ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into Manufacturing in Victoria

Melbourne — 30 November 2009

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Mr T. McLean, Principal, TXM Pty Ltd.

The CHAIR — I welcome Mr Tim McLean, Principal, TXM Pty Ltd, to our all-party parliamentary committee inquiry today into manufacturing and taxation. I understand you are primarily talking about manufacturing, but you are free to make any comments you wish in relation to either of the terms of reference. Would you mind putting on record your name, your position and business address?

Mr McLEAN — My name is Timothy Alexander McLean. I am the Principal and Director of TXM Pty Ltd. We are based at 135A Miller Street, Fitzroy North, Victoria.

The CHAIR — Thank you. It is over to you for whatever submission you would like to make. We all have a copy of your submission, so if you wish to refer to particular pages, we have it in front of us.

Mr McLEAN — Basically, as you gather from the submission, my background is I have worked in manufacturing in Victoria all my working life across a number of industries, from raw materials through to the automotive industry. Subsequently I set up my business about five years ago on leaving the automotive industry to work as a management consultant. I have a passion for manufacturing in Victoria. The other insight I have is that I do quite a bit of work in Asia and in China, both assisting clients to set up supply chains out of China and assisting Chinese companies or Chinese-based and Malaysian-based arms of international companies to improve the efficiency of their operations.

That gives me an insight on both sides of the fence. On the one hand I am very active in working with Australian companies to improve their efficiency and to help them set up and grow their operations; on the other hand I have been involved in helping companies set up import supply chains and also helping Chinese companies do a better job of serving the Chinese market. The submission I have made reflects some of those views. If you go to the second page, there are a number of dot points.

Having worked for American companies, German companies, a New Zealand company and an Australian company there is a reasonable degree of economic nationalism in corporate life, believe it or not. If you work for a German company, you will tend to find — maybe not so much now but a few years back — that the electrical equipment will be made by Siemens and they will be running SAP as a software system. There tends to be a subconscious bias.

My previous employer did a lot of export to China, mainly dealing with other US companies. I think one of the key points — and probably our opportunity to have this has somewhat passed — is that we do not have an Australian GE, an Australian Siemens or an Australian Nokia. The only truly globally recognised companies that we have, in my view, are mining companies. That is a disadvantage I do not think we will possibly ever overcome unless some new industry develops and we happen to corner the market.

Unfortunately, I think we might have had that opportunity in renewable energy, but we have sat on our hands for too long and had a stop-start approach to policy. It started off very well with solar. A lot of the best solar technologies were developed here and have shifted offshore.

As much as I am being a bit fatalistic, I would say that the reality is that we are going to be dealing with companies that are owned offshore and that are going to have an inherent bias, whether stated or not, towards their own countries. They will hotly deny this. There is no question that they would vehemently deny an inherent bias in their own companies, but you only have to follow their purchasing decisions to see that American companies buy American, German companies buy German and so forth — not exclusively, but there is a level of bias.

We are therefore dealing with companies are not going to have Australia's interests in any way inherent in their make-up. They have not got a political imperative at home to be biased towards Australia. We need to be clear eyed about that. The Japanese are the same: Toyota will buy Japanese paint and use Japanese components. A lot of the local affiliates that are set up are Japanese companies that have established in Australia.

As I say, we need to be clear eyed about that, and we need to ensure that those companies, if we are supporting them, are there for the long term, because they do very much now look at Asia as a region rather than as a country. They will make a decision to invest in Australia, but at another point in time they may relook at the region and say, 'Australia is not the place to be'.

One of the things that worries me is when I see large one-off capital grants being given to companies when an auction is going on between states for companies. There is no way of guaranteeing that that investment will not subsequently be withdrawn. We can think of examples like Kodak.

The CHAIR — Kodak is in my electorate.

Mr DAVIS — It applies equally to large federal grants.

Mr McLEAN — Absolutely. Kodak is a bad example, because Kodak got beaten by technology. Kodak has problems globally because people do not use film cameras any more, so a film factory does not have much of a future.

I think that is a key issue. One of the things that I put in an email to Vaughn separate to my submission is that I think companies look at net present value. They always like the pot of money up front, but at the end of the day the calculation on an investment is made on net present value.

I think ongoing incentives — things like payroll tax holidays and other tax incentives that require the company, for instance, to employ people in Australia and pay payroll tax before it can benefit from the payroll tax holiday — are probably a more efficient way of supporting those companies to invest. It is not in your realm, but similarly with company tax breaks you have to actually make a profit in the jurisdiction to pay the company tax to benefit from the company tax break. If you pull up stumps after two years, then you do not get your company tax break. When you do your cost-benefit analysis for the business you should look at other countries, particularly countries like Singapore, that have a similar cost base to us. They have many inherent disadvantages that we do not have, most notably space, and yet still get a lot of manufacturing investment, maybe less so now. They have used enduring tax benefits to attract targeted industries.

The CHAIR — Please do not refrain from making recommendations which are federally based that you think should go in our report, because we can make recommendations that the relevant state minister can take to the ministerial council.

Mr McLEAN — My opinion is that one-off capital grants are an inefficient use of government money and that a better use of government money would be to use it for enduring tax benefits of a similar — —

Mr DAVIS — How do you get over the transparency? I am not necessarily agreeing or disagreeing. How do you get over the transparency issue? The grants are at least more likely to be transparent than the payroll tax holiday or the other tax holiday over 5 or 10 years.

Mr McLEAN — Transparent insofar as — —

Mr DAVIS — Expenditure of public money.

The CHAIR — It could be put up.

Mr McLEAN — You could cap it, I would have thought.

The CHAIR — It could still be public.

Mr DAVIS — It generally is not, though.

The CHAIR — No, it generally is not, but our recommendations could factor that in. We do not have to accept the current status quo.

Mr DAVIS — I am just curious.

Mr McLEAN — It could be capped, I would have thought, for a period of time or an amount of money. Like the previous witness I am not an expert on government policy, but it could be capped to a certain amount of money or a certain period of time.

The CHAIR — You are the expert in relation to manufacturing compared with us, so feel free to make whatever recommendations you think could well be helpful and we will sift through the range of them.

Mr McLEAN — When you go to build a factory — and I am dealing with a company at the moment whose name I cannot mention that is in the process of making a very significant investment in Australia — there are a number of factors you consider. At the end of the day it is like the share market: ultimately the fundamentals win through. In an investment like that, ultimately the fundamentals win through. There will be emotional considerations, but at the end of the day an accountant will do a cost-benefit analysis and look at the financial payback on investing our $20 million in Australia compared to investing it in Singapore or in China. The factors that will be incurred in that analysis will be your cost to operate; clearly there is the risk, and there are quite substantial risks in doing business in many developing countries that are often underestimated; and you would look at the local market. The company I am thinking of here has developed a significant local market in Australia through importing and now, because of the nature of their product, can see the benefit of putting a substantial investment here. There is also the ease of doing business, but you are going to tend to want to dollarise that.

I think people like doing business in Australia. I know that the foreign companies I deal with enjoy doing business in Australia because it is quite easy, but then they also enjoy doing business in Singapore because it is also quite easy to do business there. You are going to consider those factors. You are going to have the capital costs on the one hand, which include construction costs, which is a significant penalty in Australia; and on the other hand you have the benefits, which include your cost of doing business and how much profit you will make, which will then, from a government policy point of view, cover things like tax, regulatory costs, company tax and the company tax regime. If you can make that equation more attractive, then you shift the equation in your favour.

One way to do that is to give a lump sum of money, which brings down the capital cost. Obviously we are outlaying less cash and we are going to get a shorter return on that cash. The other way to look at it, and in my opinion a more efficient way, is to look at the return, and that is achieved by bringing down the cost over time through things like payroll tax and other taxes that can help the company start up.

Again I do not say this is an easy policy issue, because if I have been paying payroll tax here for 30 years and a guy sets up next door and he is not paying it, I am not going to be very happy. But ultimately if you are getting major cornerstone investments in the country, that helps, and remember we have many natural disadvantages in Australia because of our location, because we do not have a Nokia or an Ericsson or a Siemens or a GE, because of our high costs of doing business and because we are a Western country in a low-cost region and all of those things.

I do not want to dwell on IR because it is a political battleground. I was thinking to myself it has probably been a political battleground for 200 years and my contribution to it will not be all that valuable, except to say that —

Mr DAVIS — It is an issue.

Mr McLEAN — It is an issue. In most of the SME sector it is not an issue, and long may that stay the case. It is unfortunately still an issue in a lot of big business, but having sat across the table from unions, I do not envy the job of even an AMWU organiser who has members who are paying his wages who want him to go hard. I have often had admiration for what they achieve, but on the other hand a great deal of frustration in dealing with people whose jobs you were trying to save but who were doing their best to commit employment suicide — that is probably not the right term — or people who were not helping themselves. We have seen plenty examples like that.

The other aspect of IR is that hits in a number of ways: construction costs, the cost of building your factory, the cost of setting your factory up, the cost of employing your work force and the productivity of your factory. For the company I am thinking of at the moment it certainly was a consideration — where they located the factory, for instance — so as not to get caught up too much.

I attached to my submission an article on China which I wrote for a trade magazine some time ago. The key point of the article is companies making short-term decisions — and I blame a lot of companies for this — to outsource based on a simple calculation: a widget that costs 15 cents made here costs 10 cents made in China. But the reality is that the Chinese currency is going to rise sooner or later; the reality is that Chinese inflation runs at more than twice our rate and there is a lot of wage inflation; and the reality is there are very significant risks in doing business in China and even more so in places like India, and even Thailand is looking like a pretty risky place to do business at the moment.

The other thing is quite a simple idea: if you are buying something from China and it gets here and it is no good, you have probably got another three shipments in the pipeline that are all going to be no good. I do not think companies are very good at factoring this in. They tend to look at the simple 15 cents versus 10 cents. I do not know whether that is a business education issue or whether it is something to talk about with the relevant industry bodies, but sometimes I have seen decisions made that in a very short period of time would not be the right economic decision for the company.

Mr DAVIS — There is no going back then.

Mr McLEAN — I saw decisions made at 98 cents to the dollar where people were looking at outsourcing for a 15 per cent saving after freight. They had not factored in any of the working capital costs, and then of course the dollar went down to 62 cents. Okay, it has bounced back now, but surely someone could have predicted that. The point of my article is that something could even be 40 per cent cheaper and you would still come out behind because of all these other factors I am talking about.

The CHAIR — We were picking that up in other evidence.

Mr McLEAN — Have you got a question?

The CHAIR — We will try to keep the questions to the end so that you can finish.

Mr McLEAN — No, I am happy to take questions. I would rather take questions right through as I go.

The CHAIR — You would prefer to do it back and forth. Hopefully we will be able to get a better copy because I cannot read this attachment.

Mr McLEAN — It is not earth shattering.

The CHAIR — But I am sure your comments are earth shattering, and you have raised some of them right now. This business education and talking to development industry bodies in relation to the true cost of doing business overseas is something that we have really pressed a number of previous witness on. Do you have examples of where a company was based in Australia, went overseas and now they are back in Australia manufacturing because of what they learnt in their overseas experience?

Mr McLEAN — My belief is that has happened to some extent with Pacific Brands, although that is hearsay. I also believe that Fisher and Paykel, which is largely outsourcing out of New Zealand, has run into very major problems outsourcing manufacture to Thailand. Especially with products like whitegoods that are very bulky, they are marginal products.

My understanding, or the story I heard on Pacific Brands was that they were struggling because a lot of their volume run lengths were very low and Walmart was buying enormous runs of 60 billion size 9 socks, and about 20 000 for Australia were not getting the tender loving care that might otherwise occur.

The nature of manufacturing in China in particular, where most of my expertise is, is that it is still very fragmented. Here we have very oligopolistic industries, packaging being the classic example — I worked in Tweedle Dee and Tweedle Dum with Visy and Amcor. But with China in any industry sector you choose there are dozens if not hundreds of players. In raw materials and steel maybe less so, but even then there is one giant and a whole lot of minnows, so it is possible that you could find your own company that would look after you, but there is always the attraction of larger markets in Western Europe and America that make it hard for Australian companies over there.

The CHAIR — If you were writing our recommendations in this particular section, what might you say in relation to business education about the true costs overseas and what might be your argument of 40 per cent variation still not being necessarily strong enough to make a difference to go overseas?

Mr McLEAN — It depends a lot on what you are buying, but in the example I used, if you are buying little tiny things that cost a lot of money and that are easy to freight and have a lot of labour in them, then China is going to win hands down.

One of the things might be to run some seminars. I know we are overdone with seminars and that no-one is going to seminars, but you could get people like VECCI or AIG to run case-study seminars, because there is another side to this equation and that is that if you are a local manufacturer and you are not buying your inputs from the cheapest possible source or the most economic source, which is not always the cheapest, then you are putting yourself at a competitive disadvantage.

In other words, if you are buying raw materials from a more expensive source just because it is local, then eventually your customers might make the decision for you and they will go and buy the whole thing from offshore. Companies need to be able to take advantage of the opportunities offshore but at the same time make sure they are not doing it in a way that is going to be to their long-term disadvantage.

The CHAIR — Your suggestion perhaps is a recommendation to get case study seminars perhaps run by industry groups that would be around the concept that the most economic may not be the cheapest?

Mr McLEAN — Yes. The cheapest may not be the best economic decision for your business.

Mr DAVIS — The apparent cheapest.

Mr McLEAN — Yes. It is not all about cost per unit, which is what a lot of people are hung up on.

The CHAIR — What about accountants and economists? You made the comment that often people go to their accountants to get advice; they could well need some educating too, perhaps?

Mr McLEAN — Yes. I think some of the accounting businesses, and some of the accounting industry groups as well, like the CPAs and so forth, need to look more broadly. There is a problem in the way cost accounting is done. Cost accounting is the way that you build up the unit cost of a product, and it tends to be a fairly simplistic art in its concept but quite complex in its execution. I am an engineer, so I am not an expert on it, but things like the working capital impacts of decisions are often not considered in a cost accounting analysis.

There is a lot of discussion in the accounting community about the best way to do this. There are conferences in the US on what is called 'lean' accounting that are looking at whether we should use traditional cost accounting methods or whether there are other ways to cost activity and manufacturing.

Mr DAVIS — On the role of procurement, do you have anything to say about that? You are talking about different mechanisms for government to influence things.

Mr McLEAN — Yes. What happens is that the procurement guys usually get rewarded on the amount of money they save.

Mr DAVIS — I mean in government procurement as a mechanism role, if any.

Mr McLEAN — I think in government procurement, there are things like the ICN making people aware of what is out there to some extent. I strongly oppose protectionism, and a country like Australia, a small trading country, will always lose that game. Many of the problems that we have in manufacturing are a legacy of the 1940s, 1950s and 1960s protectionism — tiny factories that are never going to be competitive. Basically we did not build an export-looking manufacturing base, and then as soon as the tariffs came down, which they had to to sustain our quality of life, all those factories closed. Then what are we left with and what have we achieved?

Going back to groundhog day, saying 'Government only buys Australian' and 'We are going to have all these hidden protectionist methods' just does not work. I started in the plastics industry. In 1989 Hoechst Australia — I can say this because they are no longer there — was the world's most profitable division of Hoechst running possibly the world's smallest polyethylene and polypropylene plant. The reason it was the world's most profitable division of Hoechst was that there was something like a 45 per cent tariff. That tariff gradually got removed. Now that complex out in Altona is still below world scale, but it produces more product with less than half the people.

You say, 'That is a terrible outcome. All those people have lost their jobs', but then plastic goes into cars, it goes into appliances, it goes into packaging and it goes into just about everything we do, and everybody — every single manufacturer who used plastic — was paying a 45 per cent cost penalty on the plastic they bought to support those jobs in the Altona complex, of which I was one.

Ultimately what happened was that of course the tariffs went, imports came in and then we got to some sort of parity. So we would never export those plastic products because the cost of them was 45 per cent above the raw material cost of our international competitors.

Mr DAVIS — And the role of the ICN that you correctly point to?

Mr McLEAN — People need to be made aware, and there needs to be — —

Mr DAVIS — Informational matching?

Mr McLEAN — Yes, there needs to be informational matching. There is no harm whatsoever in that. SMEs in particular are often not aware of the opportunities in government, and government is often not aware of what can be manufactured in Australia. If Australia can offer equivalent quality at an equal overall economic cost, which as I have explained, may not always be the lowest unit cost but maybe when we look at the cost of quality and look at all the other factors, local manufacturers should have every opportunity to win the business.

The CHAIR — Do you want to keep going, because we want to make sure that you have the chance to finish on those other three dot points?

Mr McLEAN — Yes. The other one is innovation, and I think we all know that many of the best solar technologies were developed here, many of the life-changing, world-changing blockbuster drugs were developed here, many innovations were developed here and have subsequently been shifted offshore. As I mentioned, some of them were unfortunately the victims of the corporate raider culture in Australia. Australia has had some very bad manufacturing companies. It is good to see that finally they are well and truly gone. But they have destroyed a lot of value and they have saddled a lot of companies with debt. They were very account and run.

When you look at fine manufacturing companies in Australia now, the kinds of companies you would talk about are ones that you would not even think do manufacturing. Who would think of CSL as a manufacturing company? Who would think of Cochlear as a manufacturing company? But they employ hundreds of people in manufacturing. The future is for companies like those, not for the corporate raider conglomerates. If you could protect companies like that from corporate raider conglomerates, that would be a wonderful thing.

The CHAIR — What would your recommendation be to do that?

Mr McLEAN — I do not know. Unfortunately I do not think you can. There is always going to be some character in white shoes who is going to think that he can buy a business out because it is underpriced and he will find a bank silly enough to lend him far too much money to buy it.

Mr DAVIS — It could be a she.

Mr McLEAN — A he or a she. Sorry, it is due to 20 years in manufacturing.

The CHAIR — I have restrained myself all day. It has always been male terminology but I have let it go. No-one has mentioned males and females.

Mr McLEAN — We do not have companies in Australia that can bulk up these technologies for us, which is a problem. Often they end up offshore, and then the risk is once they are owned by an offshore owner, the offshore owner will say, 'Most of this stuff is not sold in Australia, so why is it that we are making it in Australia?'. A decision will be made in Paolo Alto, California, or somewhere in Germany.

The CHAIR — My sense is you are going to say there is no recommendation you would make to try to reverse that.

Mr McLEAN — No, except expressing frustration at seeing it happen. The only recommendations I made were a couple of things.

The CHAIR — The German experience.

Mr McLEAN — Could the national interest test for the Foreign Investment Review Board, which I know is outside your jurisdiction, consider locally developed technology? That is getting a little bit into the realm of protectionism, but I think the Americans do that pretty well if it is a key, locally developed technology that has to stay in the country. Local companies will squeal at that because effectively it reduces their potential sale value, but maybe that is the kind of decision governments have to make, to say, 'Yes, your business will be worth less', just as Woodside Petroleum was supposedly worth less when Mr Costello refused to sell it. It has done pretty well since. I wonder whether the same should apply to Australian companies that hold Australian-developed patents, particularly ones that have been recipients of large amounts of research funding.

The CHAIR — I wanted to ask about that. Do you have examples of where large research grants have been received and the manufacturing is being done offshore or the business has been sold offshore? I used to be on the Public Accounts and Estimates Committee, and I own up to having a strong, personal support for having the taxpayer benefit. Even if the company is sold offshore, if the taxpayer has put a considerable amount of money into a particular company, when it is sold a certain amount should be reimbursed, and then there is money again for investing in future Australian jobs.

Mr McLEAN — Whether it could be a HECS-style debt where the money is provided as a loan in the style of HECS that has to be repaid — some of these things are easier said than done, and ultimately you do not want to interfere too much in the operation of a market because you can create all sorts of weird distortions and people will find ways to rort things. But that could be one way.

As I said, the two things would be the idea that native technology be considered in the investment and the other one I mentioned with the German experience. If you go to China, one of the constants there is German guys in blue overalls in the hotels. They are there to commission German equipment — German machine tools, German manufacturing equipment — in China. I almost cannot remember going to a hotel in China where there have not been Germans there: the big blokes in the blue overalls there to commission equipment. Some of them are the giant German combines like ThyssenKrupp and Man Roland.

But then there are a lot of SMEs. When I am talking about an SME, I am talking about companies that might have \$1 million, \$2 million, \$3 million, \$500 million turnovers, that have global niche positions in particular industries. How they have been able to foster that and develop that would be a question in my mind.

One area in which I think we do quite well is engineering education. Germany has outstanding engineering education, but we also have outstanding engineering education in my opinion. And we also have very good innovation. What is it about Germany that beyond the borders of the EU it can export so much equipment around the world? Northern Italy is a little bit the same. You see Italians as well; I was in Wuxi last week and there were a couple of Italian guys installing a multimillion-dollar piece of equipment in a pharmaceutical plant. It is not Chinese equipment; it is Italian equipment.

The CHAIR — Vaughn and Yuki might follow that up for some more details. That could be really interesting to explore.

Mr McLEAN — There is no point in us thinking we are going to compete with China or India; we will not. We have to look to countries like Germany, Singapore and Sweden that have built global technology-based manufacturing industries. What policies have they used to encourage that and so forth?

The CHAIR — We are going to Germany in February. Again, I might get Vaughn to follow up a couple of suggestions with you prior to our departure, because we are keen to learn whether they are prepared to share their intellectual property with us so we can try to do the same thing they are doing. I am not quite sure if they will; we can try.

Mr ATKINSON — And whether they would like to meet us at 5 o'clock in the morning.

Mr McLEAN — The important thing is to understand what the state and federal governments have been doing to encourage that. Yes, some of these companies have been around for a long time but a lot of them have not. You need to talk to both the companies and the government obviously, which you will do. I do not understand the answer to that, by the way. If you are going overseas, another place that would be a nice place to visit is northern Italy, around Bologna and that sort of area.

The CHAIR — We will not have time.

Mr McLEAN — You will not have time? That would be 4 o'clock in the morning?

The final one is retention of key clusters. I think this is in the area of industry policy, and it is risky one for governments because you can make mistakes and back a losing horse. There are clusters of industries — obviously the automotive industry is one that has had an enormous amount of attention — but others are pharmaceuticals, aerospace. What needs to happen is perhaps a fine touch from the public service to understand what those industries want and what are the key success factors in those industries.

I have listed some there. Food processing is an obvious one in Victoria. We seem to have a very strong food processing industry, and companies are prepared to invest in food processing. There is automotive OEM, and the other one is automotive aftermarket. Australians love putting things on their cars and on their four-wheel drives. We have quite an innovative industry making all sorts of bits and pieces to go on cars and four-wheel drives like bull bars, roof racks, towbars and internal storage systems — you name it, there is someone making it; tonneau covers and all sorts of things. A lot of that is quite low volume. A lot of it is high complexity, and it lends itself to Australian manufacturing.

For scientific instruments there is a cluster around Varian, which is a major customer of ours. It is an outstanding company with very high local content. Likewise there is what is now Leica, which used to be Vision Systems before it was bought out by a US company not so long ago. Farmer — probably more in Sydney than here. There is boat building. As you know, I also have several customers in Mildura. There is a whole manufacturing industry around horticulture. I do not do any business in horticulture, but I do business with people who make stainless steel tanks for wine, who make water tanks, who make grape harvesters, who make packaging for table grapes and all those industries that sit around horticulture and wine.

It is more about understanding where those clusters are, what they contribute to the economy and what sorts of things they need. I know work has been done at federal and state level at times to help that, especially for automotive.

The CHAIR — Do you think automotive gets an unfair attention? If you do not want to be on the record, we do not have to be.

Mr McLEAN — No, I do not want to be on the record.

The CHAIR — Okay.

Mr McLEAN — I think the automotive industry deserves a high degree of focus, but I think there are other industries that also deserve a high degree of focus.

The CHAIR — If there was not so much going on in automotive, there would be more to share around perhaps.

Mr McLEAN — That is your statement, and I am not disagreeing with you.

The CHAIR — Your final dot point is 'Strength and competitiveness of upstream suppliers'.

Mr McLEAN — A lot of the big keystone manufacturers in Victoria are dependent on SMEs to supply them. You have the industries like the ones I talk about — obviously the car industry everyone hears about; the heavy truck industry, Kenworth and Iveco; companies like Varian and Leica; Thales up in Bendigo. These multi-hundred-million-dollar, multibillion-dollar manufacturers all have an SME supply base. I think the Federal Government, and to some extent the State Government, has correctly identified that these industries need to be brought up in their competitiveness. I think programs like Grow Your Business and Enterprise Connect, which my company is very active in, are important. They support these companies to improve their competitiveness. Ultimately these little companies employ a lot of people and they have a lot of innovation, but often their management systems are quite poor. One day those guys may become the next CSL or the next Varian. You have got ANCA out in Bayswater which makes CNC machines. They are a global leader in the market. They are knocking on the door of being another keystone company for the region.

We should be continuing to support those activities. Originally the Grow Your Business program was implemented to do business plans. There is a more flexible approach to implementing that now in that you do not have to do a marketing plan; a strategic plan could focus on operations. I would encourage that. I think the State Government needs to look at what Enterprise Connect is doing and come up with something complementary to that. One issue with Enterprise Connect is that not everyone wants to do a business review. Some companies feel they have been reviewed to death and that they want to get on and make an improvement and they need some help. An important niche that the State Government could potentially fill is in that area.

The CHAIR — What would you be recommending as the next phase after Enterprise Connect?

Mr McLEAN — I think the State Government needs to have its own program; other states have them. The State Government needs to have a program. You need to look at what Enterprise Connect is doing and I believe you could modify the Grow Your Business program to make it a little bit more flexible. One of the requirements of Grow Your Business is that you have to write reports, and not every client needs or wants a report: they want the results, they want the work done. That requirement could be simplified. I encourage you to continue to be flexible in terms of not being restricted to just business plans.

It is really filling in a niche where — —

The CHAIR — Sorry, I am going to pressure you. What would be your recommendation as to exactly how it needs to be amended?

Mr McLEAN — Grow Your Business?

The CHAIR — Yes.

Mr McLEAN — There was a previous program under the agenda for new manufacturing called ‘Continuous improvement workshops’. That was dropped and probably should not have been dropped.

The CHAIR — You recommend that it be re-established?

Mr McLEAN — Yes, and the wording around Grow Your Business needs to emphasise business improvement rather than just a strategic business plan and a business review.

The CHAIR — Okay. I will get Vaughn and Yuki to follow that particular aspect up with you after they have written that component of the report to check that we adequately reflect what you see as the future.

Mr McLEAN — Yes. The challenge is not to duplicate Enterprise Connect, because there is a lot of money being put in, but there are some things that Enterprise Connect does not do. The key issue is with people who do not want to go through the review process because they have already been through other types of reviews, or to follow on from Enterprise Connect where people have been through Enterprise Connect and still have more they need to do. It just needs to be complementary to what they are doing with Enterprise Connect.

By the way, there is an interesting little by-product from these programs. I might sound self-serving talking about programs like Enterprise Connect and Grow Your Business, but I have a guy at the moment, as we speak, in China bidding on a very large contract for consulting work. He is an ex-packaging industry stalwart who works for me; I am an ex-paint and packaging industry stalwart, and I have an ex-Boeing person working for me. We have manufacturing knowledge in Australia that we can export, not just the products but the knowledge of manufacturing, and there is going to be an enormous market in Asia for that expertise because so many of the factories are so inefficient and so poorly run. That situation, as their costs go up, will not be sustainable. Just as we have Australian architects and Australian landscape designers working in China — —

Mr DAVIS — It is a services industry.

Mr McLEAN — There is going to be a real management consulting market over there. The fact that I have major European companies based in China flying me to China to work with them would indicate that they are struggling to find that expertise in China.

The CHAIR — It could also be an indication of your competency.

Mr McLEAN — I would hope so too, but I do not flatter myself by saying that is the only reason.

Mr LIM — You mentioned just now the design, architecture and all that.

Mr McLEAN — Yes.

Mr LIM — Is that not the field or area where we still know we are ahead of the Chinese, where we are designing six-star and green-star buildings and all that? And at the rate of about each month the Chinese come up with developments equivalent in size to Brisbane — you know, emerging cities and all that. They will need our knowledge and know-how regarding the whole package — that is, designing, landscaping, green building and architecture.

Mr McLEAN — I think that is already happening. I know of people who have relocated their landscape architecture and architecture businesses to China. I think there is obviously a prestige associated with Western design and so companies will pay for a Western designer for their building or development. But what I am saying is that that also could extend to things like management consulting expertise. There is just a need for knowledge over time.

On the other hand, what I would say is do not underestimate the Chinese. Some of the hottest artists in the visual arts market at the moment are Chinese. If they have some of the hottest artists in the world, do not tell me that in 10 years time they will not have some of the hottest architects in the world.

The CHAIR — Thank you very much, Tim. That has been very helpful. I think, if I could pre-empt the fact, that Yuki and Vaughn will be following up with you. I would also like to thank you in advance if you give them a little bit more finetuning of points for our report.

You will receive a copy of the Hansard transcript within about a fortnight, and we look forward to providing you with the final version of our report mid next year. Thank you.

Mr McLEAN — All right. Thank you.

Committee adjourned.