

ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into Manufacturing in Victoria

Melbourne — 22 January 2010

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Mr M. Moignard, General Manager, Government and Communications, Corporate and Government Services,

Mr H. Williams, Global Leader, Automotive and Advanced Manufacturing, and

Ms N. Watkinson, National Manager, Investment, Austrade.

The CHAIR — I extend a welcome to Austrade to our parliamentary committee inquiry into manufacturing. I am particularly pleased to have you here because your wealth of experience is well known to the committee, and we look forward to the detail of your presentation. All evidence taken at this hearing is protected by parliamentary privilege. Comments you make outside the hearing are not afforded such privilege. Could I ask each of you to state your name, business address and the capacity in which you are appearing. Thank you.

Mr MOIGNARD — Madam Chair, we are pleased to be here on behalf of Austrade, and we would particularly like to thank the Committee for the time involved in getting your timing to work with ours. We thank you for your forbearance in that, and we are very pleased to be here. My name is Mike Moignard. I am general manager, industry group, for the Australian Trade Commission, and I am located at the Australian Trade Commission office in Melbourne, 140 William Street, level 31. I am here as General Manager for the industry group, which includes our program of working with industry networks including the advanced manufacturing sectors.

Mr WILLIAMS — I am Hayden Williams. I am the Global Leader, Automotive and Advanced Manufacturing, at the same address for Austrade — 140 William Street, Melbourne.

Ms WATKINSON — Nicola Watkinson; I am the National Manager for Investment within the Australian Trade Commission. I am based here in Melbourne at the Austrade office at 140 William Street.

The CHAIR — Thank you. Now we will pass over to you to provide what evidence you wish to.

Mr MOIGNARD — Thank you, Madam Chair. We welcome the opportunity to appear before your inquiry. We note that a written submission was provided to the inquiry in August in response to your invitation, and we will leave that as read but are happy to take at the end of our presentation any questions relating to that submission.

Very briefly, Madam Chair, Austrade is the Australian Government's trade and investment development agency. We help businesses of all sizes across all sectors to succeed in international trade and investment. Austrade, established by the Australian Trade Commission Act 1985, is part of the foreign affairs and trade portfolio and is responsible to the Minister for Trade, the Honourable Simon Crean.

Quickly, a little bit about Austrade: we have networks in Australia and also overseas. As at 30 June 2009 we operated in 112 overseas locations in 59 countries. We also deliver consular, passport and other government services in 17 consulates and 4 honorary consulates overseas. Across Australia Austrade services and programs are delivered by 18 offices, and we have a network of 50 TradeStart offices in metropolitan and regional areas operating in partnership with state and territory governments, industry associations and regional development bodies, including eight export hubs co-located with AusIndustry. In essence we have a very strong network here in Australia. We have worked very closely with state governments, in particular here in Victoria with the Victorian State Government, but we also have a large network of offices overseas to assist Australian businesses to develop their international linkages.

In relation to the inquiry's reference, we would just like to make a few points and then, as I said, we are happy to have questions. In terms of point 1 of your terms of reference, our focus in Austrade is on attracting new productive foreign direct investment to Australia. We do not seek to relocate existing operations from another location to Australia, such as relocation of existing capacity. Instead we target new investment which is part of a company's expansion strategy or new strategic direction. We focus on attracting manufacturing which will meet emerging needs, address consumer trends, evolve new technologies and create long-term, sustainable employment.

We think there are opportunities in Victoria to be successful in attracting manufacturing investment. The features of that manufacturing investment that we see as positives for Victoria

include a strong focus on design and engineering, and we have very good skills in this area and excellent creativity; niche high-end manufacturing, which has low volumes but high quality and zero error requirements, builds on traditional strengths such as biotech manufacturing, which builds on our medical research strengths; and investment and opportunities that require lots of customisation and variations to cater for changing consumer requirements.

In other words, the fact is that we have a very flexible workforce and flexible opportunities in Victoria which are not really based around standard high-volume products such as you might produce in a country such as China but products which attract a premium price because consumers are prepared to pay for a tailored or customised product. In particular some of the advanced manufacturing attributes that we would see based here in Australia are, as I have mentioned, world-class design capability; a concept-to-showroom capability, so we can really cover the supply chain; and transport and manufacturing infrastructure to support that supply chain. This state has a very strong export focus. We have specialisation in engineering services here and specialisation in niche markets requiring complex tooling solutions.

But some of the challenges that we see for the industry are access to funding, particularly commercial sources, for continued research and development, and export markets particularly for SMEs — particularly in the light of the GFC this continues to be an issue for manufacturing companies — access to global supply chains enabling Victorian companies to ensure that they meet the requirements for supply chains but also that they have that network capability to be able to be aware of the requirements of supply chains and be able to support them, and also the changing domestic market here, particularly in the light of the GFC and overseas export opportunities, and of course the current exchange rate, which at the high level it is now can often be an issue for manufacturing exports which tend to be looking at that high or premium end of the market which is often affected by cost structures.

In addition, as I said, we have provided you with some background in our submission, and we would be very pleased to answer any questions that the Committee may have.

The CHAIR — Thank you. That was a helpful summary. I want to explore a little further the points you raised about what would attract new manufacturing to Australia. I want to know what would be the sorts of things a Victorian government could do to assist to get that happening in Victoria, and it can be as concise or expansive as you would like. Basically, if you were writing 5 or 10 key recommendations, what would be the ones that you think are absolutely crucial for the Victorian Government to do?

Mr MOIGNARD — In terms of attracting foreign investment into this sector I might ask Nicky to make some comments.

Ms WATKINSON — The work done by Invest Victoria I would say is already a very good investment in this area. Invest Victoria has done a lot of work to identify the unique competitive advantages that exists here in Victoria in the manufacturing sector and to identify those niches where the best opportunities lie, and it has done some independent benchmarking to help to validate that information. So I think the work that might go forward would be to build on that and say, 'If this is where our competitive strengths are, then the next step is to look at where might investment into those particular areas of opportunity come from', to be able to undertake some market analysis to look at where the most likely investment sources for these kinds of projects is going to come from and then to do some targeted marketing and promotional work in those areas.

We all have limitations on resources, so you need to put your effort where the best opportunities lie, and I think building on the information that is already there would be a key part of the strategy. Part of your study tour will no doubt address some of those issues and look at where those sources of investment might be today and then look at emerging trends and opportunities.

The CHAIR — Thanks, Ms Watkinson. We have not got the benefit in front of us at this moment of what you or we think might be Invest Victoria's recommendations, but given your knowledge of the work they have done and your national and international background, what would be your support points for recommendations they have made? I am basically asking you if there are any particular ones that you would really endorse and think would work.

Ms WATKINSON — Rather than just looking at it purely with a sectoral focus I think it is looking at attracting manufacturing that has the kind of attributes that Mike outlined, ones where you are looking at higher levels of customisation, where quality is very important, where short turnaround times and the ability to customise products to the needs of changing consumer preferences and where design and engineering capabilities are a key part of competitive offering that the company is looking for. So rather than saying I would target metals manufacturing, instead I would be saying I would be targeting projects that range across manufacturing but have these kinds of attributes to them. If you look at where the demand for those kinds of projects and manufacturing is coming from, my own sense is that there are two kinds of markets that you would be looking to target.

There are what you might call the current markets, which are remaining very strong. If you look at where the current sources of foreign direct investment in these kinds of projects are coming from, Europe and particularly Germany and the UK are very strong sources of investment, the US perhaps a little bit less so in the short term but certainly in areas such as machinery and equipment manufacturing are strong investors in this area as well. So you have got, if you like, your traditional markets, as I would call them, which have still got strong potential and which are looking for bases across the Asia-Pacific in which to grow their own strategies, and Australia, and Victoria particularly, has some potential to attract that kind of business.

Then you have a range of emerging markets such as China and India that are looking to access capabilities, technologies and skill sets that exist in Australia and can help them to integrate those capabilities into the supply chains that they are building up within their own domestic marketplaces. So if you look at foreign direct investment trends, you will see that whilst the majority of investment is still occurring from mature markets, there is a growing level of investment in Australia from emerging markets, particularly China, Malaysia and others. So that would be the two-tiered approach I would probably take.

Mr ATKINSON — You mentioned the scarce resources that all the agencies have. I guess most of the states, certainly Victoria, have business offices overseas that work at investment attraction and creating opportunities for Australian producers to market their goods. Can you perhaps describe the relationship that Austrade has with the Victorian ones in particular but also with other states and if there is a better model or perhaps something that is working more cohesively or if Victoria in fact is at the leading edge in terms of the relationship that we might have — I would just like to understand that — and the areas in which you see that that relationship might even be improved further to the advantage of Victorian manufacturers.

Mr MOIGNARD — Just to give you a bit of background to my history, I have been a trade commissioner and senior trade commissioner for a long time, and my most recent posting was India. I was the senior trade commissioner for India and South Asia up until mid-2008, so I can give you a bit of background to the role that we played with your office in India. In fact we were involved when that office was established in, I think, about 2005.

We have a very strong relationship with the office and in many ways share our resources and the work program, which we do on an annual basis. We normally get together with the state offices around the world, where there are state offices and Austrade offices, and talk about our forward planning and how we might work together, particularly on supporting either missions or events together. That helps us, because we do not know and probably never will know Victorian state capabilities as well as your state offices will, and that is something that they bring very effectively to the table.

But, secondly, in a place like India, for example, which is really a very large subcontinent, Austrade now has 11 offices around India and in certain major cities. In Bangalore, or Bengaluru, where your office is located, we also have a small office, but the fact that we are able to work together and support Australian industry together in a place like Bengaluru just gives us more opportunity to grow market opportunities and expectations.

The main areas where we do try to support each other are in missions and events. We have an event calendar, as do the state government offices, and we try to ensure that if we are working together on one event it is done as Australia Inc. Often Austrade will headline that, but we make sure the states are involved and have the ability to showcase their particular state. Also with missions — a lot of state missions come through as well as those that are organised by the Federal Government — we ensure that they work closely together.

The second area, which I think was something that Nicky focused on, is that on the investment side there is strong support from the state offices to look at investment opportunities again to make that pitch to countries such as India about the requirements of Victoria, the capabilities of Victoria and where there may be an opportunity for investment from those markets into this state. The state offices provide a very good service in that regard. We do federal investment, so our role really is to look for investment opportunities at the national level, but we work very closely with the state on opportunities that are much more focused on the particular needs of Victoria.

Mr WILLIAMS — Bruce, I was going to say before that I look after six industries: automotive, aerospace, defence, security, marine and rail. In terms of those industries, for instance, some topical examples: we have got an automotive mission going to India that has got financial assistance from the Victorian Government and some assistance from the South Australian Government. We are organising it from this end and from the Indian end. The Victorian Bangalore office and the South Australian office are giving some assistance in their location. We have just brought an exhibition back from the United States which had New South Wales Government financial assistance. So we work closely on a sectoral basis.

I have actually got an agreement with the Victorian Government on automotive. Under the VAMAP program they were going to put an automotive person into India and a person into China. At the same time we were putting a new team into Asia, so in the end with the Victorian person to go into China we have decided that they would contribute money, and we have put four into China. So in fact, in theory, the Victorians own 25 per cent of four people, but we are running it as a joint venture: joint planning and joint approval of client admissions.

In India we decided that we think our Chennai person — there are only five indigenous Indian companies to target, so we think one person is enough. We will look at it next year, and if we need to put a second person in, we will. Particularly with automotive you can see why we work closely with the Victorian Government.

Mr ATKINSON — Can I just explore any improvements that we can make to the relationship, and also do we have enough offices, do we have too many offices, from your perspective? Should we have more? Are there gaps? Are there areas where we are perhaps missing some opportunities? Based partly on what Nicola said in terms of investment generation, are there gaps; are there areas where in fact we should have a shopfront as well with the Victorian business office?

Mr MOIGNARD — The issues about how many and where they are change in circumstances, but the really important thing from my perspective, having served offshore for a long time, is that however many we have and how many states are involved we see ourselves when we are offshore as Australia. The role that federal agencies such as Austrade play in supporting international business opportunities and the role that the states play are very complementary, and the most important thing, and something which we are promoting, is a joint strategy between state

governments and the federal government, because that will drive — on the very question you ask — in fact where the opportunities are, as Nicky said.

We need joint strategies to determine what resources we need and what are the objectives in a particular market. Really I think you need to go market by market: do we have those resources for that objective and therefore how are we going to deliver the opportunities that we are seeing in markets such as China, India or Europe back into Australia? That is really the important thing, that you have a strategic business association, a joint venture if you want to call it that, between Austrade as the federal agency and the state governments, and from there issues around where you will put your offices and how much resource you need flow.

As I said, I think that really does come back to determining more strategically where we see the opportunities, what markets are they, what sort of resources we have in those markets and then how we develop a business plan together. We have been working closely with all of the states, and, as you would be aware, the states do have different models in terms of how they provide support to their companies offshore. Some have offices co-located with Austrade, others have their own networks. What happens is, provided you have got good relationships between people in the market and a good understanding of your objectives and needs, all of them do work in one form or another, and it is pretty hard to say whether one is better than the other.

Mr ATKINSON — Just very quickly, the strategic planning partnership, is that already in place and working to optimum or is that a developing process at this point in time?

Mr MOIGNARD — It is in place for a number of markets but it is an evolving process. Increasingly, particularly as our needs and our requirements here change, for example, we have a series of new industry networks and they have been working closely with their Victorian government counterparts. That is now being fed back into the overseas offices. Often the business planning actually happens at the market level. So some of it is driven centrally but a lot of it is about the people on the ground in Shanghai or India determining together what their objectives are.

The CHAIR — Do they have key performance indicators? If Victoria is putting in 25 per cent of the funding for a particular mission, is there a key performance indicator that X number of dollars in investment in Victoria would be sought or 25 per cent of any business opportunities be based in Victoria? How do we do that?

Mr MOIGNARD — In terms of our mission and events we do have key performance indicators. If we are working closely with another agency, we share those KPIs in terms of understanding what is a driver of, say, the Victorian office or our office in a market. They will not necessarily always be the same thing but we have a series of 10 key performance indicators that we use to register how successful we have been, and I know the state governments have their own KPIs. When you think about it they are very similar in style in that they are looking for how much investment, how many jobs and the sorts of things you would expect but there will be differences in some of those KPIs.

The CHAIR — Could you take this on notice, please. Would it be possible for us to have an example, obviously with the name deleted, of a market and the KPIs that you set. We might follow up with Invest Victoria what are the KPIs that they set. The second thing in terms of taking matters on notice, if it would be all right, could we have a copy of what you have decided are the strategic missions or events for this calendar year? I presume it is a public list.

Mr WILLIAMS — We would have an issue with the calendar.

The CHAIR — Your forward plans for this year in terms of missions and events?

Mr WILLIAMS — We do it by financial year, and we are just starting the planning side of the cycle for 2010–11, but we could give you 2009–10.

The CHAIR — That would be handy.

Mr WILLIAMS — There is a large number of events, about 600 worldwide.

Mr MOIGNARD — Just in Australia we are doing 300 events this year.

Mr WILLIAMS — So it is fairly large.

The CHAIR — I am just looking at single line items to give us an idea and a flavour of what you are doing, so if there is that number, how about we just say 1 January to 30 June or three months to give us some indication?

Mr MOIGNARD — We will look at that and see what we can get back to you.

The CHAIR — We do not need 600 examples.

Mr ATKINSON — What would be interesting would be to pick out a couple of the key events that are relevant to Victoria.

Mr MOIGNARD — We can do that.

Mr ATKINSON — For instance, you guys are heavily involved in supporting our state's food and beverage push, and obviously there are a couple of major international events for that industry. Perhaps an analysis of one of those — —

Ms WATKINSON — Maybe things like bio and AusBiotech and some of those reciprocal — —

Mr ATKINSON — A couple of those really key ones that affect Victoria.

Mr WILLIAMS — In some of the ones I am involved in we do not have KPIs, though, for specific events. We have them for the market and the industry — —

Mr ATKINSON — We would be interested in that though.

Mr WILLIAMS — To give you an example — —

The CHAIR — Sorry. My KPI was for one event, and then the second component of my question was just to get an understanding that when you use the term 'market-by-market missions and events' we understand what you are talking about. I just want you to give me an example of 10, 15 or 20 line items — not detail.

Mr MOIGNARD — Can I also make the point that one of the things we are increasingly promoting with our working with our industry networks is the need to have a strategic business plan and not to consider a mission or an event as an end in itself. It is a means to obtain a market outcome. For example, we would have a mission to China around automotive. That would be embedded in a business plan that says we are going to do the following five things to achieve these outcomes. Whether that mission actually ends up with a specific KPI — in other words we want to get from that mission five business opportunities — we are saying that within the business plan part of the strategy we will do the mission and the mission will help to deliver the opportunities, if you see what I mean.

The CHAIR — Yes.

Mr MOIGNARD — One of the issues we have is that people like to think we will go and do a mission and that you are going to bring back \$20 million worth of sales and five opportunities. We say the business plan is not necessarily the mission, and the mission is not necessarily a success or

a failure on the basis of whether or not it actually brings back an opportunity. It is how it fits into your strategic business plan.

The CHAIR — That was explained to us by a couple of previous witnesses.

Mr MOIGNARD — That is what we are trying to achieve with what we are doing but also with our business clusters — to see that going on a mission is not the end in itself; it is actually the means to get to an end.

Mr ATKINSON — What sort of tools do you provide to businesses to get them export ready, both the thinking in exports and to focus on the business plan and so forth? What sort of tools does Austrade provide to get them to think that way?

Mr MOIGNARD — We have a number of things on our website around getting into export. We have our export advisers and our TradeStart advisers and our networks in Australia. They will go and meet new exporters or exporters who are perhaps moving to another market. We will provide them with market assessments, and we provide them with background. We also support them through various seminars and events in Australia. We also work closely with groups like Enterprise Connect to be able to create opportunities for the companies to understand what is needed, how to get into export and what an export plan means. There are other agencies and organisations such as the Australian Institute of Export that do a lot of export planning programs, and we would refer our companies to organisations such as that. Can I just say — —

The CHAIR — Certainly you can, and then Hong is next.

Mr MOIGNARD — I can give you a copy of Austrade's corporate plan now. At the back, on page 21, is a list of our 2009–10 KPIs.

The CHAIR — Thank you very much.

Mr MOIGNARD — I can leave that with the Committee. It will give you an understanding of the areas we use to determine how effective we have been.

The CHAIR — Wonderful. Thank you.

Mr LIM — I have a couple of questions. I am very interested in this area, particularly as you can imagine in my role with the Premier.

The CHAIR — Which you need to explain to our guests.

Mr LIM — It is a special role which we have copied from New South Wales. We are very concerned about our trade, particularly as Victoria is not a resource-rich state and our manufacturing abilities are now being beaten by the Chinese. Therefore we have to try something else, and that is partly what our inquiry is all about.

I have been to all the other offices in China, including those in Hong Kong, Nanjing and Shanghai. From listening to you all this comes flooding back. Very quickly for our people, the first complainant said that if they go to you for help they have to pay because you charge by the hour. My simple question is: why do you need to charge them, or is it to cut down on the numbers so you only get genuine, interested, keen and serious people? I need to go back to people and explain it to them.

MR MOIGNARD — Sure.

Mr LIM — Just going on from what Bruce mentioned and the relationship between the state and your organisation at a federal level, you said you are preoccupied a lot with missions. Our Hong Kong office, for example, is flooded with people passing through, even sometimes looking in after the ladies have been shopping. That is to put it bluntly. That is not what the missions are

there for. You are talking about 600 missions and something like 55 offices. That is just overwhelming. I can imagine that really eats into your ability to do more serious work. My specific question, although all the questions are interrelated, is: I have a group that is very keen — sorry, this is an area where Victoria can shine and be ahead of the pack. For example, I took a group to our office in Nanjing — —

The CHAIR — Office in?

Mr LIM — Nanjing. In Jiangsu province, which is our sister province. I had an industry delegation with me. We had a small project after the visit, but my visit was the third one after the Premier and the minister. Of course, you know the Chinese always want a politician to help with a mission; that is just their thinking. Because of the special relationship we have been able to win some small projects — \$3 million or \$4 million here and there cleaning up the Xuanwu Lake — —

The CHAIR — The what?

Mr LIM — The Xuanwu Lake. It is a lake. My concern is this: we are competing with very intensive competition from the Europeans. The Chinese mentioned an Italian company which is heavily subsidised so they can really penetrate the Chinese market. We are not even talking about the Americans or the Germans or the French. The Italian company is one that is in place already. I have people from this end who are trying to be involved in industry who go to China but they have no help. You have probably had that discussion at the federal level. My concern is that when you are so busy with other missions, to what extent do you have input into real policy suggestions, and how can our people get involved in that, or is there some sense of competition? How do I involve them? I am just concerned at a national level that we are competing internationally as Australians and we are losing out. This is one small example. I am not talking about city planning or traffic management or the whole bunch of environmental things.

When the Chinese are in Melbourne they are mesmerised. They see our clean water coming from the tap and the clean air. They are just overwhelmed by that, and that is the kind of technology we can sell them, but it has not really been done properly and to maximum effect. From looking at the Hong Kong office alone I have a strong feeling that they are just overwhelmed with people passing through who are told, 'If you need help' and all that, and they have to do it without pay. I have asked many questions there.

The CHAIR — If we hone it down to the specifics, the question is about payment.

Mr LIM — The payment.

The CHAIR — Whether people, for example in the Hong Kong office and other offices, are overwhelmed with what you consider to be peripheral issues rather than key issues in securing trade and manufacturing bases here? Is there a third component?

Mr LIM — Because they do not have time.

The CHAIR — Because they do not have time. Is there a third component to the question?

Mr LIM — How all this affects their relationship, and how they pick up on the intelligence. I am not touching on the property — —

The CHAIR — Let us stick with that so far. As you have probably picked up, Hong has been overseas extensively to the south-east Asian markets — —

Mr LIM — China and India.

The CHAIR — China and India on behalf of the Premier in his role as — —

Mr LIM — Special adviser to the Premier on Victoria in Asia. It is a copy of the New South Wales — —

The CHAIR — Can you put it on the record for Hansard? You and I know what your title is.

Mr MOIGNARD — Thank you very much. It is a very interesting question. I will take two or three points. On the charging policy, this is a Federal Government requirement. In fact we have been required to charge for our services I think since about 1988. As a Federal Government agency it is a requirement in terms of user-pays principles, and we are required not to make a profit. It is simply to provide a user fee for our services. It is not new. It is interesting that even now after over 20 years of having this policy people are surprised when they realise there may be a charge for our services.

There are certain things we do free as a public good, and a lot of that is in fact through the work we provide in terms of general information on the market. If a company is interested in a market assessment for their particular product, we will do that free. The information on our website is free and a lot of the seminars we provide are free. A lot of the meetings with visiting trade commissioners to Australia are free. It is not as if everything Austrade provides to Australian companies is charged for. But what we do charge for is when a company wants us to do a specific program for them and in a way the public good of free information is moved down to particular support for that company in China or wherever it may be. A company will come to us and say, 'We would like to do an appointment program. We want you to help us find an agent or a distributor for our products. We need to know a bit more information about how the market works'. The information is very specific to that client. It is supported by our client relationship program and therefore that is a specific work program and we will charge for it.

Mr ATKINSON — Can I just ask very quickly on that, in your opinion has that ever presented a barrier to manufacturers? It is all very well for people to whinge about costs, but in your opinion has that presented a barrier to people who are genuinely interested in moving into the export market?

Mr MOIGNARD — I think if people are genuinely interested and they understand what we supply, the needs of the market and how Austrade can assist them invariably, they find it is good value for money and the material they get is invaluable to them. I think people who are really seriously concerned will find our costs quite reasonable. It is a government requirement that we charge, and we make no apology for it. It is what we are required to do.

The other side of the fence though, as Hayden has mentioned to me, is that what a lot of people forget is that there are also ways in which we can pay people money through the Export Market Development Grant scheme, and in fact some of the services an exporter provides for Austrade can actually be available for support through that scheme. I can leave this with the Committee as well. In one sense, yes, for an individual service we will charge but there are other methods whereby a lot of that support can come back to the company through things such as the EMDG scheme.

Mr WILLIAMS — Can I just add one comment. Before we started charging in 1988 we had a thing called the Asian overload where our offices, particularly those in south-east Asia, could not work for companies because we had thousands and thousands of requests for market research and we had no way of delivering it. As people discovered new markets like China, and although it is not the primary purpose, charging even as little as \$190 an hour — and it was much less in the 1980s and in the early 1990s — it made people prioritise markets so they looked at one or two markets instead of asking Austrade to do market research in 20 markets because it was free. We had no way of doing it. It has helped us to prioritise markets in terms of companies. It was not the primary objective, but it helped.

Mr MOIGNARD — I think the other thing to note in this whole process is that in many ways we see export as a journey. Companies need to think about how export is going to fit into their business plan, how it is going to fit into their output and what turnover they feel comfortable with as part of an export program. Some companies say they are happy to have 20 per cent or 30 per cent of their output in exports; others say it is 85 per cent because of the market. Others are mainly domestically focused and so they might say it is only 10 per cent. What we encourage companies to do is to come and talk to our advisers — and the state government has advisers as well — and to work through a business plan, and as you work through a business plan hopefully you then start to characterise what your needs are and where the market opportunities are. You take that business plan and then you go to our markets offshore and say, ‘This is what I need’. The markets will then come back and say, ‘In the context of your business planning we will do this and this and this for you and there will be a charge of X, Y or Z’. In that way they can see holistically how important that information provided by Austrade is in the sense of their business plan.

As you said correctly, a lot of companies will hop on a plane and fly to Hong Kong and the first thing they do is to walk into the trade commissioner’s office and say, ‘Can you help us?’. We would say we really should have helped them in Australia first. Before you get on the plane do some homework, and if you do the homework, the work that we then provide you, particularly in follow-up and in getting an understanding of the market, will be much more valuable to you than what we can provide on the doorstep in Hong Kong.

The CHAIR — I sense Mr Lim is not convinced. Do you wish — —

Mr LIM — No, no.

The CHAIR — I think this is important.

Mr WILLIAMS — We have a similar problem. I worked in Bangkok. Some of the businesspeople might have been there for business purposes and could drop in, but you also got all the Australian businessmen on holiday who would also drop in. Hong Kong and London has the problem, and Singapore has the problem. I am sure Shanghai and KL have the problem. They are places where a lot of Australians travel for business or for holidays and they will drop in and expect a large amount of service free, which we cannot give. But, as Mike said, we give them counselling and tell them about the market for free and try to accommodate as many as possible. But I can remember days when sometimes five or six people would come with no appointment and expect Rolls Royce service. I can understand the Hong Kong situation.

Mr ATKINSON — They probably just needed an attendance slip for the taxman.

The CHAIR — I was thinking the same thing, and wondered if I should ask.

Mr WILLIAMS — A business card. In fact we have it the other way. We have foreign businessmen and I know for sure they need my business card because they have to go back to their company and substantiate what they have done. They might do a few appointments in Australia but I have looked after missions where they have disappeared. They have walked across the Sydney Harbour Bridge and they have gone to wineries in the Hunter Valley. I am sure they do not tell that to their superiors when they go home to their countries.

The CHAIR — We are not delving into tax at this point, otherwise we might ask you to think about what we could do to minimise people unfairly claiming for business rather holidays.

Mr LIM — May I just rephrase a part of my question? I am hearing how busy you are and all that. Do I understand that having to cater for missions passing through, both official and unofficial, is affecting your ability to have input into policy, especially intelligence from other countries that are competing? Can you explain how we can keep one or two steps ahead of them?

Mr MOIGNARD — I understand. In that context there is a group I support which is responsible for our industry program. We have an industry network program of 10 industries in which we focus on providing exactly that sort of information in terms of analysis of market trends, information about capability in Australia and then developing a joint action plan between industry associations, state governments and Australian business to be able to tackle some of the initiatives and opportunities we see offshore.

Really we do two things: one is we have a base of programs we provide to companies — and we are required to provide services to anyone who walks in the door — and, secondly, we have a series of strategic initiatives which are really focused around both markets and industries where in fact we do exactly what you have been suggesting. But of course that is prioritised, and it comes back to understanding where we see the key markets and where we see the key opportunities and where the key capabilities in Australia are. We put that together to try to focus our efforts to maximise our return in terms of supporting Australian business offshore. We do not cover the waterfront, and nor would we, but we do have a set of prioritised action plans.

The CHAIR — Can I take you to some evidence we received from the Victorian Industry Capability Network, and I think it would be helpful if you could comment on this. They indicated the desire of some Australian companies to move their business to the US to take advantage of the US procurement policy, and I will quote from evidence:

On an international trade mission ICN auspiced to the USA —
in 2005 —

participating companies stated that it would be to their advantage to move their business offshore to America to comply with the USA local content requirements, and then free-trade back into Australia, thereby having the best of both worlds.

My question is: are you aware of this occurring, and what is Austrade's view on the role of local procurement policies here in Australia?

Mr MOIGNARD — I might leave that to my colleagues to comment. I am not aware of this happening. You do have people talking about it, and the reality is that a company needs to look at what is best for it, but I do not have any personal experience of that.

Mr WILLIAMS — There are some examples of companies that have set up in the United States because of those sorts of restrictions, and probably the best example is Austal which is a Western Australian company which is building ferries and naval vessels in Alabama. It is a joint venture to supply to, amongst other people, the United States navy. Because of a thing called the Jones Act you cannot supply the same vessel from Australia. There are some people doing helicopter parts and things like that. I am not aware of examples of people moving production to the US and then re-exporting it back to Australia. I am aware of it in other markets but not in the US. But every country has various non-tariff barriers and government restrictions — well, not every country but many countries do — and it is part of Austrade's role to help people accommodate in that way.

Mr ATKINSON — Is the Jones Act segmental or does it have wide application?

Ms WATKINSON — Defence.

Mr WILLIAMS — There are some areas like defence that are really not covered by the free trade agreement. There are other areas, and I cannot remember the difference between the Buy America Act and the Buy American Act. One covers things like public transport. There are incentives for small manufacturers in the US and small manufacturers who employ disadvantaged people and various categories like that. Conceivably there could be somebody who sets up. There may be examples of people who set up there. But I am familiar with automotive. We have a large

number of automotive investments in the US. They are there to supply the US customers. It is nothing to do with logistics costs or tariffs or any government restrictions.

The CHAIR — The second part of the question is — sorry, do you want to — —

Ms WATKINSON — I was only going to say that in my experience the issue is not about transferring operations from Australia to the US or to other markets; it is about establishing a new representative office in order to capture new opportunities, and the profits of those new operations that are set up overseas are usually repatriated back to Australia, so we still get a lot of economic benefit from that. It is what we would call outward investment rather than inward investment. This is not taking something that exists here and removing it from the Australian or Victorian economy and putting it somewhere else, but it is about the growth strategy and the internationalising of our Victorian manufacturers, and I think that is a positive economic benefit. It is exactly what we try to do the other way, which is to stimulate companies to come and set up operations in Victoria in order to generate jobs and to create new activity for us here.

The Victorian industry participation plans that have been established are designed to encourage companies to look at maximising the potential of their investment footprint in Victoria in order to realise those kinds of benefits for us here in Victoria as well. I think we just need to be clear that this is not about transferring activity, it is about Victorian companies looking for new opportunities offshore and seeing that a lot of that actually delivers repatriated profits back here in Victoria.

Mr WILLIAMS — I was going to say that in my area you look at things like why new investments are coming into Australia in manufacturing. They are coming into access opportunities around, say, people in the ADF or the Air Warfare Destroyer project or the automotive manufacturers — the OEMs. They are coming in because of a customer which might be government or government-related like the air warfare destroyer. Logistics costs come into it sometimes but very rarely do they come in because of a regulatory environment. It is really about market. It is easier. In automotive a lot of the automotive customers want you to be co-located rather than have long logistics operations.

The CHAIR — The second part of my question is: does Austrade have a view on the role of local procurement policies here in Australia?

Mr MOIGNARD — There would perhaps be an issue with investment, but obviously we are an organisation that is related to exports, so the use of our procurement policies here in Australia really is less of an issue for us in the export arena.

Ms WATKINSON — Regardless of whether or not there is a local procurement policy, our objective is always to maximise the local content of any investment that is occurring in Victoria. We do that not because of regulatory mandating but because we think it makes good business sense for the company to be able to do that. It takes advantage of what Victoria has to offer here within the economy. We all know that businesses like to have things close to them. If you are an international company and you are looking at how to do business in Victoria, then our advice will always be, ‘If you want to appeal to consumers or if you want to supply to a major company here, the most effective way in which you can do it is by having a significant local presence that really captures the benefits of the economy’. That is really always what is driving our work at the policy level, if you like. It is maximising the economic returns into Victoria, and regulatory issues may or may not impact on that but we would do it regardless.

The CHAIR — I had a sense I would not get a direct answer to that question, and I was right. Having heard your comments, would Austrade happen to have a list of various countries’ acts or regulations such as the Jones Act that clearly stipulate procurement policies that apply in other countries? That would be handy for us because there has been some discussion about the New South Wales procurement policy decision and how it affects the free trade agreement. But if in

amongst your vast array of papers and reports someone happens to have a concise list, it would save our research staff a lot of work if that could be provided.

Mr MOIGNARD — We will do our best to provide that. It is also something that I understand you had a discussion about with the Department of Foreign Affairs and Trade in a previous submission, and we will talk to DFAT as well, because part of that is in its area.

The CHAIR — Obviously it does not have to be a full list, but as comprehensive as someone in your organisation or another has prepared.

Mr MOIGNARD — Yes.

Mr ATKINSON — I have one question for Nicola and one for Hayden. Nicola, in terms of the investment coming in from overseas you have nominated some countries where there are investment funds that are looking for opportunities around the world. I guess at the moment those markets are tighter because of the global financial crisis at any rate, but I wonder if you have identified through Austrade what areas those investors are interested in. Are they interested in the research and development stage, in licensing or in manufacturing capability? Where are they at? Have you quantified that? Also, how do you see Victoria's opportunities compared with those of some of the other states in attracting that investment?

Ms WATKINSON — One of the objectives of our investment attraction work is to address the broader industry development objectives of the government. In identifying the 10 priority sectors that we focus on we look at where we see the greatest opportunity for investment and where we think it can deliver the greatest economic benefit here in Australia.

Because of that we do that sort of sectoral segmentation and we try to identify where in the supply chain we think there are gaps that we need to fill through international investment in order to make the Australian economy more competitive. At the same time we also look at, if you like, the pull side of things — that is, where the international business community finds Australia to be an attractive destination. We then have to marry those two together.

One of our key priority sectors, for example, is what we would call clean energy and environment because it is fulfilling part of a broader industry development objective of the government. Then we look at where in that supply chain Australia has the best chance to capture new investment. That might vary from sector to sector, so other areas of opportunity that we look at are financial services, biotech and ICT.

The area where we are competitive and where we are seeking to attract investment on a sectoral basis may vary, but generally if you were to look at some of the main strategies we have, we do see excellent opportunities to attract investment in and around the broader theme of innovation. Australia globally is recognised as having very good skill sets in terms of design, engineering and research and development. That plays very well into the new technology sectors which we are seeking to be able to catalyse, if you like, here in Victoria and in Australia more broadly. It is certainly a particular advantage that the Victorian economy has to offer, not just in areas like medical research but in other areas as well. That is an area where we put in a lot of effort and where we do see a lot of global interest coming in.

In the niche manufacturing area I think there are still excellent opportunities, particularly manufacturing in the way that we described at the beginning of this presentation; that has particular attributes. There are also opportunities to bring in major international companies that want to capture some of the technology capabilities that we have here. We have a lot of very small, start-up, young, clever companies that these large international companies can gather together and offer a global supply chain to then take them into third markets such as China and India. The size of the companies here alone would make it difficult for them to pick up the work in and of themselves as individual enterprises, but by becoming part of a cluster or a global supply chain of a multinational they actually have very good growth opportunities.

Those are some of the segments, if you like, that we try to target. Then there are areas that would vary from sector to sector where we see a particular opportunity that is sectorally based. Does that help?

Mr ATKINSON — Yes, that is good. I might just move along. I have just one quick question for you, and then I will throw to Hayden.

You mentioned that Austrade's focus is particularly on the new, in terms of new exports. I guess one of the areas of interest is that the previous federal government actually had quite an ambitious target to increase the number of exporters quite dramatically.

Mr MOIGNARD — The doubling the number of exporters program, yes.

Mr ATKINSON — Yes. When we looked at some of the statistics that came out of that we noted a lot of people tried it once and never went back. There was an enormous casualty rate of people who did export once but just never continued. That would seem to be a real problem. To me, just dealing with the new and trying to create new exporters all the time is a bit of a nonsense. Do you actually have programs where you are trying to build the ongoing involvement of exporters rather than just one-offs?

Mr MOIGNARD — Absolutely. In fact I was overseas for a lot of that period when we had the doubling the number of exporters program, and we found it was often easier to get a company a first sale anywhere; the second and third sales were always the more difficult. Some companies find it relatively easy to find a sale into a relatively simple market; if they then want to move into more complex markets, then, as I was saying before, it comes back to the level of exports that the company feels comfortable with within its turnover and a lot of other issues.

We certainly support companies across the board, from companies that are actually looking at getting into export to those companies that have already got into an export market and are looking to move into new export markets and perhaps, as Nicola said, may be looking at an outward investment opportunity, so they want to follow the supply chain. And then there are those companies that really know how to do business but they need specific help — it might be on a particular project or getting into a new market. We provide services right across the board to all of those types of companies.

The CHAIR — Can I follow that up? Do you assist in guiding, directing and advising them in relation to opportunities that the financial sector might assist in financing? We have had examples of people saying, 'We've been through the R and D; we have a proven product'. They have manufactured their first item, it has been exported and has been going well, and then the financial crisis has hit and ongoing finance has become an issue. We have had manufacturers here who have changed banks because banks with decades of history have just decided they will not continue funding exports. Obviously there are other banks also where investment capital just evaporated during the financial crisis. What does Austrade do to assist in guiding and advising as to where people who have a proven product can get capital to export?

Mr MOIGNARD — We can certainly assist companies to understand the needs or the requirements for being able to have a successful application to a bank. We cannot provide financial service advice. That is not our role.

The CHAIR — No, I know that.

Mr MOIGNARD — But through our export advice and network we do talk very much to individual companies about their needs and their business plan and we work very closely with EFIC — the Export Finance and Insurance Corporation, an Australian Government finance insurance company — to assist them to be able to provide advice to companies. But we are aware that this is an issue, and it has been an issue particularly since the GFC. It is an area where we try to provide as much support as we can, but we are limited as to how much advice we can give.

Mr WILLIAMS — We used to refer people on to specialists in that area, but it came as a bit of a shock during the global financial crisis in the automotive industry, where a lot of the financing had come particularly from the US, when most of it was withdrawn, and a lot of it has not returned.

In fact from my team's point of view, whilst we are not particularly involved, we are referring and making sure that Minister Carr and his department are fully aware of some of the problems that are happening with the automotive industry and the components companies that continue to struggle to get credit in Australia from Australian financial institutions. This is now more crucial than the financial crisis, because now these companies need to expand as the market is expanding and the opportunity is not there. DIIRD is in the same position, and the Victorian minister and the federal ministers are aware that this is a problem. I have given only a few examples, but it is not just in the automotive area but also in other parts of manufacturing where the Australian financial institutions are not as receptive as they were before the global financial crisis.

The CHAIR — Bruce and I have asked a number of questions in relation to whether federal or state government might set up something like a Victorian Economic Development Corporation, although we are absolutely averse to an identical model to that which has existed in the past. As we have said in the past, the political will would not be there for anything that remotely sounded like that, but we are also critically aware from the evidence we have received that there are a number of companies that have a proven track record — and that in some cases are decades old — that want to expand and are capable of doing better in the export industry. We are not experts in finance, but on face value you would think if they have been successful for a number of years and their business is proven, how come they cannot get finance? What can government/Austrade do to encourage financial institutions to understand that manufacturing in Australia is not dead and that it is a wise business investment to assist it?

Mr WILLIAMS — I think you will find it is a very large problem. I think it would be more than hundreds of companies; it might be 1000, or it might be more. It is partly because of the media, I think. If you read the media reports about the automotive industry, you will see they are all about doom and gloom and saying it is dead.

The CHAIR — Yes.

Mr WILLIAMS — I still have people tell me that it is impossible to sell a manufacturing product to the United States, so I just go back and say, 'The last I saw there were over 1000 Australian manufacturers not manufacturing there but exporting to the United States, so it is not impossible'. Okay, some of those may not be making a profit on those sales, but when they saw the problems with the automotive area the financial institutions just moved away from those component companies. When you are a small tier 3 and the volumes have dropped it is very difficult, because even now that the volumes are increasing you cannot get working capital — and they are family owned companies perhaps.

The CHAIR — So do you see a role for a recommendation from our committee in that light, and if so, what would you suggest we say? Would you like to have a bit of a think about it? Would you like to make some initial comments?

Mr MOIGNARD — Again, because we are not a financial adviser, that is an issue for us because we are quite limited in what we can provide. We do refer people, and certainly companies, and try to ensure that they are fully armed in terms of what they are talking to their banks about, and we make sure from the export point of view that the opportunity that company has is clearly delineated. We can help them do that, but we cannot help or support them, unfortunately, as they go in and talk to their banks. As Hayden said, clearly as we move into 2010 and into a definite recovery phase across the world there are opportunities out there for Australian companies to win more business, but they do need financial support.

The CHAIR — Okay. We are writing our report: what is the recommendation we should make?

Ms WATKINSON — I think there is a role in improving the perception of manufacturing more broadly, and I guess this inquiry talking about the future of manufacturing is an important element to be able to articulate the fact that we do see a strong future for manufacturing in Victoria and therefore to address some of those issues that are perhaps guiding the perceptions of the marketplace in a negative fashion.

The CHAIR — So a marketing strategy.

Mr ATKINSON — I have a question for Hayden. You are actually involved in a lot of the industries that are important to Victoria. We have had a number of people who have appeared before the inquiry who are representative of those industries and have made some comments. You know our terms of reference, and you would have thought about what you would say in response to a whole range of questions here today. What did you want to say to us?

Mr WILLIAMS — They are probably fairly similar industries — engineering industries — although automotive is clearly the largest. Past experience has been that people have brought in their own supply chains. Then the Americans invested in automotive. In the 1960s they brought their supply chain in. The Japanese invested after that, and they brought their own supply chains in.

The thing I want to say to you is that the world is different now because they are global industries. In most of the ones I look after the Australian investments are heavily foreign owned — well over 84 per cent of them, depending on what the industry is; they are called primes in defence or tier 1s or OEMs in auto or aerospace — so I do not think we are likely to see major investments and bringing in of major supply chains. The things that Nicky talked about are the more important things, but apart from building on our strengths and building on what manufacturing we have here, we now really need — this is where the Victorian Government plays a major role — to look at the new innovations, the parts of those industries that are going to grow in the future, and to have the investment and government support in those industries.

A couple of the industries, at least two, have technology road map studies.

Mr ATKINSON — Which industries are those?

Mr WILLIAMS — Automotive, and I know advanced manufacturing is doing it. The one I am involved in is automotive, which is partly funded by the Victorian Government and partly by the Federal Government. It is going to tell us a number of things. It will tell us what our strengths are, and we know them, and it will tell us what our weaknesses are, and I think we know them, but we then have to decide whether we want to attract investment in those weaknesses or whether we will rely on imports and the rest.

But more importantly the road map will tell us where the technologies are changing. In terms of automotive, it raises questions like electrification of vehicles, our strengths in the lightweighting of components in cars, electric vehicles putting current back into the grid — and we have strengths in that — and the growth in vehicle-to-vehicle communication and vehicle-to-individual communication. Do we stay with large or medium-large rear-wheel drive cars where our export is or do we go with something different?

These are the questions we need to look at to decide what our automotive and manufacturing industries should be in, otherwise you can see what will happen; if you stay with what you have, you can predict what will happen. They are the really interesting questions, and there are real challenges in that for industry and for government too. We often say within Austrade that we are not allowed to pick winners, but no-one wants to pick losers; and if you pick losers, we know what will happen in terms of employment and the corporations.

That is where I think the more interesting things are: around forecasting where we should put our efforts and then trying to attract investment. Some of the big corporations are doing this already; there are some really good technology companies in Australia like Robert Bosch and the OEMs that have a fairly good field, but often there are issues as to why we might go one way or another. Certainly export markets are an issue in that as well.

That is the thing I would say needs to be recommended: that there needs to be not just committees and studies but also a lot of thought around those sorts of issues. In some cases we can do something about it, and in other cases we may not be able to do anything as a country and as a government, but they are the things of interest.

As I said, the days of Ford and GM bringing in their supply chains are over. When Toyota, Mitsubishi and Nissan came they brought their own companies in — you know, their own components.

The other one that always comes up, which is another difficult one, is studies about value-adding our resource base. When you go into nickel manufacturing and things that could go into, say, future cars or aircraft and things like that, some of that investment into our metals tends to happen overseas, and we will end up importing components back where perhaps it could be done in Australia. That is really a financial issue again rather than a government issue.

The CHAIR — Thank you. We are going to make Hong's question the last one. I appreciate the fact that you were able to stay after 11.30.

Mr LIM — Chair, I want to go back to my point earlier, as Hayden mentioned, about the system that is provided to an exporter. Are you referring to the Export Market Development Grants Scheme?

Mr MOIGNARD — Yes, that is right: the Export Market Development Grants Scheme.

Mr LIM — My question would be then: is that enough, given the example I gave in the environment, service and energy industry here? The Italian government subsidises heavily and is a competitor to the extent that we have just been beaten out of the market contract with China, for example. That is my question no. 1. Relating to this scheme, can you give the Committee a specific example of where there has been ongoing international sales and/or investment with an Australian manufacturing company particularly in relation to this inquiry?

Mr MOIGNARD — Going to your second question in terms of specific examples with companies, we are really unable to provide you with a specific company example without the agreement of the company, because the work we do with companies is commercial in confidence under our act. We can provide you with general information, unless the company says, 'Yes, we are happy to have that information released'. But what we can do is see whether we can get you some examples in the manufacturing sector of second and third sales. We might be able to give you some general information about that and how successful it has been, but not individual company examples, unfortunately.

Mr LIM — You do not have any figures on how many hundreds of millions as a result of that?

Mr MOIGNARD — I am not sure whether we collect it in that way, but we will see what we can do. I will get back to the Committee on that.

Mr WILLIAMS — You are talking in terms of Austrade's assistance to these companies?

Mr LIM — Yes. And the first part of my question?

Mr MOIGNARD — The Export Market Development Grants Scheme is one where we get a lot of support, particularly from SMEs, for this scheme. In terms of what it provides in terms of

support for companies getting into export markets — doing promotions, events and missions and other ways of getting into the market — it is a successful scheme. We do reviews of this scheme almost every two or three years, and every time we come through it we get very strong support from the exporting community for the scheme. It is one that our clients enjoy very much. It does seem to meet the needs that they have in this particular area.

The CHAIR — Thank you very much to the three of you. We appreciate your time and the information you have provided. The transcript will be sent to you in about a fortnight. You are free to make typographical corrections but not, of course, to change the substance of it. I hope you enjoy the rest of the day. Thank you.

Mr MOIGNARD — Thank you very much for giving us the opportunity.

Witnesses withdrew.