

ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into Manufacturing in Victoria

Melbourne—7 August 2009

Members

Mr B. Atkinson
Ms C. Campbell
Mr P. Crisp
Mr D. Davis

Mr H. Lim
Mr B. Tee
Ms M. Thomson

Chair: Ms C. Campbell
Deputy Chair: Mr D. Davis

Staff

Executive Officer: Dr V. Koops
Research Officer: Ms Y. Simmonds

Witness

Mr G. Boemo, Managing Director, Sprint Gas Australia Pty Ltd.

The CHAIR—Mr Giuseppe Boemo to the all party parliamentary committee which is hearing evidence today on the Inquiry into Manufacturing in Victoria. All evidence taken at the hearing is being transcribed and is being protected by parliamentary privilege. Comments you make outside the hearings are not afforded such privilege. Could you please state your name, your position and company, and company address please, Giuseppe.

Mr BOEMO—My name is Giuseppe Boemo. I am the Managing Director of Sprint Gas (Aust) Pty Ltd. Our company address is 38 Acheson Place, North Coburg, 3058.

The CHAIR—Thank you very much. You have the opportunity to speak for five, 10—if you really want to stretch our friendship—15 minutes, but I think where we will get the most benefit is questions and answers, Giuseppe. Can you make whatever comments you want to make in relation to the terms of reference and your company and then we will ask the questions, thank you.

Mr BOEMO—Briefly our company Sprint Gas is in the liquefied petroleum gas or LPG and compressed natural gas or the CNG industry. We have been in that sector of the industry since 1962. We design, develop, manufacture and distribute the systems for vehicles that are used to convert your car to LPG or to natural gas. In the last few years we have made a strategic decision to bring our offshore manufacturing back to Australia and as part of that process we acquired a new site, a new location, in Sussex Street, Coburg, which we are about to move into. That will afford us the space and the resources to be able to manufacture here in Australia. That decision was made off the back of Sprint Gas being a fortunate recipient of a Victorian Government grant under the Grow Your Business program where we were given a one for one grant to engage a consultant to do a feasibility analysis on manufacturing some of our components in Victoria. Currently these components are manufactured in Italy which is, for want of a better description, the Silicon Valley of our industry. That is where all the major manufacturers are based.

With regard to technology and the raw materials that are used, Australia is one of the world's greatest producer of copper and zinc which together become brass which we use a lot of in our products, as well as aluminium and steel. We have the raw materials here at our doorstep. We do not have a manufacturing sector for our industry at all in Australia. We have one manufacturer of cylinders in Australia but there are no manufacturers of components here in Australia. We have undertaken further feasibility studies with companies such as Invetech on manufacturing of different components here in Australia, and all feasibility studies that we have done have led to the same result in that it is feasible to manufacture our components here in Australia. That is based on a direct comparison of the costs of the components from our current suppliers to the cost of manufacturing in-house. It does not evaluate the benefit of reduced stock holdings, not using trade finance facilities, such as letters of credit, and the resources it takes internally for the administration of importation of components from the other side of the world. There are other hidden benefits in there that are non-tangible at this stage.

We believe that by manufacturing in Australia we will definitely employ more people within our organisation. We will add to the employment of people in our industry. LPG Australia, which is our industry association, currently publishes that Australia wide there are 2,500 registered LPG installation businesses and approximately 7,500 certified LPG installers across Australia. The benefit for Victoria and the Victorian Government is that approximately 50 to 55 per cent of our national industry is based in Victoria. That has traditionally been the case purely because of the fact we have more service stations per capita that have LPG because we are closer to the LPG fields and traditionally all of the suppliers have been based in Victoria, and we are a state that travels considerably. Even though we are quite a small state in terms of geographic area we do travel a lot more than say people around Sydney and in Queensland. That lends itself to LPG and natural gases and alternative fuel purely because

of the cost and now, more and more, the benefit of such fuels is a reality.

Issues we have had with the governments in the past is, for example, our discussions with the Department of Finance, Tim Holding's department, with regard to the government fleet in Victoria and their focus was on using more Toyota Prius vehicles rather than locally made vehicles converted to gas. We showed the department that a Prius took about 600,000 to 700,000 kilometres before it became as economically viable as a Toyota Corolla converted to gas and that a Prius has approximately 3.3 to 3.5 times more greenhouse gas emissions running on a freeway than a Ford Territory converted to gas as well. We tried to say to the Government that whilst they keep their cars for a certain mileage, the difference in the economic benefit between the Corolla on gas and a Prius can be reinvested back into businesses in our industry to redevelop newer technologies that make readily available fuels, such as LPG and natural gas, that Australia has an abundance of, by making the technologies more efficient, and that LPG is seen not as an alternative fuel but as a preferred fuel. That is what we have tried to push with governments but we have not been very successful in that because a hybrid car is a lot sexier, if you can use that word, than a car that is converted to LPG or natural gas.

We wanted to manufacture here in Victoria purely because of the fact that we could control the quality of our components, we could control the development of those components a lot better, and the internal controls in our business would be a lot easier if we had the manufacturing in the warehouse rather than on the other side of the world. We can also control the costs because we see from our suppliers when base metal prices rise, the cost of our products rise. As we have seen in the last eight months, not 12 months, base metal prices have fallen, yet the cost of our products has not fallen. The cost keeps on increasing.

The CHAIR—These are the Italian ones.

Mr BOEMO—And Thai. We make our cylinders in Thailand. If we could manufacturer the cylinders here in Australia we can make them cheaper here in Australia than we can in Thailand and that is not including the freight component and the administration of importing it in, and the same with our valves and pressure reducers, we can make them cheaper here in Australia. Yet when we look at the federal government grants and state government grants, a lot of them match you dollar for dollar, yet we have to make the investment ahead of receiving any of the grant money. Getting that sort of financing for million dollar plus investments at the moment is impossible. Twelve or 18 months ago we could have made the investment out of cashflow but we were not in the position to do that because we were still going through the feasibility process. Now that we are in a position to proceed, we do not have the cashflow because of the global financial crisis, and all that the banks say to us is, 'Well, if you want to make it cheaper, make it in China.' That is fine for any industry at the moment because we do not have the manufacturing resources in Australia if you are manufacturing multimillion pieces plus per year.

Given that we would be manufacturing from 30,000 to 60,000 pieces per year, manufacturing in China with a quality manufacturer or anywhere else, quality manufacturing for that volume of material is very difficult, and to find a quality partner over there is next to impossible. In our experience, initially you may get fantastic prototype components but when the first shipment arrives they are completely at the other end of the quality scale. That is not an option for us and we do not want to look at that but that is the only answer that we get from a number of the Australian banks when we have gone to them requesting financing for manufacturing in Australia. As a result we are in the process of moving to an internationally based bank that is excited by the idea of being part of manufacturing in Australia for a green technology, for environmental technology, which LPG is at the moment.

What we see is not only manufacturing now but manufacturing now will allow us to build a

knowledge base in Australia, which is not here at the moment, it is all overseas. It will allow us to build a knowledge base around developing fuel systems for vehicles not using the traditional petrol and diesel, but allow us to develop that knowledge so that in the next few years, as we further our experience, we can start doing R&D projects on fuels such as hydrogen, which is a fuel for 20 to 25 years from now. It is all well and good, these big, publicly listed entities and investment banks investing in a hydrogen project now, but the reality of it is they are not going to get a cent back in the commercialisation of these projects for probably 20 years because we do not have the infrastructure to support a hydrogen based vehicle at the moment. That is just an example. When the infrastructure is in place you can commercialise the project but you have to take one step at a time along the way to understand the technology we have now and to develop that into other fuels.

The CHAIR—That is really helpful. Thanks very much. I have a range of questions but can I start on asking you to expand a little more on the dot points you gave us in your shorthand presentation. The reason you brought manufacturing back to Victoria from overseas was stock costs, administration, freight, having R&D here, quality, and given the smaller volumes—well, that all ties in with the quality. Do you mind running us through those in a little more detail because I have had the opportunity to visit Giuseppe's site and have seen what he wants to do and what he is in the process of doing in his relocation and it is very impressive. If you can document those in a little more detail it would be helpful for our report writing, and then Bruce will want to ask some questions but I particularly want to hone in also on finance because I think Australian manufacturing has a real problem in obtaining finance when there is a mindset that everything should be manufactured offshore—pretty much everything offshore.

Mr BOEMO—If we can get back to why we want to manufacture here and the benefits of it, we import approximately \$A6 million worth of equipment from international suppliers. The import replacement, if we were manufacturing those components that we want to manufacture here, would be about \$6 million straightaway. With all due respect to this great country, Australia does not have a market, in our industry anyway, to sustain a full manufacturing investment. Manufacturing here in Australia is a fantastic first step in developing export markets. Our consumer here in Australia is probably one of the more diligent consumers globally in our industry and a demand for quality is seen in Australia that is not seen, in our experience, anywhere else in the world. It will immediately ensure that the design of our manufacturing systems is world's best practice because we have the world's most demanding consumer. We still have to compete with international suppliers in the cost of their product. We would also have to compete with any competitors from Asia, and currently there are none that compare and can compete with the products from Europe. The Europeans do manufacture in bulk, and in Italy they convert fewer cars than we do here in Australia. Yet that is the Silicon Valley of our industry because they export all over the world out of Italy.

South-East Asia is the bread basket of the world basically at the moment. For our industry especially, anything to do with Australia we can compete. We buy from Italian suppliers and manufacturers and we compete with them in Asia and we have found a lot of the Asian companies prefer to deal with us because of our geographic proximity to Asia and also because anything with Australia on it is loved in Asia. We can compete with the manufacturers of our equipment on price as well and on the solution we provide. Whilst manufacturing in Australia does have to be around about 30,000 to 60,000 pieces a year, it justifies a significant multimillion dollar investment in manufacturing, the benefit of making that investment here—and it is not only getting one shift of employees working during the day for the Australian marketplace, it is about putting on a second shift and a third shift that manufactures for export markets. We can amortise an investment on our manufacturing of what we want to do here in Australia by selling to Australia over a three-year period. We can amortise that investment easily. The real benefit for us and the benefit for Australia is the

employment in manufacturing for export markets, which is “Made in Australia” for our industry, would be a preferred supplier globally.

The CHAIR—When we had a conversation at the work site, you talked about Australian standards. You have referred in your evidence about the consumers, but you explained to me about Australian standards that are required to ensure that our gas in vehicles is safe, and the difficulty you have had in ensuring the quality from offshore manufacturers to Australia's high standards. Could you briefly give us a little bit of evidence on that where we have high quality and, in saying that, could you also make some comment in relation to Australian Made. Do you badge things Australian Made? We had yesterday the Australian Made people here and they talked about Asia being really affirming of the Australian Made logo. Do you use that?

Mr BOEMO—Where we can, we do. In some instances we cannot because the bulk of the components in the system that we provide are sourced from outside of Australia.

The CHAIR—When you do the new manufacturing here—

Mr BOEMO—When we do the new manufacturing, we definitely will be able to, yes.

The CHAIR—That will help your Asian markets as well.

Mr BOEMO—Correct.

The CHAIR—Can you give us a little bit on the standards.

Mr BOEMO—With regard to the standards, for the components in our industry, Australia has amongst the most stringent standards in the world. Sometimes we do go over the top in some of our standards outside of commercial reality but by and large our standards are the best standards in the world, especially for the component design and the component manufacture, that is without a doubt. We now submit to an emission standard as well. While it is quite onerous on the suppliers of equipment it is a good standard but I believe, and the general industry perception is, that it does go above and beyond what is required. What I mean by that, the standard requires that we have to certify each different make and model of vehicle, and they have been relaxed somewhat to include engine family. If the same engine is used in a number of different models—by Ford or Holden or another manufacturer—it is covered under one emission certification.

In Europe they use an emission standard which you have to certify on the smallest engine and the largest engine of a vehicle manufacturer, and the standards authorities in Europe make the assumption that if you can certify the smallest engine and the largest engine for emissions levels, then your products are capable of providing correct emission controls to each make and model of vehicles in between. By that I mean you might get a small 1.4 litre Mercedes engine in Europe and then you certify that and then you certify the big six litre Mercedes engine and they make the assumption that everything in between will meet the emission standards on that. Whereas in Australia we have to certify each different make and model in between, which is quite an expense. Unfortunately we have to pass that expense on to the consumer. In our industry we do have the Federal Government LPG vehicles scheme which provides a rebate to the private motorist of \$1,750 for each conversion. Whilst we do have that in place at the moment there is still the cost of each conversion creeping up over time.

Our focus has been in wanting to manufacture here. We have done all of our feasibility studies not on manufacturing the components that we use now but on manufacturing components that are more advanced than the components we use now. For example, our

valves for the cylinders, we have designed them in our feasibility study, they are a bit harder to manufacture, albeit they use less material. It will be cheaper for the consumer. We want to manufacture the cost out of the component so we can bring the costs to the consumer down.

The CHAIR—You also said when you imported items you had to test them over here, which was an added cost, whereas if you manufacture them yourselves you know that cost is covered.

Mr BOEMO—Correct. We have had some unfortunate changes to standards as well. I was explaining before to the executive officers that recently, last year, one of the standards for LPG cylinders was changed and amended to allow any LPG cylinder test station, which is certified under AS2337 in Australia to allow any test station around the world to be able to sell into Australia an already tested cylinder, as long as it met Australian standards. Now, whilst that is great in theory—and this was pushed by the fuel companies so they could buy cheaper domestic LPG cylinders that are typically found in barbecues and in rural areas to provide LPG—they can buy cheaper ones now because they are not going to be tested in an Australian test station but in any test station around the world. The theory is that they are tested to Australian standards but the policing or the quality control of those test station facilities is still quite dubious in our mind.

The CHAIR—That is where your members of parliament can come in. If you find them not up to standard you can let us follow them up.

Mr ATKINSON—On the stuff that you buy from overseas—I will not suggest any source—what is your defect rate?

Mr BOEMO—That changes. The source from Europe, we generally do not have many defect rates. For example, one of the ECUs that we source from Europe, we have probably had three defects in a few hundred thousand. Where we have sourced cylinders from Thailand, in one shipment we might have defect rates as high as 10 per cent or 15 per cent that we have to scrap. In other shipments they might be 100 per cent correct, no defects. It is the inconsistencies. The problems that that creates is that because we do not know what we are going to get, there is no stability in their supply, the problem that that creates is the down time that we have to cost into the product for checking each and every component. There are 10 screw holes on our cylinders, for example, where we attach the valve and subcompartment on top of the valve to protect the valve. We have to check the thread on each and every cylinder that we bring in. When you have a few thousand cylinders per month, if we manufactured those components here in Australia, we would know as they came off the machine that they are all 100 per cent correct and we would not have to test it. It makes the cycle time for one cylinder in the tens of minutes, maybe about 18 minutes. Now when we have the ones coming in from Thailand they are probably getting up to about 40 minutes per cylinder in what we have to check. That in itself adds a cost to it.

We have had issues with one supplier from Italy in that the company was previously a family business, it was sold to a multinational Italian company that are the largest manufacturers of a component for domestic gas use, mainly in hot water heaters. They are one of the largest in the world. They have put the theories and philosophies of a €600 million to €700 million a year company into about a €20 million a year company that was considered to be the premium manufacturer of this component in the world. They have put the same cost-cutting philosophies there. Our defect rate from that supplier has increased dramatically since the family sold the business. It is about the care that they take and what cost controls and quality controls they have in place. When they cut costs out of a product, everyone should be trying to do that but you also have to increase your spend on quality control. When you do not do that, then that is when you run into problems, which we had with one supplier. Yet other suppliers, a valve manufacturer that we use started off in a factory probably about twice the

size of this room, that was 10 years ago, and now they are one of the leading valve manufacturers in the world, making about 1½ million valves a year. They have automated manufacturing and they have zero defects.

The CHAIR—Is that Italian?

Mr BOEMO—Yes, in Italy, one of our partners over there. That is the sort of manufacturing technology we would be wanting to bring back here to Australia.

Mr ATKINSON—In terms of making the investment in plant and equipment, what level of grant were you anticipating as needing to provide the incentive for you to do it?

Mr BOEMO—I think any type of grant that you can get—

Mr ATKINSON—But what level?

Mr BOEMO—One for one is more than sufficient. I think a 100 per cent grant, whilst it would be fantastic, is unrealistic because there are probity issues around giving 100 per cent grants. For what we would like to do, our manufacturing investment is around the \$5 million mark. Twelve to 18 months ago people were throwing money around to that sort of level to be able to get financing for that, to hit certain milestones where federal government money or state government money would be flowing back into the business to repay the money already spent. Now with the lack of finance around there and the attitude of the banks at the moment with those sort of investments, it is not necessarily the grant level that has to be changed but more on the administration of the grants. It is almost currency. If you would be able to go to the government and say, 'This is what I want to do. This is how much it's going to cost,' and I am not saying the government has to write out a cheque but the government writes a letter saying, 'Okay, based on this and this, and this level of spend, we are going to guarantee that business X, Y and Z will receive A, B, C amount of money providing they meet these milestone targets.'

Now, taking a letter like that to a financier is almost like giving them a bank guarantee or a letter of credit. We can take that and say, 'Right, we have this from the government but to get this up and going we need this amount of money, and you're good because you're going to get this money back in return.' If it is one for one or a bit over one for one, that is fine, but providing 100 per cent, knowing the attitude of a number of businesses out there at the moment, raises certain probity issues. There still has to be certain skin in the game by the business owners I think and to really commit to their businesses. When you are talking seven figures and even six figures or even five figures that is a fair amount of skin in the game for the business owner. If he or she gets money back in return, a one for one rebate back from the government, that is the government funds 50 per cent of the investment, then I think that is more than enough but it is more the administration of the grants rather than the level. If there could be something on paper from the government to financiers, because whilst they say they are experts in certain fields, they will appoint a bank manager and call him a manufacturing expert purely because of the fact on his register of clients he might have one or two manufacturers. He does not really understand what manufacturing is. It is more the guys out at Glenroy—I cannot remember the name now.

The CHAIR—The Victorian Government Business Office.

Mr BOEMO—The business office out at Glenroy. Those guys are typically out of the manufacturing industry or have had a lot of experience with manufacturing, so carrying the weight of one of those guys signing off on a piece of government letterhead, what the government is going to do for us provided we meet all these milestones along the way, and you give that to a financier that would help a lot more than upping the amount of dollars that

the government gives back.

Mr ATKINSON—What are the milestones? What does the taxpayer get out of this?

Mr BOEMO—The taxpayer will get increased revenue; money staying in Australia instead of being paid overseas. Whilst we all love dealing with the banks, money staying with the companies, so increased company tax. Companies being able to employ more people. From the government there is increased payroll tax. For the consumer they get an Australian made product; they get employment opportunities in Australia and they get cheaper components, because the technology out there, whilst they say labour is a cost in manufacturing in Australia, the level of technology available now completely takes labour costs out of the picture.

The CHAIR—How do you get that point across to financiers and the Australian banks?

Mr BOEMO—It is difficult. We have given them examples. A partner of ours from Malaysia, for example, he manufactures under licence from an Italian manufacturer for Asia. One operator can manage five small CNC machines that each turn out 10,000 pieces a day. One guy is responsible for 50,000 pieces a day.

The CHAIR—CNC machines?

Mr BOEMO—Computer numerically controlled machining centre. You put a lump of metal in and it machines it all up.

The CHAIR—It is a term we do not use often around Parliament House or at home.

Mr BOEMO—The technology available today completely takes the cost of labour out. Companies giving the excuse that labour is too expensive to manufacture in Australia are trying to find easy excuses. Even in textiles, you see PacBrands that was quite famous six months ago for saying labour was an expense. Yes, I mean, if you are hand stitching Bonds singlets and underpants, fair enough, it would be expensive but they do not hand stitch anything. It is all done by machines. Using the cost of labour I think is drawing a long bow. Getting back to the taxpayer it is about keeping the money back in Australia, that reinvestment can happen here in Australia. That is the most important thing, with employment opportunities, and having a full, vertically integrated supply chain for any industry that is complete in Australia would be fantastic. Now, even one of the most basic supply chains, in terms of its transparency, would probably be in food, for example. You have your cow in the paddock that goes to the abattoir, which is based here and then it goes into the supermarket or the butcher after it is processed. You think that would be 100 per cent Australian but they are probably even providing little plastic trays and the cellophane wrap that is manufactured overseas. That might have a component of imported product as well. Trying to maintain a 100 per cent Australian sourced vertical supply chain would be fantastic and we can create that in our industry here in Australia.

The CHAIR—You think in your work you will be able to do it 100 per cent?

Mr BOEMO—Yes, because all the raw materials are Australian sourced.

Mr ATKINSON—What about the processing?

Mr BOEMO—The processing. How do you mean processing?

Mr ATKINSON—Australian sourced, you have a lump of iron ore, that is terrific,

but that is not going to make you a cylinder unless it is processed. How confident are you that the metal processing to give you raw material to then recast into a cylinder is available from Australian supply?

Mr BOEMO—It is good that you mention that because we have tried in the past to get our quality of steel in our cylinders that are manufactured in Thailand, we have tried to increase that. It was only BHP before, it split into OneSteel and BlueScope. We went to BHP back then and we have been to both BlueScope and OneSteel since to try to export our steel into Thailand to do that. We were not able to, they would not allow us.

Mr ATKINSON—Who would not allow you?

Mr BOEMO—BlueScope, OneSteel, and back in the day BHP, because they controlled the export of it. Now, into Thailand, Nippon Steel had the monopoly on the market there. Japanese steel was used there. Here in Australia we would not be able to import coils of steel, we would be buying coils of steel directly out of the steel mills operated by BlueScope or OneSteel. We buy our raw coil which we would then straighten, cut and then shape into a cylinder. Unless BlueScope and OneSteel starts sending iron ore offshore and bringing back coils—the freight would be astronomical because of the weight of the components—then it is pretty certain in the case of steel that you are going to get Australian made steel. With regard to aluminium it is the same sort of thing. If you go to the Portland smelters you can buy aluminium straight from the manufacturer and you can use that. With regard to the brass, a lot of businesses in Australia now, instead of smelting their own brass out of copper and zinc, are recycling brass products. You cannot control where they come from. Because of the strict product quality requirements and metal composition that we require for our cylinder valves and other components—we use brass in fittings on the cylinder—we need to stop any potential electrolysis between the steel of the cylinder and the brass valve, so we have to use pure raw materials. Admittedly we have gone to Asian manufacturers—Korean, Taiwanese and Japanese manufacturers—that are considered the better metal manufacturers in Asia. They admit that they cannot match the price and the quality of brass coming out of Italy. Have a guess where the Italians get their copper and zinc from—Australia.

With brass, aluminium and steel you can guarantee that you are going to get an Australian made, an Australian sourced product. With some of the plastics that are involved, for example, the float on the valve, we have a manufacturer in Gisborne and they use specialist plastic companies to source it that are Australian based. Whether or not they source all of their materials from Australia we have not gone into that sort of depth for the plastics but we know for the metals we can control exactly where they come from.

Mr ATKINSON—Are you exporting now?

Mr BOEMO—We are.

Mr ATKINSON—What percentage of your business is that?

Mr BOEMO—At the moment it is about 10 per cent.

Mr ATKINSON—If you were to develop this opportunity, where do you see export going?

Mr BOEMO—We believe, whilst maintaining our Australian market, exports can be 75 to 80 per cent.

The CHAIR—75 to 80 per cent of your entire business with the new plant?

Mr BOEMO—Yes.

Mr ATKINSON—It is all new business. I am interested in the concept you advanced because I see the problem in reverse and I agree that it is a major issue. In reverse I see as our manufacturing contracts decrease our ability to identify opportunities to do new things is decreased because people are not exposed to issues and opportunities.

Mr BOEMO—Correct.

Mr ATKINSON—One of the premises you advanced in what you were talking about was the opportunity for knowledge development from your experience identifying new opportunities.

Mr BOEMO—Yes.

Mr ATKINSON—Do you want to make some more comment on that?

Mr BOEMO—There are small things—and I will try not to divulge any intellectual property.

The CHAIR—If you are worried about this going up on the internet, if you want to go off the record for something, just say so.

Mr BOEMO—If I can go off the record for this particular thing I am about to tell you, if that is okay.

The CHAIR—Can you turn that off, I do not want anything recorded at all.

Evidence was then taken off the record—

Evidence then continued on the record—

Mr ATKINSON—We are probably running short of time and we have imposed on you a fair bit but there are a couple of things that I have rolled together. The first one is whether or not your discussions in terms of commercialising what you want to do or financing your operations has also involved venture capital firms, whether you have been to venture capitalists as distinct from banks. I am also interested in terms of the discussions you have had with anybody about finance as to the extent you have been full and frank. The reason I ask that is, one of the roadblocks for financiers is that they lack some confidence in the businesses that come to them and, as you said, they do not necessarily have the technical understanding and they lack some confidence in the business plans and so forth. You as a businessman going to them are worried about your IP and whether or not it might be spoken about at dinner tables around society Melbourne in the future and you start to miss out to, again, a major corporate with your idea because a banker has a big mouth.

Mr BOEMO—Yes.

Mr ATKINSON—I am interested in the extent to which you are full and frank, and comfortable about being full and frank as a small business person and whether you have perceptions on that. The other question I want to ask is you have almost described the grant from government—probably the real dollars count too—as a letter of comfort.

Mr BOEMO—Basically, yes.

Mr ATKINSON—I wonder to that extent are there other areas that could be

incorporated in a letter of comfort from government other than for the government to say, 'Here's money.'

Mr BOEMO—We will go over those issues one by one and we will start with the management of the business and the confidence that financiers have in that, and going to venture capitalists and private equity. At the moment, venture capitalists and private equity have tightened significantly their time lines and their expected returns on their investment. For a lot of private equity at the moment it is closed because they themselves cannot seek funding from banks and superannuation funds. A lot of that money is closed. With regard to the bank, from our revenue in 2004 up until today and the consolidated 2009 financial year revenue—I took over the business before my father passed away in 2002—is 11 times what it was in 2004. We have had that growth since then and we have almost doubled the comparable growth of the industry. I believe we have proven to the bank that our management is sufficient to be able to warrant this in our experience around the world. In terms of what the government can provide, I think it is not only the money that is critical—whether they are government funded or part of the government itself—but there are programs, such as through the Industry Capability Network, that have provided people or experts in certain manufacturing areas to almost act as a mentor when businesses are taking on new investments and new ideas, say in manufacturing.

Now, the problem with these guys is a lot we have found come with all the bells and whistles but when you delve down into their experience of why they are no longer in the private sector it is because they were no good at what they were doing. If the government could provide as part of the grant, perhaps have a list of—

Mr ATKINSON—As part of or instead of the grant?

Mr BOEMO—As part of, as well—perhaps have a list of businesses that are complementary to each other that can add value to each other. There is a lot of grey hair in Australia, these guys started manufacturing 30 to 40 years ago, they are getting to the end of their careers, they have done well. Back in the 80s when their kids were growing up, 'There's no way you're going to become a fitter and turner, you're going to go to university.' A lot of their kids—this is our experience anyway—have become accountants, doctors or lawyers. They have no succession planning. Twenty-odd years ago they would have spent \$10 million or \$15 million back then doing their facilities up. Now they are getting to 70 years of age and they are thinking, 'I'm not going to spend that sort of money. Look, there's a Chinese guy we used to manufacture for, he wants to buy us and take it to China. He's going to give me X million dollars. See you later.' He closes down, moves everything to China and manufactures with his partner in China.

All he has to do is give them a little bit of grey matter, he would have forgotten more than the bulk of engineers coming out of uni have ever learnt. There are people like that that the government needs to tap into more and say, 'As part of the grant we are going to pay for this guy, maybe once a fortnight, to come in for a day and sit with you and you go over all your ideas that we're going to give you money for you to realise these ideas and strategies.' They are absolutely wasted out there because the banks and admittedly even some of the people in the government would prefer a report done by a KPMG with a guy that has been an accountant that has probably never stepped foot in a manufacturing facility in his or her life. They look at the numbers and say, 'It's viable,' or, 'It's not viable,' and they do not really understand the extras that it creates.

Mr ATKINSON—Who did your feasibility? What sort of person?

Mr BOEMO—We used a company called TXM that was on a panel for the Victorian Government grow your business grant. The guys at TXM are very good at what

they do, but they have a limit in their resources as well. When we wanted to further analyse our strategy in a more in-depth fashion, we went to a company by the name of Invetech. Invetech are world leaders at what they do. They are beyond reproach. Whilst their offices look corporate, the guys at Invetech are guys that were machine operators when they started their apprenticeships, but now have built up so much knowledge that they are paid six-figure salaries by the big multinational to be consultants. They are the guys you want. They love the stuff. If they could do it for free they would but Invetech make them charge. Maybe even providing companies like Invetech the opportunity to sit in on some of these potential manufacturing projects or government teams, especially for the bigger projects. We have spent six figures with Invetech doing further feasibility studies to see if it is worth doing. It is all in this document here and I have provided this to the bank we are changing out of at the moment. This is a 200-odd page document about a corporate development, what we want to do with manufacturing in our retail and wholesale distribution and why we want to manufacture. Invetech make up the last 80 to 100-odd pages.

The CHAIR—The Aussie bank was not interested in that. You had to go—

Mr BOEMO—You give this to a bank manager, is he going to read 200 pages? Absolutely no way. Even if you showed them where the numbers are they will not be understand how, what, why. That is the issue. They do not have the knowledge to be able to understand that.

Mr ATKINSON—In terms of your perception or experience or what you might have picked up from other manufacturers—because there are other people you touch base with—do you have a perception of the welcome mat that is received by a small manufacturer or potential manufacturer such as yourself with the existing product or concept, technology?

Mr BOEMO—In our industry?

Mr ATKINSON—Well, obviously from your own experience, but even if you have anecdotal from other people, compared to the welcome mat—and this is at government level—provided to major corporates or multinationals? One of the areas I am thinking of is hydrogen. Some years ago I knew of a guy who had developed a terrific process in Australia, technology for reprocessing rubber. He was trying to get a government grant, could not get it, but Pacific Dunlop got a government grant to import technology that was in theory a technology from America. They got it because it was a safer bet for the government because if it went bottom up at least they could blame Pacific Dunlop. Whereas if it was the guy that I knew then it would be the government that would get a kick in the pants because nobody had heard of this guy. I am interested in that as a constraint in terms of innovative small, medium enterprise developing new technology, new product, new service, new manufacturing opportunity because of differing attitudes potentially. I do not want to put words in your mouth because this might not be your experience, but the potential of differing attitudes in terms of the welcome mat at government departments.

Mr BOEMO—Our experience is exactly the same as what you have described. In the Federal Government area there is ACIS funding which is funding for businesses that supply the car manufacturers, say, Ford and Holden. Ford and Holden only put out about 10 per cent of the cars a year that are converted to gas. Ninety per cent of our industry is aftermarket. We cannot get a cent of ACIS funding, even though we are 90 per cent of our industry, because we do not supply Ford and Holden. To supply Ford and Holden as well they would be supplying circa 10,000 cars a year perhaps. The resources that we have to put towards that 10,000 units makes it not attractive commercially to be able to be a supplier to Ford or Holden. You can put that same set of resources to supplying the rest of the aftermarket and you are making a lot more money. Because some of those companies supply Ford or Holden they get access to ACIS funding. The Green Car Innovation Fund, for

example, that is another one where we have a commercially ready and commercially viable and commercially available product that with further development here in Australia we can do with some funding from the government.

We can manufacture here and build our knowledge here in Australia. It is going to be a struggle to get a cent out of that because Toyota can pay lobbyists and can go to your Deloittes or your KPMGs or your Ernst and Youngs and say, 'Right, here's half a million dollars, prepare a brief so we can get that government funding.' Out of half a billion dollars that the government is throwing out for the Green Car Innovation Fund, if Toyota can get a couple of hundred million dollars to manufacture offshore and to use technology that is developed and designed offshore, then it highlights further your point, what happened with Pacific Dunlop and the rubber processing, it is another example of that.

The CHAIR—On that, I am your state MP, give me what you need, it will not cost you a brass razoo and I will make sure you get the appropriate appointments.

Mr BOEMO—Yes, I will do that.

The CHAIR—This needs to be something perhaps we put in our report that a lot of people are unaware of the resources that are available from their state MPs. When people come to your door, you help them. You do not doorknock every single house and every single business. Last night I was talking at a Rotary group and talked about some of the things we have done to assist people in the last week, for example, BMC grants. People do not realise that MPs can assist with formulation of grants in the right lingo. We perhaps need to highlight that because you would not have thought about it and I would not have thought about asking you. Even though I am a state MP, and you are talking about federal funding, I can assist, lobby and do that. So can federal members, and they do not have to be members of a particular political party. Public servants know if an MP is behind a particular project, they will not necessarily guarantee obviously but they will certainly read those applications if support letters come in.

Mr BOEMO—To get back to that description, the welcome mat is enormous for well known companies, but for small to medium enterprises, the welcome mat is a tiny little thing out the back door and you will be lucky to find it. I am sick of hearing from some of these consultants about government funding. They say, 'We can get you access to this money that they don't publicise that they're throwing out,' or, 'The government is providing for grants.' I say, 'Hang on, the government has to publicise each grant that they do.' I know of a company in our industry that has received a couple of grants under ACIS funding of seven figures or above and I know this because we have tried to buy them twice but their staffing structure did not lend itself for our company to be able to guarantee everyone's jobs, it was far too top heavy. Our bid was the highest bid by more than 10 per cent on both occasions but as it did not include a guarantee for all administrative and office staff for their jobs our bid was turned down. They have received a couple of million dollars of ACIS funding and I have not seen one improvement to their facility.

I think that money has gone into the pockets of the owners. I know I am protected by parliamentary privilege so I can say that. I have not seen it and I have been through there before they received one lot of the funding, and went through after they received the first lot and the second lot and I could not see any difference. For that sort of money you would see more than buying a new server and a couple of new computers and employing a new design team. You see fundamental changes in the way they manufacture for that money. That was not evident. I have spoken to guys that received funding. The CSIRO or the CRC were doing funding for the automotive industry. A guy said to me he received funding because one person there said, 'Have you got anything on the go at the moment because we need to get rid of this money, otherwise we don't get it next year in our budget.' He was given this money for

technology that I thought was a disgrace. It is little things like that. A lot of these companies get the money and they do not have any post-grant evaluation. They haven't used the grants to better Australia and that is where probity issues—and I am glad it is on the terms of reference. It is ultra critical. If the taxpayers are paying \$1 million for a company to improve itself you expect that the company would improve over a period of time, and return to the economy a return. It is nice going in and buying a new Mercedes with money from the government. It is like a lot of the farmers now with this drought assistance, they all have brand new land-cruisers. How is that improving anything? —but we will not get on to that.

The CHAIR—Let's get back to the terms of reference.

Mr BOEMO—You know what I mean?

The CHAIR—You have been extremely generous with your time. As I said at the outset, I am very enthusiastic about your business because I have had the chance to see it and have first-hand evidence on sight from you. I think we have covered pretty much what we need to cover. I know you are frightfully busy and you do extensive travel. Thank you for your time this morning. If there is a remote chance that Yuki and Vaughn have not had every item covered in the notes they have taken, can we please impose via an email so we can quote in the report things that are absolutely accurate. When it comes to the report, if there is reference made to your evidence we will get that back to make sure we have interpreted things correctly.

Mr BOEMO—I hope the evidence is useful in improving anything.

The CHAIR—It certainly has been. You will receive a copy of the transcript in about a fortnight. Typing errors may be corrected but not matters of substance. Good afternoon.

Mr BOEMO—Thank you.

Witness withdrew.

Hearing suspended.