

**ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE**

**Inquiry into Manufacturing in Victoria**

Melbourne—7 August 2009

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Mr S.J. Dargavel, Victorian Secretary, Australian Manufacturing Workers' Union.

**The CHAIR**—Welcome Mr Steve Dargavel who is here appearing before the all party parliamentary committee and we are receiving evidence today on the Inquiry into Manufacturing in Victoria. All evidence taken at the hearing is protected by parliamentary privilege. Comments you make outside the hearing are not afforded such privilege. Could you please state your name, your position, the organisation and its business address please, Steve.

**Mr DARGAVEL**—My name is Stephen John Dargavel. I am the Victorian State Secretary of the Australian Manufacturing Workers' Union which is located in Queensberry Street, Carlton South.

**The CHAIR**—Thank you. We will be taking this down and within about a fortnight you will be getting a copy of the transcript. Over to you for verbal evidence. You can take up to 10 minutes. The ideal is no more. Then we will ask questions. Thank you.

**Mr DARGAVEL**—Sure. The Australian Manufacturing Workers Union is the largest manufacturing union in the country, probably the largest blue collar union in the country. We organise workers in a diverse range of manufacturing industries—metal fabrication, food and confectionery, printing, automotive, automotive components, petrochemical, the list goes on. Firstly, if I can touch on manufacturing employment. The manufacturing employment figures are conventionally a fairly volatile set of figures but there is quite a clear trend in manufacturing employment in this state and it is a southwards trend. The manufacturing in Australia employs something like 11.2 per cent of all full-time jobs in the country and 13 per cent of all private sector jobs. It is not an inconsiderable industry. It employs more than 20 per cent of all blue collar workers in the country. It is probably the industry which provides the greatest capacity to lift the standard of living of blue collar working-class families through the acquisition of skills by transforming raw materials into value add. It contributes about 12½ per cent of Victoria's gross domestic product and 12 per cent of all employees in Victoria attached to the manufacturing industry.

**Mr ATKINSON**—Did you have a profile in the age of employment?

**Mr DARGAVEL**—Not with me.

**Mr ATKINSON**—Or a trend?

**Mr DARGAVEL**—Not with me, but I can provide some age figures. Between May 2008 and May 2009, employment fell from 340,000 to 297,000 which is a decline of 13 per cent. It is the first time in the living memory of anyone in this room that manufacturing employment in this state has dropped beneath 300,000, and it is the first time in the living memory of anyone in this room that manufacturing employment nationally has declined underneath a million. It is a very significant decline, part of which is related to the proverbial GFC and part of it is to do with some underlying factors which we have not adequately addressed in terms of trade policy, industry policy, procurement policy and to an extent research development—some research and development things which I will talk about briefly in a moment.

In this current downturn, what the employment figures do not adequately paint the picture of is underemployment, which has been a real feature of this current downturn. We have had a lot of factories that have gone from five days a week to two, three and four days a week. For someone on \$19 an hour what that means is that for the first time their wage, their before tax earning each week, has dropped beneath \$500 a week. For a breadwinner paying a mortgage, with kids, that is a big deal.

What we know from previous economics downturns is that when you reduce wages of a part of the working population it tends to exacerbate recessionary pressures because you have less

consumption in the economy. It is quite a big deal for such a large number of people to have their working hours and incomes cut by an excess of 30 per cent. There are a lot of my members that are in that position in this state whose hourly rate might normally be \$18, \$19 an hour. They would normally make ends meet by working regular overtime and working shift work to get the shift loading work on Saturday. There is no overtime, there are no shift loadings. Typically people have been moved from afternoon shift to day shift, and typically the number of hours they are working is a lot less. The employment figures are part of the picture and the fact that they are not as bad as they might have been is certainly a good thing, but we should not take false comfort from those numbers, that there is a big story out there in blue collar land that people are hurting significantly.

**Mr ATKINSON**—In terms of sectors that would have had an impact in some sectors more than others; in other words, you would not expect food processing people to have stood people down.

**Mr DARGAVEL**—That is right. Some parts of the manufacturing industry are ticking along better than others. An area that has certainly felt the pinch, and there has been a lot of media about it, is automotive and automotive component production. A lot of the media looks at what happens in the big assembly plant because it is a very visual story. You can take a shot at people walking out of the factory, but most of the employment inputs to automotive is not at the assembly plant, it is in the components plants throughout metropolitan Melbourne. For each assembly job there are about eight in the supply chain. Having a redundancy announcement at a car factory of several thousand means a multiple of that number out there in places like Dandenong, the western suburbs, the northern suburbs.

**Mr ATKINSON**—Construction materials, what is the experience there?

**Mr DARGAVEL**—There are two big areas in construction. Some of the big infrastructure projects have really helped in terms of structural steel fabrication workshops where a lot of our members are engaged, also on site. We have members employed in workplaces that supply componentry like doorknobs, locks and that sort of thing. There is taper off in overtime in those workplaces but in the main it is not as bad as it would have otherwise been, save for the lack of some stimulus measures in the Commonwealth and state level. We think it could be better because a lot of those jobs in places like structural steel workshops, engineering firms and so on, attached to those big projects, are very much related to how much local content is delivered on the project. It is one thing to announce a \$750 million project in the Latrobe Valley for a new brown coal fire power station, as Minister Batchelor did some time ago, and then on the back of that announcement to say it is going to be fabricated in China and imported. What that does in terms of missed opportunities is clearly quite significant.

The maths are that for every billion dollar you spend in manufacturing in Australia you get and sustain 17,000 jobs, 4,000 direct and 13,000 indirect, and it is the generation of \$600 million in government tax revenue. It avoids a \$170 million payment in welfare payments. The problem in those sort of numbers is that when an agency or department is making a procurement decision, they are looking at what is the biggest bang for buck for their number of widgets in their program line. The fact that they make a decision which costs the overall economy more than a local procurement decision is something that often procurement decisions inside a particular agency are blind to because, for example, if you are the DMO in defence and you are looking to buy as many guns for a fixed amount of dollars as you can or as many uniforms as you can, the DMO is driven by whatever imperatives he has got, the biggest bang for buck.

In terms of the whole of government assessment, whether or not that decision ends up being a rational decision, a five per cent saving on price for a pair of pants, that might be rational for

the agency buying the pants but it is irrational for the government because you are losing more than five per cent in terms of the economy. What that discussion takes us to is how do you properly assess and where should those decisions take place, which is something that VIPP is starting to address.

**The CHAIR**—VIPS?

**Mr DARGAVEL**—Yes, the Victorian Industry Participation Policy (VIPP) statement.

**The CHAIR**—If you use acronyms could you give us the explanation for Hansard.

**Mr DARGAVEL**—Okay.

**The CHAIR**—Steve, I am looking at the volume of paper that you are going to be taking us through in this submission.

**Mr DARGAVEL**—I will send you through a written thing.

**The CHAIR**—Would it be best if we ask you succinct questions as you go through it, or would you like us to wait at the end, because it looks like that is going to be more than 10 minutes.

**Mr DARGAVEL**—I am going to skip most of it.

**The CHAIR**—All right.

**Mr ATKINSON**—Will that be picked up in your submission though?

**Mr DARGAVEL**—Yes. Procurement is a big issue that unions, employers, industry associations frequently bang on about. We are sometimes positioned as trying to be irrational or protectionist in pursuing a jobs agenda in that debate, but our argument is that it is in fact more rational to properly assess the costs and risks of an offshore program than it is to not assess them. The question is who assesses it and at what level of government.

**The CHAIR**—My question that I was going to put at the end—you might like to make a mark there in your submission—is if you could give us a couple of case studies like that one you have given us with \$1 billion, 17,000 jobs, \$600 million tax revenue, you avoid \$170 million in welfare benefits. If you have a couple of examples that would be handy if we are going to make some recommendation in relation to procurement policy because it has to be based on evidence and you have the examples, no doubt.

**Mr DARGAVEL**—We will provide the evidence in the submission. You will have source material to how those numbers are derived and we will provide you with some case examples, both in the public and private sector. One of the arguments is it is not only about cost but it is also about risk. When you are deciding whether or not to procure a billion dollar set of whatever, what are the risks and how is that weighted in a procurement decision. Naturally, from the Australian Manufacturing Workers' point of view we are trying to put forward all of the arguments to result in a better employment outcome for workers in this state and we believe there is a good set of maths to justify some of those arguments.

**The CHAIR**—From the Australian metal manufacturers here, they would probably endorse your arguments.

**Mr DARGAVEL**—Yes. I think you will probably hear some similar arguments from

the Australian Industry Group and the like. Can I touch briefly on something that the employers are not likely to touch on, which is the question of what happens to workers and their entitlements when a firm collapses in this state and throughout Australia. You will have seen in the media repeated examples, such as the case of Huon Corporation, Ajax Fasteners, Coghlan Russell and I think there was recently a textile firm that collapsed where there is a big question about whether or not the employees will be paid what they are owed. We still do not have a solution to what happens when workers lose their jobs and firms collapse. There is still no solution to ensure that workers are paid their entitlements, and sometimes it creates frankly a mess in the industry larger than the problem in the enterprise.

When we had Coghlan Russell collapse down in Geelong it employed some 24 employees, something of that order, the company's customer alleged that the employer had defrauded the customer of a couple of million dollars. There was a big legal fight and the company went into liquidation. There was no provision for those employees entitlements or wages. Superannuation, including voluntary contributions had not been remitted to the ATO. This is not the worst example, it is a fairly typical kind of example. Inevitably the company collapses on payday where the 24 employees have not received the previous two weeks pay. These are not highly paid people. On payday they are expecting to be able to pay their rent, buy their groceries and pay the bills. When you do not get pay on payday and you are not going to get your annual leave, long service leave, redundancy pay and your super has not been paid, you are pretty upset.

What happened in that case was that Ford Australia was waiting for a whole lot of parts from that company and they were not being made because no-one was being paid and this small group of people were pretty upset they were not paid. Ford ultimately had to stand down their workforce because there was no money to pay this small group of people or fix them up. That small debacle created a big problem in the industry, much larger than it needed to be. The Federal GEERS scheme, which is the General Employee Entitlements and Redundancy Scheme that was created by the former Federal Government to fund workers who are in these circumstances only pays for some of the entitlements. Typically it takes some time after when people are made redundant to get the money to them. What the union typically is involved in is frankly a welfare exercise where we go around fundraising to get food for our members who are in that position.

We are about the only class of citizens where there is a breach of law it is up to the victim to prosecute the breach of law. ASIC routinely does not prosecute breaches of Corporations Law by directors. In the case of all of those collapses, to my knowledge there has been no action taken by ASIC to recover from directors. In the case of the Huon collapse there was clear evidence of wrongdoing by the single director. It was an ex-shearer who was loaned I think \$20 million by a finance institution, an American one, and he engaged in a complicated company transaction where he borrowed the money, bought the company, transferred the assets of the company to his personal property trust, put the company into liquidation with in excess of 600 Victorian workers and tried to run away with the funds that he had derived into his personal property trust. In the discovery process we were given a piece of paper with a handwritten note about how that transaction was going to be put together. We were given the material from his accountants and so on, and provided it to ASIC. To me, if one of my members goes and robs a bank they would expect to be prosecuted by the state but we routinely do not see these kind of extreme abuses of Corporations Law prosecuted by the regulator. What we are routinely told by administrators and the like is that it is up to the creditors to take the action in court to pursue the moneys.

The creditors, the employees who have nothing, who are owed money, are not able to bankroll, nor can the union afford to bankroll a multimillion dollar lawsuit for three years to recover what may be \$1 million or \$2 million of entitlements.

**The CHAIR**—Steve, as you would probably know, I am utterly supportive of that line you have gone down. I have looked at our inquiry terms of reference and I am struggling to see how we could possibly include what would be a really good recommendation in relation to ASIC. We are going to try and keep that within the terms of reference.

**Mr DARGAVEL**—Sure. I appreciate that. It is a sore in the industry.

**The CHAIR**—Exactly. In what you are saying, if I could try and draw a long bow, you would be saying if you have manufacturers who abide by the law and pay their appropriate amounts to the relevant tax authorities, super, et cetera, that it should be enforced on all. That is as close as I can get to how we come back to this terms of inquiry, otherwise one gets a competitive advantage over the other.

**Mr DARGAVEL**—The point where it intersects with the interests of this inquiry is simply that on occasion there are larger disruptions to the industry than are necessary or should occur at all, and how a failure to have a proper amount of regulation affecting 24 people over here stands down 4,000 people over here.

**The CHAIR**—Is that the one example you have of that? You have many examples where ASIC has not taken action against a director, I am sure, but that is the one example—

**Mr DARGAVEL**—In each of those examples I rattled off, which was Coghlan Russell, Huon Corporation, Ajax Fasteners, they all resulted in mass stand downs in the manufacturing industry. Thousands of people were stood down, many of which without pay, because of these debacles.

**Mr ATKINSON**—Can I test that set of words. I agree with you on ASIC. I think they are somewhat of a toothless tiger in some of these matters. We are keenly following the Kleenmaid issue at the moment to see if they come out and lay charges there. The words I want to test you with is, if there is a continuing contraction of the manufacturing sector, disruptions to the supply chain and widespread disruption to manufacturing output or dislocation of manufacturing output is likely to occur more frequently?

**Mr DARGAVEL**—I think the risks are greater that it occurs more frequently and there are some things that can be done to reduce those risks. One of the things that occurs in some countries is that when you have down days, such as the case in all of the car companies at the moment. There are down days programmed into their production schedule. Ford and Holden have had more down days so far this year than you can poke a stick at, and often there are more down days than there are production days. What then happens is all their component suppliers are not producing on those days and that means they are either going to be laying off labour or cutting their pay. In some countries what occurs is that the government, as part of an industry plan, will step in and say, 'We require you to use some of those down days to upskill your workforce as part of plan such that when you get a new product line coming in we have a competitive advantage. We're using that lull to increase productivity.' Rather than have someone sit at home earning nothing and therefore spending nothing, which increases recessionary pressure, you have them training and receiving some income support to undertake that training. In a lot of advanced economies there is significant government intervention which is part of one of the stimulus measures which you can undertake in a downward economic position. We have argued that in these down days there should be a training package available, that a firm can defer a redundancy decision, convert someone from five to four or three days, and for a period of a month for two days a week, deliver good quality, recognised training if it is part of a program where there is some light at the end of the tunnel.

**The CHAIR**—Do you have examples of where that may be occurring overseas or in

certain companies in Australia?

**Mr DARGAVEL**—Yes. I am not sure about some of the states in Australia. Some of the down days in the automotive companies are funded by the company but not in the supply chain. Typically a wealthy company like a Bosch, they are an incredibly wealthy company, but in this country they will not be putting money up to fund down days as much as perhaps their customer would in this country or as much as their parent company would in the European Union. In Germany, our counterparts in IG Metall have a significant membership working for that firm and they receive between 100 per cent and 80 per cent income support on those down days, with a combination of inputs from the company and from the government.

**The CHAIR**—Could you put those examples in please.

**Mr DARGAVEL**—Certainly. Can I touch very briefly on this definition of local content that has been kicking around a little bit.

**The CHAIR**—I need to let you know we had as the first witness on Thursday, Mr Ian Harrison, Chief Executive, Australian Made Campaign Ltd.

**Mr DARGAVEL**—Right. I do not believe I have met him.

**The CHAIR**—He runs the Australian Made Campaign.

**Mr DARGAVEL**—Right. In the current government policy setting, which is an advance on previous policy settings across the divide but there is some room for improvement. The way in which local content is calculated for the purposes of procurement includes things which you cannot offshore. When you are building Eastlink it is a bit much from our point of view to include digging a hole in the ground as local content. When you are building a train carriage it is a bit much in our view to include the maintenance costs over 20 years as local content. Our argument is the 40 per cent local content target where you say you can import a train carriage 100 per cent and hold out that there is 40 per cent local content needs a little bit more work. Seized by the figures which we think demonstrates clearly that you can afford to have a stronger level of intervention, particularly at this time where you have a lot of people hurting, we think there is a clear empirical case to have a stronger intervention to ensure you have actual stronger local content in your buy. The current settings were created prior to the GFC and we think it is worth revisiting those settings now that we are really starting to see the big buy in terms of employment.

**The CHAIR**—What would you recommend?

**Mr DARGAVEL**—A couple of things, and this will be addressed in the written submission. We argue that the push against protectionism has become so trendy that it has almost become irrational. We would like to see all of the costs fully accounted for when you are doing a procurement buy and all of the risks, including things like currency risk and so on. If you put all of the costs in an offshore exercise against the benefits of a local procurement buy then it is not simply a matter of one train carriage built here costs X; built in Spain costs Y; if it is built in Spain for five per cent more or less, therefore that is the decision. We say the accounting has to take into account all of the economic costs and benefits of having it done local versus offshore. That is the first thing. We will set that out for you.

Secondly, there is a lot of stuff that is thrown up as dust in this debate about free trade agreements and international obligations under the WTO that prevents governments from preferencing local industry and a lot of that it is misunderstood and a lot of those trade arrangements are not quite as restrictive as they are held out to be.

**The CHAIR**—If you give us examples of where you think a state or federal government has read the acts and the agreements incorrectly that would be useful.

**Mr DARGAVEL**—I am not alleging the state government—

**The CHAIR**—You can allege what you like, you are under parliamentary privilege.

**Mr DARGAVEL**—Sure. I am not putting that the State of Victoria misunderstands the treaty obligations but what I am very keen to do is ensure that it is well understood that those treaty obligations do not operate as an impediment for the State of Victoria to behave rationally in its procurement decisions. I would also point out that a range of governments overseas which we have these agreements with, such as in the United States—I think it is the state of Texas or Utah or one of the southern states—have a price preference for locally manufactured goods of 40 per cent. We have a free trade agreement with the US and that is the kind of barrier we are bumping into if we are trying to sell a manufactured good from this state into that market. They do not have that problem exploiting from that state into this market. We are not running an anti-trade agenda here but we are running an argument that says the government appraise the facts, can act responsibly and rationally in its procurement decisions. Part of the trick is whether you remain to have all of your decisions as decentralised as perhaps they have become.

An agency acting rationally in its own little bailiwick will not necessarily be contemplating the whole economic costs. They are looking for the biggest bang for the buck on their budget. They are not necessarily looking at taxation revenue forgone. They are not looking at welfare payments that are incurred by that decision because people in Ballarat are going to be unemployed because of the decision. That then leads into whether or not there should be some offset payment or recognition from Treasury to procuring agencies because if you are procuring agency and Treasury gets the benefit of a decision which costs you more then you might not make the right decision.

**The CHAIR**—I know what Bruce's question will be: what benefit is there in all this for the state outside of payroll tax and land tax? Would that be a fair guess?

**Mr ATKINSON**—A reasonable one. I am concerned about the imbalance between the state and federal paybacks of investment decisions if we are talking about state government investment because essentially the raft of taxes that the state government has and indeed even its commitment in terms of welfare payments reduced is significantly less than the payback to the feds. The feds get a clawback. If they spend a dollar in supporting an industry their clawback might well be 80c or something. For the Victorian Government it might be 3c because of the level of taxes.

**Mr DARGAVEL**—It is a compelling point and that is why some of the initiatives federally need to be seized on in a particular way by state governments. I think the feds have opened the door here. There is a debate to be carried forward. It is not about a procuring agency and Victorian Treasury, but it is about an overall government buy and what that means and getting a recognition from Federal Treasury. I think that is right, Bruce.

**Mr ATKINSON**—The previous witness that we had was a small business operator, quite a successful one. The point he was making—and it certainly resonates with me—that beyond the accounting exercise that you might do for a procurement formula, his assertion would go further than that. His assertion would be that there is a false economy in manufacturing overseas. In other words, if you take into account defect, if you take into account administration, freight cost, as you said before foreign exchange provisions, hedging or whatever you have to do to save yourself from losing the seat of your pants, there is a real



false economy. The problem back here is more a mindset of banks and financiers and other parties in terms of believing that the manufacturing industry is on its knees, it is not worth continuing with manufacturing, and because of that mindset in fact we are losing opportunities. What this guy was saying essentially—and I am paraphrasing him—was that there is a false economy in talking about manufacturing overseas, the figures do not stack up, but he cannot convince banks and other people that the figures do not stack up because they automatically have read the newspapers that say it is cheaper to manufacture in China.

**The CHAIR**—He is bringing his whole manufacturing back here to supply the Australian sector and then he says that will only be 10 to 20 per cent of his business because he will be doing all the exporting from here.

**Mr ATKINSON**—Just very quickly, he argues, which I think is also valid, that the labour component, which is often used as the excuse to why you have to go offshore, is a relatively small percentage of total production cost now because of technology and so forth, and people with more skills rather than less. I am interested in you moving beyond the procurement to that other area of Australia's manufacturing credentials and opportunities compared with what has become a self-fulfilling prophecy with the mindsets that have developed.

**Mr DARGAVEL**—On the last point first. It is true to say that wages in manufacturing in this state and this country are not particularly high, and if you compare manufacturing wages in places like Germany—Western Germany which is obviously a high wage economy—a metalworker here gets paid less than half of a German metalworker there. Increasingly there are more German manufactures exported from Germany to China than the reverse. They are on a 35-hour week. IG Metall won a 10-minute concentration break on the hour every hour on top of their 35-hour week, which is pretty good, and their hourly rate is double. You are quite right, the labour input in assembling a car is a very small part of the car. Wages are not a particularly big issue in this debate.

It is true to say that there is a bit of a mainstream commentary in the media and creeping into some policy heads that manufacturing is a dead duck. A lot of people think it is smaller than it actually is and they think it is inevitable that it will decline and disappear. Therefore why have a policy intervention to try and keep it here, why defend that territory. I think they are reasonable concerns for someone to raise. I do not accept the proposition that trade of itself is inherently inefficient or inherently bad and manufacturing benefits significantly from trade and we export a lot. To take an example of a small to medium size firm in the aviation space, they struggle to get their products taken seriously in this country.

**The CHAIR**—We have read that too.

**Mr DARGAVEL**—They are concerned that people looking at buying some light aircraft might perhaps have to go to the US to test fly the thing and check it out, it is a big marketing exercise, whereas driving down to Latrobe Valley might not be quite as much fun. There is a bit of a cultural cringe, which is quite unreasonable. The performance specifications of the aircraft are quite good for the Australian plane. It goes up quicker, it flies longer, it has lower fuel consumption. On the numbers it is a better buy and you are not tied into an offshore R&D effort. You are not locked into offshore servicing and all sorts of problems that come with it. They are reasonable criticisms but I do not accept the argument that trade of itself is inherently inefficient or bad.

Take our food industry, it is the biggest cash exporter generator in the State. If we were not exporting value added food products out of this State we would be in a bad way. If you talk to food manufacturers they would run quite a strident position that was very different.

**Mr ATKINSON**—One of the reasons why I asked about age profile—if you can supply those at a subsequent stage—is because again one of the issues for the manufacturing sector is obviously skills and part of the skills exercise is, I suppose, innovation, new ideas, enthusiasm, energy. Young people entering an industry bring some new zest to that industry. What concerns me is that I am not sure that manufacturing is sexy enough to be getting its fair share of talented and skilled young people, despite a lot of investment in skills development in a training sense. I am interested in that, and from that point of view the loss of skills at the other end as people are retiring, and whether or not that is becoming a major constraint for manufacturing; whether in fact people would like to continue in manufacturing but are saying, 'We can't get people. It's becoming too hard to get people with skills or bringing through young people who can do the work that we require.' Is that becoming one of the challenges? Do we need to do something about that?

**Mr DARGAVEL**—Generally and in short, no. The problem we have in manufacturing is not a shortage of labour and skilled labour. There is a shortage of jobs and opportunities. There are arguably some shortages in the engineering space in the post-degree qualified specialist space which is readily addressed. The industry is not training as many apprentices as it will need, that is true, and that is because this industry like a lot of the private sector has not adapted to the new reality that the public sector is not doing all the heavy lifting any more. We do not have the SEC, we do not have the Gas and Fuel, we do not have all those big public sector enterprises doing all of the training for the private sector any more. Really the uptake in apprenticeships is not as it should be and we will have, down the track, a problem. One of the debates my union has tried to lead with industry is the need to put on more apprentices. In the 2006 bargaining round we had as many heated arguments with employers about trying to get them to put on apprentices as we had about wages.

**The CHAIR**—Can I flag an item that I would like you to raise in your submission and that is how we address apprentices. It came up in evidence yesterday about payroll tax being put on apprentices. I had a representation in my electoral office on Wednesday from an organisation that lodged a submission via the internet yesterday, and the only thing they wanted to raise was that payroll tax on apprentices should be eliminated because it was put in by our government three, four years ago. That is one item that he believed was relevant to apprentices. That is from an employer perspective. From a union perspective could you jot down a couple of recommendations.

**Mr DARGAVEL**—Certainly. I am happy to have a look at the payroll tax issue. I might say for a kid to take up an apprenticeship, first, second year, they are going to be getting paid less than stacking shelves in Aldi.

**The CHAIR**—I made that point to him too.

**Mr DARGAVEL**—The wage input cost of an apprentice is not, I do not think, a big input cost but I am not an employer of apprentices. The payroll tax of that small input cost is quite small still, so I would be very interested to see how many employers would be looking at putting on some more apprentices if they had payroll tax and if there was a good model to tell us that was going to work, and we were going to get some more apprentices out of it, no doubt the Victorian Government would look very carefully at that.

**The CHAIR**—I asked him exactly the same question. I said, 'If payroll tax were removed would you put on more apprentices or would it increase your bottom line?' He said, 'That's a fair question.'

**Mr ATKINSON**—I am also interested in age from the point of view of the ownership of enterprises of businesses. Obviously there are a number of public companies

and quite large companies that are under extensive management that are not part of this equation. A lot of manufacturing is fairly small, family owned organisations or individual owned, and it is my perception that a lot of that ownership is getting a bit long in the tooth and is looking towards retirement a transfer of the ownership of that business, either a management buy-out, another family member, sale of the business or whatever. In the current market with finance tight and so forth, the ability to fund that exit from the business is becoming a bit of an issue, I think. What is your understanding of the ownership of the smaller manufacturing enterprises and the risk factors associated with that ownership profile?

**Mr DARGAVEL**—The manufacturers that employ most of our members are not very small manufacturers. Some are family owned businesses—there is a number that come to mind—where you can identify a clear transition plan that the founders of the firm have put in place. Five years ago you might have been talking to the father, and you are talking to the son today. Some family firms manage that transition well and some famously in large and small firms do not. I do not think it is such a problem that is confined to small enterprises. I can think of a very large enterprise that started in this country that perhaps has not managed that transition as well as it might have. Increasingly, the larger management challenge for Australian manufacturing is the emergence and activity of private equity players where there is no actual longer-term interest in productive efficiency or a longer-term future, it is about buy it, rip it apart, flip it and sell it. That has been quite debilitating in a number of areas in the manufacturing industry.

Without mentioning any names, those private equity players have really caused a lot of damage, I believe, and not added any productive value. You buy an enterprise with debt, you rip it apart and sell it and you have not done anything to produce its productive output. The private equity stuff in manufacturing I suspect is a larger management problem issue for us than whether or not a particular family manages the transition from one family member to another or sale of the business to another.

**The CHAIR**—Can I ask a question that is kind of related and that is your super fund. Does your workers super fund get involved with promoting manufacturing businesses and investing in them or providing finances for them?

**Mr DARGAVEL**—The superannuation is not an area that I am particularly involved with. I do not sit on the board of Australian Super or Cbus or any of those. You would be aware that all the industry super funds are regulated to within an inch of their lives and I suspect there is very limited scope for the super funds to be particularly industry directed, but they are probably questions better directed at the industry funds themselves.

**The CHAIR**—We might get Cbus in.

**Mr ATKINSON**—A lot of employer organisations—and these are organisations, employer groups that have come to us—have seen the silver bullet for manufacturing, the government to give more grants. That concerns me because trying to pick winners is a real issue and fraught for politicians obviously. The comment that you made on procurement is at the other end and is perhaps a better area to approach because it demands some rigour from the companies rather than—as somebody said today, which is a popular expression, the company might not have enough skin in the decision if they are looking to the government to fund restructuring futures, whatever. Apart from grants, which obviously roll off the tip of the tongue, are there other areas that you see as crucial—and procurement we have already discussed—in terms of government support or initiatives that you think are critical now in the environment that we have now particularly?

This inquiry comes at a time obviously after GFC and people are perhaps starting to rethink some of their notions. Right here and now are there other initiatives that government should

be involved in apart from simply grant funds and also procurement which we have discussed?

**Mr DARGAVEL**—Yes. There are two things I would say about that: one is in relation to grants and their use, and also I will touch on R&D. In relation to grants I have read some of the grant agreements between the Commonwealth and state in some firms and I think that governments of both persuasion could probably do a more aggressive job of tying employment outcomes to grants because no-one in the community, except for the grant applicant, is going to support business welfare where a pile of taxpayer dollars are pouring out the door to support an enterprise without explicit relationship to employment outcomes. There are a couple of examples of that which have been disappointing for the previous Federal Government, the current Federal Government and the current State Government in terms of efforts made to support jobs but not explicit enough arrangements tying grants to employment.

**The CHAIR**—Without mentioning the grant recipients, we had the benefit of a couple of examples this morning.

**Mr ATKINSON**—Can't we mention Kodak? It goes back quite a while.

**Mr DARGAVEL**—Well, Kodak, I would argue in fact, was a relatively successful case in the sense that we had 20 years of employment in excess of 1,000 people for whatever that amount of money was at the time. They repaid that money in payroll tax and basic tax, apart from all the benefits. I think the Kodak example is certainly not the example I am thinking of.

**The CHAIR**—This morning it was suggested there could be improvements in computers and then the Range Rover grant: what should not happen, and apart from employment, what should happen.

**Mr DARGAVEL**—I have spoken about grants and tying employment outcomes to the grant, and also the local content of that enterprise because if you are talking about a firm like HRL that employs relatively few people but it is involved in some decisions which might turn on 1,000 or 2,000 jobs, you want to ensure that in your grant applications that they are going to drive local content and you are going to get good local content outcomes. If I can address research and development for a moment. You can have two types of manufacturing firms. You can have a firm that essentially has no ownership of the intellectual property of what it is stamping out. It hires a shed, it hires the labour, it gets the raw material inputs paid on 90-day payment terms. It stamps the steel into something, sells it, and it is a glorified labour hire firm. It is leasing the plant and equipment and it really is bringing nothing to the table, other than the costs of the labour, to convert.

**Mr DAVIS**—And the coordination.

**Mr DARGAVEL**—And the coordination and management. That is one type of manufacturing enterprise. It is very sensitive and exposed to cost pressures on its inputs because that is really what it is bringing to the table, the cost of its coordination. Another type of manufacturing firm will invest in research and development, capture the intellectual property on what they are transforming and they leverage off that intellectual property and they are the only players in the market that can deliver that type of widget that performs in that way and they can charge a margin for it. They can employ people and put them on good money and perform well and export. They are two very different types of manufacturers. That helps explain why firms in Western Europe can be exporting more widgets to China than importing, and paying many more times an hourly rate in terms of workforces.

When we are looking at supporting manufacturing in various forms, whether it is through

procurement levers, through industry assistance packages or what have you, I think the eye has got to be for the manufacturers that are playing the long-term game. They are not trying to compete purely on their input costs, that is a hard job, and if you have economies paying people 50c a day or an hour, you are never going to get there. If you are supporting enterprises that have a genuine commitment to research and development capturing the intellectual property, leveraging off that intellectual property, have their act together, they have an investment program to ensure they have advanced plant and equipment, then you have the necessary ingredients to have a sustainable enterprise, a good employment relationship and lift living standards and so on.

**The CHAIR**—We are 10 minutes over, I will give you another three or four if there is some particular point you wish—

**Mr DARGAVEL**—I think I have covered the territory. We will follow up in the written submission. I have made some notes of particular areas that you wanted me to address and I will do that.

**The CHAIR**—Keep in mind writing it as if you could write the recommendations for the report, which will not be guaranteed but we keep saying to people, 'As well as the long-winded explanations of things, tie it in with what you would be recommending to us.'

**Mr DARGAVEL**—Certainly.

**Mr ATKINSON**—You do not need to obviously do the introductions but if there are some manufacturers that you think we ought to have a look at or talk to, we would be happy to do that. From my point of view I would probably prefer to look at smaller guys only because one of the issues for us in doing yet another manufacturing inquiry is that all of the known villains are out there and have been inquiry'd to death. To get some fresh perspective I think we need to talk to some people who have perhaps not been touched by the inquiry processes in the past. The younger or more nimble or more flexible or more innovative companies, the ones looking at R&D, as you said, are probably the ones we should talk to in terms of trying to cast some futures.

**Mr DARGAVEL**—Sure. I will take that up with your secretary. Thank you for the opportunity.

**The CHAIR**—Thank you.

**Witness withdrew.**

**Hearing suspended.**