centre, where the manufacturing week activities took place, to show them the latest technologies in the tooling industry, to give them an opportunity to see them in action and to stimulate them with information about what a career in manufacturing, and in the tooling industry specifically, can involve. We were very pleased to support those initiatives as well as the direct support we have provided to TIFA to do some more work on skills.

Mr RICH-PHILLIPS — I would like to ask you about departmental reporting. Specifically on page 142 of budget paper 3 are the reported outcomes for the 2002–03 year. In the first output group, investment facilitation attraction, jobs derived from investments facilitated is shown as 7463, new investments facilitated and announced is shown as \$2.417 billion, and the output cost is shown as \$79.2 million. In last year's budget paper 3 the department reported for the same period expected outcomes, and bear in mind that this was May, month 11 of the 12 months in the financial year, but the expected outcomes reported last year for those same measures were investments facilitated and announced \$1.6 billion, jobs derived, 4000, and output costs of \$60 million. The point I am making is there is a substantial difference between what last year you told us the outcome was going to be and what the outcome ended up being in the context of the budget being prepared three-quarters of the way into the financial year. I am wondering if you can explain why the figures you gave us last year have ended up being so different from what the actual outcomes were, given that they were prepared so late in the financial year, because the quantum of the difference is substantial?

Mr HOLDING — Can I take some advice on that, Mr Rich-Phillips? I am happy to come back to the committee.

The CHAIR — Thank you very much.

Ms ROMANES — Minister, on page 143 of budget paper 3, there is a reference in the performance measures to high performance consortia supported. Could you tell us a bit more about what is represented by that figure, where the support comes from for the two consortia and what benefits they bring to the Victorian industry?

Mr HOLDING — Sure—thanks very much for that question. This is a very important program that arises out of the agenda for new manufacturing, which you would recall is a critical part of the delivery of programs to support innovative and export focused manufacturing companies here in Victoria.

The idea for a high performance consortium was adopted after the success of such consortia in Canada. They are essentially based on the idea that no company will ever survive long enough to make all of its mistakes itself, so where there are opportunities for companies to leverage off the learning and experience of other companies, we should provide a forum for high performing companies to do so. Each high performance manufacturing consortium

is essentially a leveraged learning network which brings together a whole range of individual companies, obviously not competitor companies but often companies involved in similar supply chains so they can benefit from seeing different facets of manufacturing activity from a perspective that they might not otherwise be exposed to themselves. They provide a forum for shared resources, focused learning and mutual support.

We are already seeing a whole range of benefits flowing through as a consequence of the success of the two consortia that are already up and running. They result in better knowledge sharing, access to mentoring opportunities, the ability for companies to admit they do not have all the answers and to seek support and help from outside organisations, as well as tangible benefits for the companies concerned, such as increased productivity, reduced reject rates in their manufacturing processes, decreased training costs, which we see as particularly beneficial, increased sales and enhanced ability for those companies to compete.

We have two successful tenderers who are delivering the high performance manufacturing consortia. They are Optimum Corporate Planners, who are the successful tenderers for the consortium that we call the Vic Manufacturing Excellence consortium that consists of 14 companies, and the HPC consortium, which consists of 11 companies. There is a whole range of different companies: PPG Industries some of you would be aware of; Air Radiators, who are supplying the air cooling systems for the regional fast rail project; Glassform, a very innovative glass manufacturing company for high performance glass; Note Printing Australia, who are part of the consortium delivering the polymer-based technology that is our bank notes here in Australia and are now exporting that technology overseas.

Ms ROMANES — How are they selected?

Mr HOLDING — It is essentially a process of selection through the department identifying companies that it knows to be high performing for different reasons that would have something to add to the consortium, but also a process of self-selection. We consult closely with industry associations and target companies that have the capacity to contribute something. Obviously you do not just want companies who are going to go along, listen to what the other companies are talking about, participate in the site visits, participate in the forums but not actually provide anything themselves. The companies need to bring something to the consortium. It is not a passive process, it is a very active one. You need companies that have the capability to bring something active and vibrant to that process.

Mr FORWOOD — I refer you to page 81 of the department's annual report which is consultancies, and the top line indicates that PricewaterhouseCoopers Plant Location International was engaged for over \$300 000 to provide advice and statistical analysis that benchmarks Victoria against other major investment competitors. The document that you provided to us today was produced by IBM Business Consulting Plant Location International, I wonder if you could explain to the committee why you changed from PWC to IBM, and what happened to the work for which we paid over \$300 000?

Mr HOLDING — It is the same organisation — IBM took over PWC. It is the same document.

Mr HARMSWORTH — IBM bought out PWC.

Mr RICH-PHILLIPS — Same people?

Mr HARMSWORTH — Yes.

Mr FORWOOD — Excellent, thank you. There is a simple answer to everything, is there not?

Mr HOLDING — Not everything, Mr Forwood.

Mr MERLINO — On page 142 of budget paper 3, there is a measure that relates to innovation insights under the business development output, and you also referred to it in your presentation. Can you tell the committee what this program involves and what benefits it brings to the Victorian industry?

Mr HOLDING — Thanks very much for that. This is another terrific question. It is another terrific program that is part of the agenda for new manufacturing. In fact I would go so far as to say this has probably been the most successful of all of the agenda's programs.

I had the pleasure of launching this program at Nissan Castings in Dandenong in the last calendar year — a very innovative company and one that is doing a lot to support not only our automotive industry in Victoria but a lot of other industries as well. Essentially we recognise innovation uptake by industry as probably the most critical competitive issue that faces Victorian companies. Getting companies to innovate is central to everything we are trying to achieve. In fact, if we had been able to make Victorian companies more innovative to the tune of raising our gross domestic product by one third of 1 per cent per year over the last 100 years, we would now be the richest country in gross domestic product terms in the entire world. Instead over that same period we have slipped from 1st to about 14th.

Mr FORWOOD — Trade unions, mate!

Mr HOLDING — Not at all.

The CHAIR — Minister, thank you. Interjections are disorderly.

Mr HOLDING — Driving business expenditure on research and development is one of the most critical ways we can do that. In fact in global terms business expenditure on research and development in Australia is well below OECD averages and is an issue that all Australians and all businesspeople should be very concerned about. Innovation Insights helps to support companies see innovation in progress and to be able to devise strategies for implementing it in their own businesses. We have been able to support 248 companies to attend Innovation Insights visits at 93 sites across the state. They have included companies — these are some of the sites — as diverse as Alcoa, Toyota, Textor, Autoliv, Yakka, Hawker de Havilland, GlaxoSmithKline, Orica, Siemens VDO, Placard, Portland Aluminium and Robert Bosch — so a range of companies that are very innovative and are pleased to share their innovative capabilities with other Victorian companies. A large number of Victorian companies have participated. The visits have been oversubscribed. The last 31 visits, for example, have been over subscribed by 340 companies wanting to attend. So it has been very successful and we are pleased to have been able to support and sponsor the sharing of innovation by Victorian companies.

Ms ROMANES — This is another area where you have already exceeded your KPI for last year: 234 rather than the 180 in budget paper 3. Your target is only 200 for 2004–05, and I wonder why it is so low. Also, how do you drive innovation beyond taking company representatives on visits because obviously people can be inspired by what they see but often do not have the wherewithal to take the next step to make the changes or make things happen? Is there further support for those companies involved in this program?

Mr HOLDING — Firstly, in relation to the performance measure, we have overachieved and we are always happy to see the programs that we are delivering overachieving. The reason for the measure this year as it stands is we are actually having the Innovation Insights program delivered by a company, Invotech, which is under contract to deliver 225 visits over the three years. We have to roll out the program in accordance with the contractual conditions for which the company is accountable, and obviously the performance measures reflect the contractual measures we have entered into with Invotech, which is a successful provider of that program.

In relation to the sorts of things we can do further down the line to support innovation by companies. As well as Innovation Insights there is obviously the high-performance manufacturing consortia I was talking about earlier. We also have a range of grant programs which support Victorian companies, particularly small and medium-sized enterprises, to adopt new ways of thinking and new ways of doing business within their organisations — for example, our Grow your Business programs, which are jointly administered by me and Minister Thomson, often provide facilitated support for Victorian companies to adopt new innovation. Also within the agenda for new manufacturing we have two programs which are focused on technology uptake by companies: one is the technology demonstration program; the other is the technology evaluation program. The technology evaluation program supports Victorian companies who are evaluating a technology which may be of benefit to their business and making judgments about what application it may have. That is a program which provides some strategic support to Victorian companies.

More broadly within the science, technology and innovation program we have \$900 million worth of resources committed to promoting innovation right across the economy: projects as diverse as physical infrastructure like the Australian synchrotron project which will have real benefits to manufacturers and enable them to do research and development that they currently do offshore, but also innovation cluster programs which support technology, commercialisation — a whole range of different projects which really do drive innovation and support Victorian

companies as they make those judgments about the sorts of things that they can be doing to make their businesses more innovative.

Mr RICH-PHILLIPS — Minister, I would like to ask you about the target of doubling the number of exporters by 2010. As you yourself said during your presentation, Mark Vaile announced the commonwealth target of doubling exporters by 2006, and that announcement was made in early 2002, so effectively a four-year window. The announcement for Victoria was made by the Premier and you earlier this year to meet the 2010 targets, so you have set a longer time frame for Victoria. But effectively, if Leith Doody does his job from the commonwealth perspective and meets the 2006 target, Victoria will automatically meet its 2010 target. How do you distinguish performance towards this target between what the commonwealth is doing with Austrade and what you are seeking to do through the department? In terms of the basic relevance of the target, in the government's own response to the Economic Development Committee inquiry into exports from rural areas, the government makes the point that many first time exporters do not go on to be subsequent exporters. Can you explain what the actual relevance is of doubling the number of exporters given that statistic?

Mr HOLDING — There are a number of elements to that question, and it is an interesting and important question. I would say, firstly, in relation to the interface between the commonwealth's target and the Victorian government's target that our target was announced at the time of the November 2002 election — it was one of our election commitments. That thinking, if you like, has been incorporated in the Opening Doors to Export plan. The commonwealth's target is supplemented by an agreement of state-based trade and small business ministers who have signed a joint communiqué to support the commonwealth in its efforts to achieve its 2006 target. To some extent, although the targets do have different time frames over which they operate, I do not think either the commonwealth or certainly the state of Victoria has a view that achieving one target but not achieving the other is a desirable outcome. Both targets can be simultaneously achieved if both levels of government are working closely in cooperation together.

The latest information we have had from Austrade from our briefing at the national trade consultations meeting in Hobart earlier this year would indicate we are a long way short of achieving the commonwealth's 2006 goal. I do not say that by way of criticism at all. I simply say we face an extraordinarily competitive and difficult environment for exporters at the moment. The drought knocked our food exporters around, and a lot of our regional exporters. The high Australian dollar over the last 12 months or so has made it very difficult for our commodity-based exporters as well as our exporters of elaborately transformed products, plus global uncertainty, SARS, the war in Iraq, global terrorism. A whole range of different issues have made it a difficult and complicated environment for exporters to thrive in.

That demonstrates the need to have an integrated set of programs to achieve our export targets. We are very keen to make sure the programs that we have rolled out under the Opening Doors to Export plan complement Austrade's activities rather than compete directly with it. Our programs are aimed very much at small and medium-sized enterprises. A lot of the thresholds for the export market development grant plan, the Austrade program, effectively make it very difficult for microbusinesses and small enterprises to access that program. Our grant programs do not have the same thresholds in place, but they do require dollar-for-dollar commitments by Victorian companies, so in a sense they target a different class of companies or a complementary class of companies to the EMDG program that is run by the commonwealth. We seek to make sure that our programs complement the commonwealth's. We believe our targets complement the commonwealth's. We understand the commonwealth will have its work cut out in achieving its 2006 goal, but we are not churlish about that at all. We are going to work closely with them to help them meet a goal which we think is of substantial benefit to Victorian companies.

The last part of your question questioned, if you like, the usefulness of a goal which seeks to increase the volume of companies if those companies do not sustain their export efforts. I have to say I could not agree more — that one-off exporting by companies just for statistical purposes, for example, is of no real benefit to Victoria. It is of no benefit to those companies and frankly it will not help us achieve those sorts of targets in any event.

What we are on about is achieving sustainable exports. One of the reasons we rolled out the Next Step exporter program as part of the export plan was to provide support for Victorian companies to sustain their export efforts. The First Step exporter program provides that one-off support to go to a new market or to get a brochure translated into a language to target a new export opportunity. The Next Step exporter program is about intensive support to help companies deal with the opportunities and challenges that often come from sustaining that exporter effort over time. We think the sorts of programs we are rolling out are more likely to contribute to sustainability of exports,

achieve our goal by 2010, support Austrade in achieving its goal by 2006 and make sure that all companies have the opportunity to benefit from increasing their exports.

Mr RICH-PHILLIPS — Thank you for that. Can I just put some quantum around the target? You mentioned that it was announced in your election platform and effectively reannounced earlier this year by yourself and the Premier. Is it the intention that the goal apply from the election in November 2002 or is it the intention that it apply from now? What is the base from which you are building? How you have assessed the exporters?

Mr HOLDING — I reported on this following a question from Mr Clark, I think, at the last estimates hearing. The base year is 2001–02 and the Australian Bureau of Statistics estimates that 12 250 companies around Australia exported Victorian-sourced products in that year. The aim is to double the number of exporters by 2010 to 24 500. To indicate how difficult this goal will be to achieve, that will require an average growth rate of 9 per cent per annum or 1750 new exporters per year. That is a very difficult target to achieve, just as the commonwealth's target by 2006 is also a very difficult target to achieve.

The CHAIR — I want to take you to the balance sheet ready program. My particular interest is what prompted the formation of this. Could you give us some information in relation to the origin of it, what it is intending to achieve and how you will measure its success?

Mr HOLDING — This is a program which is again part of the agenda for new manufacturing. It arose out of concern being expressed to us by a range of manufacturers but particularly manufacturers in the automotive supply chain. The essence of the problem they were expressing to us was they were having enormous trouble attracting finance to grow their businesses over time. One of the reasons for that was the financial services industry is not sufficiently informed or responsive to the needs of manufacturers who are in very unique supply chain arrangements. To give you an example of the challenges faced by a components or systems supplier in the automotive industry, they are often required to sink enormous sums into product development many years before they will see a return on that investment in the form of orders placed with them by an original equipment manufacturer — an OEM company — in the automotive industry. They are required to sink funds and resources into product development. They are often required to factor into their balance sheets very complicated grant arrangements that they are able to access through the federal government under the Automotive Competitiveness and Investment Scheme (ACIS) program, which is the competitiveness program that underpins the automotive industry. There are similar investment support programs for the textile, clothing and footwear industry and for the pharmaceutical industry. Banks are often very reluctant to recognise those grant payments in the out years simply because they are not used to supplying finance to companies where are legally going to receive grant payments from the federal or state agencies.

We are very keen to improve the linkages between the financial services sector and our manufacturing sector to make sure that both communities better understand the needs of one another — so the financial services industry understands the needs and particular conditions of a manufacturing industry and so our manufacturers understand what the financial services community requires from them in terms of prospectus information and information about how they are structuring their research and development payments over what are often very long lead times. It was really about bringing both communities together. The thinking behind that emerged out of a report *Finance for Growth* which was jointly commissioned by the South Australian and Victorian governments. We have now used it as a device for developing the balance-sheet ready program which will provide practical assistance to exporters in the manufacturing sector to help them present financial documents in a form readily acceptable to financial providers. This program will run a series of workshops with groups of companies. It will train them to present the long-term opportunities to investors and finance providers in a contextual framework that is consistent with successful finance provision models from other long-run manufacturing markets. That is the program.

The CHAIR — That is the program. How are you going to measure its success?

Mr HOLDING — On page 143 of budget paper 3 you can see that for participation in the balance sheet ready program we have set ourselves a target number of companies which will be participating in the industry forums I outlined just a moment ago.

Mr RICH-PHILLIPS — I would like to ask about what the government is doing with respect to opportunities under the free trade agreements (FTA). Obviously you have Singapore online last year, Thailand hopefully at the beginning of next year and the US at some point in time. Given where you have resources in the

region with offices — you do not have one in Thailand or Singapore from a business office point of view — what is your department doing to address the opportunities those free trade agreements will create, particularly with respect to resourcing in the region? Are there plans to shift resources? You have announced the special trade envoy for north Asia but at the same time the Seoul office was closed.

Mr HOLDING — That was the year before.

Mr RICH-PHILLIPS — The year before last? Could you outline what the resourcing will be in the region to respond to the FTA opportunities?

Mr HOLDING — Firstly, I am very pleased to be able to inform the committee that the Victorian government business office network, to which Mr Rich-Phillips refers and is a very important part of the way we gather investment information and deliver now trade facilitation — that was not its role in the past — will now be resourced with an additional \$1 million per annum in the three years ahead. Those resources will be used in a number of ways but they will be used particularly in ways that support export opportunities into a range of markets, especially markets that are currently subject to free trade agreements or to discussions about free trade agreement possibilities.

To give you some examples, we have recently rolled out the Access America program which is run out of our San Francisco office. It provides direct support to Victorian companies that are exploring trade opportunities in the US market. I should say that previously our Victorian government business office network delivered almost exclusively investment facilitation support. Dubai was different — it was always a trade-focused office because of the nature of the relationship in the Middle East — but the offices in London, Frankfurt, Hong Kong, the recently opened office in Nanjing, Tokyo, San Francisco and Chicago were overwhelmingly investment focused. They will now have an explicit trade or export mandate as part of the Opening Doors to Export plan. The Access America program will support Victorian companies chasing export opportunities in the United States so when the US free trade agreement kicks in we see Victorian companies being able to access a trade facilitation resource which previously was not there.

As we have discussions with China about the possibility of a free trade agreement in that market we will also be rolling out an Access China trade facilitation program along the model of the Access America one. That will be resourced probably out of our Hong Kong office; we have not made a decision about that at this stage but we will be making a judgment about the best way to target trade facilitation and export resources in that market. We have also facilitated a series of meetings between companies in Victoria and Stephen Deady, who was Australia's chief negotiator in the US free trade agreement, to provide them with information about the agreement. For example, we had a meeting between Mr Deady — facilitated by our department — and agricultural companies, particularly the dairy industry, as well as other companies that were able access information about the US free trade agreement as it unfolded.

We are also working closely with Austrade. We know that Austrade is preparing a series of in-market brochures to support the dissemination of information about trade opportunities connected with the free trade agreement in Thailand. We are always happy to cooperate with Austrade in disseminating that sort of information to Victorian companies which might be interested in expanding their presence in that market.

In Singapore we were pleased to be able to recently host Mr Raymond Lim's visit to Melbourne. He is the Minister for Foreign Affairs. It was a very successful visit and one which enabled us to have some direct discussions with the Singaporean government about some of the direct opportunities that will emerge for Victoria out of the Singapore free trade agreement. I think the text for that is shortly to be signed. There will be some real opportunities not only in the export of goods but also particularly in the service exports area for a range of areas — for example, in education to name one.

Mr RICH-PHILLIPS — In the resourcing of the offices, you mentioned the \$1 million a year for the next three years that was announced in the statement this year. Is that in addition to the \$3 million that was announced in the *Building Tomorrow's Businesses* statement back in 2002?

Mr HOLDING — The \$1 million is new money.

Ms ROMANES — On page 142 on budget paper 3, there is reference to an objective of increasing the capacity of local industries to compete, grow and employ. Can you tell us to what extent that this is hampered or

assisted by the federal government's decisions in relation to both tariffs and assistance to the textile, clothing and footwear industries?

Mr HOLDING — Thank you very much for that question. This is an issue which has occupied the attention of the Victorian government considerably over the last 12 months. We work very hard to present the views of the Victorian textile, clothing and footwear (TCF) industry and the many thousands of Victorians who are employed within that industry to the commonwealth government during the discussions about the Productivity Commission's inquiry into textiles, clothing and footwear.

We were also able to commission a considerable amount of Victorian government research by the National Institute of Economic and Industry Research amongst others. That research focused on a number of different facets of the industry. It focused on the impact of the Productivity Commission's preferred view on the TCF sector in Victoria. It also focused on the re-employment prospects of those workers following significant economic restructure. There is no doubt that the employment footprint of the TCF sector has changed enormously over the last 15 or so years, and it was worth reflecting on the reemployment prospects of an industry where many of the employees are older and are often migrant women whose English-speaking skills are not the same as other sectors of the economy. They are often located in areas where there is existing high unemployment or often in regional economies where the prospect of finding new employment is very slim. That research painted for us a very bleak picture of the re-employment prospects of those workers, and we were very keen to inform the federal government of this in terms of the submissions we made to the Productivity Commission, but also direct representations to commonwealth ministers on that issue.

I was pleased to be able to lead a mission of Victorian mayors from sectors that have strong representations of people in the TCF sector to Canberra to advocate directly to Minister McFarlane as well as senators with swinging votes on some of those issues. We met with a range of senators from all political parties. With us we took a councillor from the city of Hume, mayors of the cities of Darebin, Greater Geelong, Brimbank, Kingston and Whittlesea which are all cities which have very strong representation of textile, clothing and footwear workers within them.

We are very concerned with the position that has finally been adopted by the commonwealth government. We think the phase down in strategic industry program support, the SIP program, is too rapid. We do not believe that the SIP program is appropriately structured to enable the industry to grow in the years ahead. We do not believe that the structural adjustment program that has been put in place is sufficient, nor do we believe that the arrangements in relation to free-trade agreements are sufficient to provide support for our textile, clothing and footwear industries. I made mention of the US free trade agreement before, but I do not propose to revisit that issue now. The Thailand free trade agreement is also one that has significant implications for our TCF sector. We are very concerned to keep making the point to the commonwealth that this is very much an industry in transition, and it does require support at the federal level to make sure those workers who are unemployed as a consequence of direct policy action of the federal government — whether it is the phase down in tariffs or free trade agreements — are provided with appropriate structured assistance in support.

Mr RICH-PHILLIPS — I would like to ask you about Invest Victoria. Could you outline to the committee what its role is going to be in terms of investment facilitation in relationship with Invest Australia, and also what impact the communiqué that was signed with the other states not to compete for investment attraction will have on the activity of Invest Victoria.

Mr HOLDING — There are a few elements to that. I will start with the communiqué that other states have signed. This is an area where Victoria has played a lead role and rightly so. We want to make sure that we are getting value for money from our investment attraction dollar. There is no doubt that when states compete inappropriately or in a predatory way for investment opportunities in other states that can have an adverse impact in terms of driving the total cost of investment up and taxpayers footing the bill for that. We are keen to make sure that that does not occur. That is why Victoria was the first state to propose an interstate agreement in relation to avoiding unnecessary competition for investment. Part of that agreement is that so essentially we will not go poaching one another's investments and paying above the odds to get companies to relocate from other states into Victoria. We are disappointed that Queensland has not signed. We are happy to share information with other states where investment attraction activities are occurring. We frequently do. I often ring interstate ministers to talk with them about companies that are shopping around for investment opportunities and seeking state government support

for that. Other states have come to the agreement with the right spirit and are also keen for obvious reasons to share information about what might be on offer in different situations.

At the same time, we think that Victoria has a very good story to tell about the investment climate that exists in this state. That is why we are very keen to do that benchmarking research and use that as a very important part of our investment attraction activities overseas. That is why the Victorian government business office network internationally will continue to provide Victoria with leads for new investment opportunities. That is why ministers and appropriate public servants will continue to travel overseas to support the investment attraction activities that Victoria is engaged in.

I know that the Premier and the Minister Brumby had a successful mission to the US recently which had investment attraction as a key element of those activities, and other ministers will continue to bear some of the responsibility in terms of promoting Victoria as an investment destination. We are also very keen to make sure that our efforts dovetail neatly with the activities of Invest Australia. I think this is an area where there can be stronger cooperation between states and territories in the commonwealth.

We have been very keen to make a point to a body like Access Australia — which has now been absorbed by Invest Australia but will continue to have the mandate for investment facilitation from a financial services perspective — that we are very concerned that its activities were very focused on Sydney. All of the staff of Access Australia was based either in Sydney or in Canberra even though Victoria, as I demonstrated in the earlier presentation, has a very significant presence of financial services investment. I was very concerned to see some of Invest Australia's advertising material over the last 12 months that focused on iconic Sydney institutions such as the Opera House and the harbour bridge suggested to potential international investors that if you come to Sydney you have seen all there is to see from an investment perspective in Australia. That is a terrible message for those agencies to put out. We are very keen to make sure that the activities of Invest Victoria both provide a direct presence of Victoria internationally but at the same time complement the work of the commonwealth and make sure that the commonwealth is mindful of Victoria's capabilities when it is attracting new investment and marketing Australia overseas. To that end, a lot of the overseas Victorian government business offices are co-located with commonwealth agencies — with Austrade, with Invest Australia bureaux or whatever — and so there is a close level of cooperation already. We want to build on that, and frankly I think the commonwealth government can do better. We will be encouraging it to do better through our efforts and through our cooperation.

Mr RICH-PHILLIPS — Can I take it from your answer that you do not support the abolition of Invest Australia as advocated by Mark Latham?

Mr HOLDING — I take the view that governments from time to time will make judgments about the best way to market Australia internationally. We take the view in Victoria that there is a lot to be gained from consolidating Victoria's investment attraction activities within one agency. We think that would be a very effective way of delivering that activity or that function to the Victorian government. We are certain that any commonwealth government, whatever its political hue, will continue to have a strong focus on attracting new investment to Australia. I have no doubt that a future Latham-led Labor government in Australia will work in very close cooperation with all the states and territories to make sure that investment attraction continues to be a function which is appropriately discharged at a commonwealth level.

The CHAIR — Thank you, Minister. We appreciate your answers to questions.

Mr RICH-PHILLIPS — Minister, just before we close, can I assume you or Mr Harmsworth will come back with an answer on that other question?

Mr HOLDING — Yes.

The CHAIR — I thank all our witnesses for their attendance this afternoon. I thank members of the two departments who compiled the extensive notes for both the minister and the PAEC secretariat. The follow-up letter to the minister will contain the questions you have taken on notice together with some that were not asked. We will be making sure that all the hard work that people have done is put to very good use.

Committee adjourned.