

## **ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE**

### **Inquiry into Manufacturing in Victoria**

Melbourne - 28 April 2010

#### Members

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

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

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

#### Staff

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

#### Witnesses

Minister Jacinta Allan, MP, Minister for Industry and Trade

Mr R Straw, Deputy Secretary, Industry and Trade, Deputy Secretary, Innovation and Technology, Department of Innovation, Industry and Regional Development

Mr D Latina, Executive Director, Sector Development, Department of Innovation, Industry and Regional Development

**The CHAIR** --- I welcome Minister Jacinta Allan, Mr Randall Straw and Mr David Latina to the all party Parliamentary Inquiry into Manufacturing in Victoria. As you would know, evidence given before a Parliamentary committee is protected by parliamentary privilege. Any evidence you give outside the committee is not so protected. Could I ask each of you, please, to give your name, your business address, and your position, because I know you are each appearing in a business capacity.

**Minister ALLAN** --- Thanks, Christine. I am Jacinta Allan, Minister for Industry and Trade, and some days you can find me at Level 36, 121 Exhibition Street, Melbourne.

**Mr STRAW** --- Randall Straw. I'm the Deputy Secretary for Industry and Trade, and also the Deputy Secretary for Innovation and Technology in the Department of Innovation, Industry and Regional Development. And, I'm on Level 7, 121 Exhibition Street.

**Mr LATINA** --- David Latina, Executive Director, Sector Development, at 121 Exhibition Street, Level 35, with the Department of Innovation, Industry and Regional Development.

**The CHAIR** --- Excellent. Thank you very much. So, over to you, Minister. We provided you with a number of questions that the committee would find helpful in having responses. We thank you for tabling this, which at this point we haven't had a chance to read, but I understand this is principally the data that we were trying to identify, and we thank you because it will save Yuki weeks, if not months, of trying to track down the specifics. We also thank you for your comment prior to officially giving evidence, that if some of that is unclear, Yuki can be in touch with the relevant person.

All right, now, I notice that you have got a number of slides, so how about you run through the key points you want to give us. Thank you.

**Minister ALLAN** --- Thanks, Christine. I will move through the slides relatively quickly, and as I said before we were sworn in, the supplementary information that has been provided I hope satisfies in terms of a lot of the data requests. Some of the other information the committee is seeking, we'll try and cover off in the presentation, and obviously through questions, if there's not enough information, we can talk about it a bit more during the questions part of the presentation. I guess also to note, the presentation today builds on the presentation that the previous Minister for Industry and Trade gave to this committee I think back in September, and also at the time I presented to the committee in my capacity as Minister for Regional Development on those industry sectors I was and continue to be responsible for under that portfolio. Obviously now bringing together industry and trade and regional and rural development, means that we now do have one Minister in Victoria who covers off all the different industry sectors. So, just for that point of clarification.

I'll move through this first slide really quickly. A lot of this information is trying to update the committee from September of last year to today, where we can. I don't think I need to say too much, beyond that we continue to see a major role for manufacturing in Victoria. It continues to be a major source of employment, from the figures that you've seen previously, where it accounts for 11.3 percent of the workforce, and also, that Victoria remains the national leader in terms of the manufacturing industry being the highest employer, at around 30.9 percent of all national employment being here in Victoria. It is also interesting that it remains, despite some of the challenges, which we will go to in a moment, the largest employer of full-time workers in Victoria.

Just on some of the latest figures that we have for the committee's information, as at February 2010, manufacturing employment in Victoria was at 310,200 people, and given the year we have come through, that represents an increase of around 15,200 people, so I think that is a positive, given some of the challenges, and also by comparison, manufacturing employment in New South Wales is at 304,800 people, so we are quite a way above New South Wales. And, we are also, in terms of that forward forecast, projecting a modest increase in the numbers of employment. The forecast for the 2010-11 financial years is that we'll see over 2,500 manufacturing jobs generated here in Victoria.

So, looking at some of the recent major investments, I do appreciate the opportunity today to update the committee on some of the recent investments, as this is part of our overall focus we've had from day one as a government about attracting additional jobs into Victoria, particularly focusing on our manufacturing sector. Just quickly going through some of the more recent announcements, which the committee would have picked up many of these already. There was the recent announcement just a couple of weeks ago in Geelong by the Premier, Minister Carr, Senator Kim Carr as a Federal Minister, Marin Burela, as President of Ford and myself, to announce Ford's \$20 million expansion of its engine casting plant. A great announcement for Geelong, because it secures the 100 jobs there at the plant, and provides capacity for them to create 50 new jobs.

The other big announcement that we have seen in recent times, of course, is the commitment by Toyota to build the Hybrid Camry here at Altona. The first of these hybrids rolled off the production line back in February. I had the pleasure of joining the Premier and doing a little tour around Melbourne in the first one that came off the production line, and of course, the Victorian Government has committed that we purchase 2000 of these vehicles to go into the fleet, and I look forward to picking up my Hybrid Camry in the next couple of weeks.

The other big announcement, too, that is of great significance, not just for the manufacturing sector, but really in terms of what we are trying to do here in Victoria to try and give an even sharper focus to the major role that we have as a state in the defence industry, is the commencement of work in the last couple of weeks by BAE Systems as part of the Australian Navy's Air Warfare Destroyers Module Program. They started work on their \$300 million contract at the

Williamstown shipyards. That's a big contract, obviously. It's going to create around 400 jobs at Williamstown, and as I said before, we are wanting to have a very strong role for Victoria in the defence sector.

Also too in the aerospace industry, Boeing made an announcement last month of consolidating their operations and bringing 300 new jobs here into Victoria. Obviously some of this does mean some job losses, and relocations for their Sydney factory, but, I think in terms of consolidating Boeing here in Victoria we were very pleased to see that they made that commitment to Melbourne. They are some of the Melbourne-based announcements.

If I can just very quickly make mention there was an announcement back in February - and all of these I should mention, a number of these the government has had direct and indirect support with. CMI operate a foundry at both Ballarat and Horsham. They announced a \$6.15 million upgrade across both their Ballarat and Horsham plants. The great news there is that it's 125 new jobs and secures 100 jobs, particularly for a smaller town like Horsham. Carter Holt Harvey at Myrtleford recently announced a \$50m plus upgrade of their plant at Myrtleford, putting in a new ply mill line. That's going to also save around 100 jobs, but particularly importantly, it's going to create 64 jobs as well.

The other really big announcement which I think just symbolised the vote of confidence in the Victorian sector, and particularly in the food-processing area was the commitment by Inghams following the awful fire that destroyed their factory in Somerville -- Bruce, I think this might be your part of the world?

**Mr ATKINSON** --- No, it's not. I have been there once.

**Minister ALLAN** --- A bit too far south-east. But, Inghams has made a commitment that they will rebuild on that site, saving immediately 300 jobs in that area. The capacity for them, when they've completed, to scale back up to significantly more numbers, and also, too, critically for the growers, it means an ongoing of supply for 170 chicken growers in the region that goes down into Gippsland. So, that was also a critical announcement. So, they are just some of the key projects in recent times.

I guess looking at where we have been, we have achieved some of these very strong results through some tough times, and I think it does point to the great resilience that we have here in Victoria in our manufacturing sector. We have seen a fall - and if I can just give the automotive industry as just one example - we did see a drop in exports in particular for vehicles and components from Victoria from \$2.9 billion in 2008 down to \$1.8 billion in 2009, but we are starting to see how manufacturing output in real terms is expected to improve through the course of 2010, as we are seeing a recovery more broadly.

I'm pretty certain when the previous Minister spoke to you, I'm sure he spoke at length around the Victorian Industry and Manufacturing Statement, the VIMS as it's known. I think that was, obviously, a timely release back in November 2008. The

centrepiece was the Industry Transition Fund, the \$50 million fund. Just very quickly, some of the projects that have been supported through the fund, I've already mentioned Carter Holt Harvey. That was a company that's been supported through the fund. We've also provided support of MH Group to purchase Viridian's glass manufacturing facilities in Geelong. That is obviously important to retain those jobs at that company there, but also it was critical for the automotive supply chain as they supplied to Toyota and now Holden. I think that's been signed up. They now supply to Holden as well. So, we've also been able to do some locally manufactured replacement in the car industry, and there's been a number of projects, and really the great thing -

**The CHAIR** --- You might like to hold this. You might like to comment, if that is part of the strategy, but at the end -

**Minister ALLAN** --- I'm quite happy to come back and talk at some length on that actually, because there's a lot of work going on. We can come back to that.

We really do see the ITF has great potential to not just save a significant number of jobs but, also we are seeing already with the projects we've supported, it is creating hundreds of jobs as well.

Some of the other actions again, probably given our time, we don't need to go through too much detail but, we are continuing the work through our Automotive Manufacturing Action Plan, and this is in partnership with the Federal Government. I should say we have a very strong relationship with the Federal Government, particularly with Senator Carr, who was very, very much an active Minister in this space, and we are working closely with him in a number of areas. We are also working through Small Business Victoria on the C 21 Program, which is helping Tier 2 and 3 component suppliers in the car industry to have greater collaboration, and that's very important, as particularly that's probably a path down which the industry needs to go.

In the very near future, too, we will be seeing a significant presence by Victoria at the World Expo in Shanghai. This is a key part of a longer-term strategy around promoting Victoria's key strengths. And, when you think about Shanghai, it's going to be the biggest expo. Seventy million people are going to go through the Expo over the six-month period. We have been very fortunate to secure a week in the Australia Pavilion, which is going to be dedicated to Victoria. It's called Victoria Week, and it's going to be held I think in the third week of when the Expo is going to be open, so it's really a fantastic time to have Victoria Week. But, not just during Victoria Week, but during the course of the Expo more broadly, we will be undertaking a number of business promotion events. I know the committee has previously talked about things like trade missions and those sorts of activities. But, it is focusing very much on the key strengths of Victorian industry, and that's in the area of automotive ICT, sustainable urban development, food, wine and agri business sectors.

Just very briefly, we can spend a couple of moments on VIPP. And, again, I know

this has been a discussion previously with the previous Minister. I am sure the committee will be familiar with the Annual Report that was tabled in Parliament last November, so I probably don't need to go through the individual facts and figures on that. I'm sure the committee has already got that information. But, just to mention two key projects that we have announced as being projects of strategic significance. This was a key part of how the VIPP has been strengthened through the release of VIMs. We have strengthened considerably our industry participation policy. So, we've got, of course, the procurement of the light rail vehicles tender, which is out at the moment. It's a billion-dollar tender, and have committed to a local manufacturing requirement of the manufacturing component end of 25 percent and a whole of life up to 50 percent, and it is anticipated that that will create at least 150 jobs, and also too, provide a vital supply of pipeline of work to the train and tram building industry. And also, too, more recently - I'm not sure if the committee is familiar with this - we announced that the Parkville Comprehensive Cancer Centre will become a strategic project.

**Mr ATKINSON** --- That was last week, wasn't it?

**Minister ALLAN** --- Yes, it was. It was very recently, and we will require that project to have a 90 percent local content level. Of course, different projects will have different levels, depending on the type of project. This is, obviously, a construction project but also, too, there's a lot of equipment, a lot of specialised equipment and activity will be going into the centre, and it is anticipated that as a result of signalling we want 90 percent local content, this is estimated to bring an additional \$80 million worth of work to the local industry, and create an additional 200 jobs over the life of this project.

There's been a number of other activities. I, probably given our time, won't go through them, but they include things like roundtables. The committee will be pleased to know that the Victorian Industry and Manufacturing Council continues to go from strength to strength. And, I chaired my first meeting of that recently, and it's going very, very well. And also, too, we're increasing our capacity and network of our Victorian business centres, and particularly their reach into metropolitan, sort of further out into the metropolitan areas. We've had probably a very strong presence in our regions, but we are looking at strengthening their presence in Melbourne as well, and also there's the ongoing work of the ICN and Austrade, and a strong partnership with the Commonwealth Government.

Just very briefly on the last two slides, there is more data on these last two slides about how we are seeing a recovery in Victoria's manufacturing sector. The data on that slide is from the March 2010 Ai Group survey that does show that for the first time since May 2008, the Victoria manufacturing industry has risen above the 50 point mark, which is an important point for it to be going into positive territory, and we are seeing some positive signs also too from the automotive sector, where vehicle sales are up around 17 percent, compared to the same time last year.

**The CHAIR** --- Is that Victorian manufactured vehicles? There are two different figures. One is Victorian manufactured, or Australian manufactured vehicles.

**Minister ALLAN** --- This is sales. Yes, obviously, this is sales -

**Mr LATINA** --- The sales are expanding close to a million, and manufacturing is increasing as well. Last year, the automotive manufacturing was around 210, 220, and that's expected to increase substantially this year, recalling, though, that a lot of the locally manufactured vehicles are also exported internationally as well.

**The CHAIR** --- So that figure was Australian or locally manufactured when you are talking about vehicle sales? I just wanted to have that clarified.

**Mr LATINA** --- No, the vehicle sales is the overall total.

**The CHAIR** --- Which may or may not be made here.

**Mr LATINA** --- Yes.

**The CHAIR** --- Right, thank you. I just wanted that clarified.

**Minister ALLAN** --- That is all right, no, that's fine. It's an important point to make, but, it does show a return of confidence overall to the sector.

Now, just very quickly, responding to current challenges, there's a few that are listed here. There is, of course, the ongoing competition from emerging markets such as China, and even though we are seeing this increased competition, our manufacturers have proven their ability to improve their competitiveness, and we have seen an increase of exports of 33 percent over the past 10 years. We're looking at a number of ways that we can continue to support our exporters. Particularly, it was identified in the Statement of Government Intentions that we would be developing an export strategy. It builds on a lot of the export work. Again, the committee is probably, no doubt, very familiar with all of this.

There is an emerging issue - and we're going to see this continue to gain greater prominence - of course, some of the skill shortages, and whilst at the moment the manufacturing sector isn't particularly hard hit, with the way the mining industry is booming, as they keep saying in the west and north of the country, it is going to put a strain on labour market supply, and particularly at the higher skilled end. We released some time ago our skills reform package, which is about creating 172,000 additional training places and trying to skill up the workforce more broadly. A key part of that - and I'm not sure if the committee had a look at the program of how it applies to the manufacturing sector, and if you haven't I'd encourage you to - there's the Skills for Growth program, which is a dedicated program. It's a \$52 million program where small and medium sized enterprises can have an independent assessor come in free of charge, assess their business, and look at how their employees can be plugged into some of those new training places that are on offer. This is very much designed to help businesses upskill their workforce, and certainly too, this is a great opportunity for the manufacturing industry to look at their supply of workers. If the company itself is wanting to transition into a new area, how they

can do so with taking their existing workforce with them. So, it would be worth, maybe, the committee having a look at that.

And finally, the high Australian dollar continues to remain a real concern. The Treasurer and I recently co-convened on two industry roundtables where we discussed this at length with employers, employee organisations, industry and the finance sector. It continues to remain a challenge, and we will have to, I think, keep a very close eye on this into the future, because, historically, the dollar has been around 70 to 75 cents as an average. It is now, what, above 90 cents, depending on what given day it is, and that is putting a lot of pressure on particularly the manufacturing sector. That is, broadly, the update.

**The CHAIR** --- Thank you, Minister. When you mentioned glass and replacement glass in Victorian manufactured glass for the automotive industry, I missed the name of the company down in Geelong.

**Minister ALLAN** --- MH Group is the company. They purchased Viridian, which is the long-standing glass manufacturer that has been in Geelong for decades, really.

**The CHAIR** --- All right. It is interesting you made the point that glass, once imported, is now going to be manufactured here for our automotive industry. Have you got any other examples of where manufacturing was offshore, and as a result of either government initiatives or quality concerns, where we collectively, as the Victorian - you could cover Australia if you want - the Victorian community has actually addressed getting the quality manufacturing back to Victoria.

**Minister ALLAN** --- I might, for some more historical perspective, maybe ask David or Randall to address some of those specifics, or we can maybe come back to you on some examples. But, if I can say more broadly, I mentioned before the work we need to do with the Tier 2 and Tier 3 companies within the automotive supply chain. That is a big part of the work we need to do, is looking at how we can work with those smaller companies to examine ways they may transition into a new line or a new form of manufacturing, how they can work with the big car manufacturers to make sure they are meeting their demands and to look at where we can do import replacements. So, the MH Group example is one really good example. The MH Group are already supplying to Toyota, but with the upgrade of their factory, they can now increase their ability to supply Toyota, and with some of the work the Department has been doing, we had been able to get Holden on board as well, which is terrific. But, in terms of your specific examples, I don't know. Have we got any off-hand, or we might come back on that.

**Mr LATINA** --- I think the way the automotive sector often works is really it's more about actually influencing the supply decisions from the three motor vehicle manufacturers, and in fact, whether they choose to source locally, or source overseas. There are certainly some instances, including some that are currently under consideration, where the car companies are dissatisfied with the quality of the components that they're getting from overseas, and they're swapping over to locally



sourced.

**The CHAIR** --- That is what we have been picking up. It seems to me - and this is just one member of the committee - that this is an area of job growth if we went out hunting the business, and if it requires more than one car manufacturer to make it viable for a particular company to tool up, I would imagine - and correct me if I am wrong - this is where an organisation like DIIRD would swing into action. If you have got any examples you might like to forward to us, that would be really good.

I just make the point that whilst we were gathering information overseas, comment was made about the aeronautical industry and how Victoria is well placed, and since we got back, increasingly well-placed. But, what appears to be lacking is connectedness between what I will call components of that industry to know what the other is doing, and therefore because they don't know what potential is here in Victoria, there is import from Europe, which is great from the European's perspective, but there's openings here in Victoria. Have you got anybody in the Department that -

**Minister ALLAN** --- That's the role of the ICN, largely -

**Mr LATINA** --- It is.

**The CHAIR** --- That is concentrating on the aeronautical industry and any good news there?

**Mr STRAW** --- If I can say something. In terms of one of the overarching criteria that we look at when we look at investment attraction in regard to attracting companies to Victoria is import substitution. In terms of strategic fit for the economy, whether or not there is import substitution. So, we have that as a natural thing we do as part of our investment attraction activity into the state. But, the other thing is certainly the ICN in regard to import substitution, and David or yourself might be best placed to talk about that.

**Minister ALLAN** --- Again, I'll make a couple of general comments and go into some of the specifics, too. Christine, your comment is around knowledge transfer I think, and there is great potential around some of the similar needs and similar approaches between the automotive sector and the aerospace sector more broadly. There is considerable opportunity for them to work more closely together. And indeed, this was something that when I hosted the Automotive Industry Roundtable during Auto Week a few weeks' ago, this was a key part of the discussions. It was how can we get the different sectors to work together in a more collaborative way but, also too, how can we get the smaller companies in the supply chain to be working together also. Because, I think the big companies will tell you they want life to be made as easy as possible for them when it comes to dealing with your different suppliers. Sometimes it has been historically easier for them to go overseas and pick a product off the shelf. We have to look at how we can develop greater capacity here.

But, in terms of the committee's identification of this as an area where there is more work into the future, I think we agree, and in fact, some of that work is going on.

**Mr LATINA** --- I think another great example in terms of auto is Holden moving to localise the production of the Cruze, their smaller vehicle here, which is happening at the moment. This is a car which, at the moment, is currently imported into the Australian market. It is produced in Korea. Holden locally made a strategic decision that they wanted to localise the production of that. In fact, they're working through identifying local suppliers for key items that they can produce those components locally. It's a tough gig for those local suppliers, because they are competing against the rest of the world. But, there's a number of components and a number of businesses that are actually doing that successfully.

**The CHAIR** --- They would be competing, but their quality would be guaranteed and their intellectual property would be safeguarded more here than anywhere else.

**Mr LATINA** --- That's true.

**Minister ALLAN** --- You have to demonstrate that. It is still a piece of work - sorry, it is not a piece of work, it is still an ongoing role that government and the industry has to play in terms of proving our capabilities. Like you have to keep proving it, you have to keep demonstrating it.

**The CHAIR** --- That's right.

**Mr ATKINSON** --- I am interested in the VIPP program, and the Parkville Comprehensive Cancer Centre. I am interested in whether or not there are other building projects that have actually been selected as part of that program, and if not, why that project, why not, for instance, the desal project, and whether or not there is a policy setting or criteria behind this sort of project being selected?

**Minister ALLAN** --- Yes. On the VIPP - to date, there have been two announcements of strategic process in terms of their role as strategic projects. So, you've got the cancer centre one and the tram procurement project that I've mentioned. Government is looking at others. Obviously, I'm not in a position to make comment on what ones they might be. Whether it is in the manufacturing sector or the construction sector, we are looking at a number of different projects. I know previously with the previous Minister, this committee discussed at some length why desal wasn't picked up as a specific project, and I think the Minister at the time answered it quite clearly that the change to the strengthening of VIPP and the changes to include strategic process came after the decision -

**Mr DAVIS** --- It is the one that got away, I think.

**Minister ALLAN** --- To award the tender for the desalination project. I think the Minister explained that quite clearly at the time.

However, having said that, the ICN, the Industry Capability Network, has done a power of work in the local region, and more broadly, across the Victorian community, to make sure as much as possible we can make sure we are maximising local content and suppliers. Look, again, if we can come back to you on some of those figures. The ICN, there are a number of different projects. I think you know, previously Tyco picked up the project for the pipes.

**Mr LATINA** --- Olex Cables.

**Minister ALLAN** --- What are they doing, David?

**Mr LATINA** --- They are doing the cable for the desal plant -

**Mr ATKINSON** --- It does use a fair bit of juice.

**Minister ALLAN** --- A lot of the work, too, we obviously focus on the big numbers and the big contracts. We shouldn't forget this is the role of the ICN. Like, there are a number of smaller local suppliers in and around the Wonthaggi and that sort of part of the state. You know, there'll be the local cleaning firm will get picked up potentially, or the local milk bar will get a contract to supply sandwiches. You know, it's all those sorts of little things that make up the whole as well, and that's where the ICN has very good grass roots connections as well as doing some of that bigger work.

**Mr ATKINSON** --- I am quite, you know -

**Minister ALLAN** --- No, no, that's not import replacement. I was addressing the issue of local - when I mean local, I'm talking now regionally local. Sorry, I'm putting my regional development focus over the top of it.

**Mr ATKINSON** --- I appreciate that answer, and I appreciate it treads a fairly fine line in terms of Australia's international obligations on protectionism and so forth, of industry. I guess I'm just concerned though in terms of that answer, the extent to which we are looking at a policy position as distinct from picking winners or picking particular projects or specific projects out of a whole range, and saying okay, this will be the strategic one, this will be the one we go for. I am interested in how we choose those strategic projects, and, you know, that we're not just picking winners, that in fact there is a policy setting or a criteria that in fact supports where the bid goes. I guess again, given those international obligations, that becomes particularly important.

**Minister ALLAN** --- Yes. Firstly, can I assure the committee there is a set of parameters that go into assessing which projects are of strategic importance.

**Mr ATKINSON** --- Can we have a copy of that?

**Minister ALLAN** --- I would have to check whether that is something that is being able to be made more publicly available. I'm not trying to duck and weave in

terms of keeping secrets from the committee or whatever, but, obviously, we are talking about very large projects, and there are obviously probity issues that we have to be very careful about, particularly as obviously right now, there are two projects that are out being assessed right now as part of the tender process. I would have to take that on notice as to whether we can provide that information.

**Mr ATKINSON** --- Even if we had a paraphrased document of the sort of criteria. I mean, I would prefer the policy, but -

**Minister ALLAN** --- I understand that. The committee is wanting to be satisfied with their -

**Mr ATKINSON** --- But, otherwise, criteria.

**Minister ALLAN** --- I do know that things that go into it include - I just had it here. I was just looking for it before. I do know it does include, in terms of policy things, like skills transfer is now picked up as part of it, which is important. Making sure that we are getting a genuine lift in local procurement, and that's why I mentioned before with the Parkville Comprehensive Cancer Centre Project, it will create an additional \$80 million. By having 90 percent of the target, creates an additional \$80 million of opportunities for local industry and the creation of 200 jobs, so making sure it's a genuine increase in local content. I am anticipating that's an area that the committee would want to be satisfied that the policy addresses.

**Mr LATINA** --- If I could add something on that, was just the contestability of it. So, if the content is going to be local anyway, despite the nature of the project.

**Mr LIM** --- I will probably go off script and think about what we can do overseas, and I probably have discussed this with your predecessor many times, but I just want to see how you respond. What do we do? Is there a Bible as such in the booklet that we can give to a potential investor, a manufacturer in our sector from China? Saying, look, you come to Victoria, this is what we have to offer: a list of tax concessions, relocation, concession this and that, and then whatever? This is vis-a-vis other states of course, because they are -

**Minister ALLAN** --- What we do is a lot of one-to-one work through the Victorian Government Business Offices overseas, and then back in through the Department through Invest Assist. There is a lot of if you like - someone at a very senior level of the Department is assigned to that company, that person is required to do exactly what you describe in terms of taking them through both the government support that's available, the best locations to look at establishing, issues around where you can source your workforce from, issues around understanding things like the taxation regime, all those sorts of things. You won't find all of those things written down in one place, because some of them obviously go to commercial-in-confidence negotiations that government would be having with a company. But, in terms of putting that information together, we do put information together and so in the case of, if I can just use the example of Shanghai, what we are in the process of doing is putting together the finishing touches of what we are

sort of calling a bit of a Shanghai Statement, to try and put together all of the activity under those areas that I mentioned before. We will be, putting together the government activity in terms of trade missions and things around Shanghai but, also putting on the top of that a bit of a statement around doing business in Victoria, so we can have that to hand to people. But then, the most important thing is that one-to-one very personal contact.

**Mr STRAW** --- Look, I have been in investment attraction for decades in many different sectors of the Victorian Government, and one thing you learn is that you need unique value propositions every time you talk to different companies. Whilst we certainly say what sort of general facilitation services are available, certainly value propositions get you in the door, and then you've got to get down and you've got to talk very individually in regard to what they need to make their business successful here in Victoria. You can't write the perfect script for it.

**The CHAIR** --- We don't have a single booklet, though, do we? We have a range of booklets, smaller brochures, but to my understanding we don't have a booklet?

**Mr STRAW** --- We have "Why Victoria" material on our website at Invest Victoria. We have general facilitation services there. We have via sectors, "Why Melbourne", "Why Victoria" in that sector in regard to our generic value propositions. We do a lot of benchmarking work overseas against our competitive locations on subsectors, and where we would rate on a cost quality basis. We do a lot of research in regard to making sure we get the right mark with all potential investors.

**The CHAIR** --- So they would access it via the internet?

**Mr STRAW** --- They access it via the Internet, they access it via our Victorian Government Business Offices, and also what we do is we need to target at times the sorts of companies we look for, as well. We run campaigns overseas in regard to league generation campaigns, in regard to identifying the companies we think would fit that value proposition to move to Victoria.

**Mr LIM** --- Probably in a practical way on a day-to-day basis in my role as so-called special adviser to the Premier on Victoria/Asia business relations, you have got delegations that come here. Some of them, of course they come very occasionally, but okay, what have you got to offer? I would like to be able to say okay, this is a booklet. You have a look at it, and from there on, you can follow up. You see, the problem is these people have got money coming out of their noses and ears and they genuinely want to invest, but they don't know. Okay, you can have delegations or you can go on a roadshow and selling them in Shanghai, Beijing and all that, but you're going to miss the genuine ones, how to attract them.

**Minister ALLAN** --- Can I suggest we might have a conversation outside of this. You just want some basic information you can hand over, and we can maybe look at that, because there is a wealth of information out there. But if companies come

to us in a range of different ways, if they are coming in through our VGBO's obviously, they are people who are connected into the information. We get a lot of referrals from Austrade and their network of offices. If people are coming to you, we want to make sure you've got that information, so, we'll have a conversation.

**The CHAIR** --- And for what it is worth, one of the best booklets we found overseas was the German booklet, that people wanting to invest, had this excellent booklet. Perhaps at a time when our report is tabled we might like to run through with your departmental staff, some of the things we found to be extremely helpful.

**Minister ALLAN** --- The more intelligence, the better.

**Mr ATKINSON** --- Can I just ask in terms of the decision of the Federal Government to back-peddle on the climate change agenda, have you started any assessment - I mean, it's so recent, I'm sure you haven't completed one, but, have you started an assessment of the impact on some of our Victorian manufacturers who were gearing up for investment in alternative energy programs -

**Mr DAVIS** --- Green jobs -

**Mr ATKINSON** --- Green programs and green jobs. Is there an assessment to be undertaken on that?

**Minister ALLAN** --- Look, I think you are probably right. I think it is worthwhile having a look at that. We have been doing a lot of work in terms of both how the CPRS would impact on different industry sectors, as well as doing a lot of work on an analysis around where there are great opportunities. The Government has been doing work on how we can release, as part of a broader suite of statements we are making around this area, a very clear set of statements and policies around opportunities for Victorian manufacturers. And, that's something we will be looking at announcing in the not too distant future.

But, we do know that despite or in spite of what is happening in Canberra, I think there were some colleagues on both sides of the Chamber who have a lot to answer for in terms of their behaviour around the fact that we don't have a CPRS introduced in a timely way and one that gives certainty to the industry. It is disappointing to see the way the Senate has blocked -

**Mr DAVIS** --- Or a Climate Change Bill in Victoria -

**Minister ALLAN** --- It is disappointing to see the way the Senate has blocked those opportunities. Of course, it caused more ructions in the Liberal Party than it did in the Labor Party, but I think we do have to make sure, that there continues to be opportunities. Not having a CPRS is one issue. The other issue is pushing on with changes anyway, and making sure we're looking at where we can maximise opportunities for industries wanting to move to sustainable practices, people wanting new products, and new lines. We know there are opportunities around wind that continues to be talked about. We have to make sure the Victorian

Government is supporting those companies wanting to do more in this area. I can say I am certainly committed to doing that. There are people who are pushing on regardless of what happens in Canberra, and we are wanting to make sure we also push on, and support industries who are wanting to take up those opportunities around things all the way from household retrofits, all the way through to some of the new sustainable practices in building and design, for example. But, you're right, it was only 24 hours' ago.

**Mr ATKINSON** --- Some of those in terms of the VIPP program as well as alternative energy and building design innovation, is that one of your criteria in that area as well?

**Mr STRAW** --- Technology transfer, definitely is, and that would be included in some of the technology transfer. It could certainly with new design aspects, etc.

**Mr ATKINSON** --- It would be good to get that policy. Not necessarily a Cabinet document, but an outline of the sort of criteria that's in that. That would be valuable for us in the manufacturing area.

**The CHAIR** --- If I build on say the Parkville Comprehensive Cancer Centre and some evidence we received in relation to - let's pick an example of strategic projects and purchasing, and one might be, for example, hospital beds and value for money. It obviously has to be a factor in any purchasing. Can I take you to Section 3.2 of the VIPP guidelines. Do you happen to have them there?

**Mr LATINA** --- No.

**The CHAIR** --- I'm happy to quote from what I have got before me. You have got under 3.2, "Guidelines requiring that agencies account for the principle that value for money should not equate simply to the lowest price. When assessing tenders, agencies should take into account all such factors that constitute value, many of which are consistent with the principles of VIPP in that local content. Local jobs, and skills transfer, can be relevant to the evaluation of the total value for the money proposition on government expenditure." Now, that is quite a mouthful. How are agencies expected to implement that?

**Minister ALLAN** --- Again, I know this has been a feature of previous discussions around the place. Again, Randall or David might want to add to what I am saying, but I know that there are guidelines for departments to follow in terms of how they apply VIPP in terms of their own operations. I mentioned before the VIPP Annual Report which was tabled most recently in Parliament last November. I am just trying to find it, because I didn't go to those figures in the presentation because we were wanting to move through the presentation. The Annual Report tabled in November 2009, showed that the VIPP was applied to 386 new contracts, worth over \$6.5 billion, generating 4,663 new jobs, retaining a further 7,840 existing positions, and that is a significant increase on the previous financial year outcomes of 3,990 new jobs.

So, we are seeing that across the board it is getting results in terms of local jobs and local content. There are requirements for departments, as I said, to have their own - to follow the guidelines. They are required to report back to the department as part of the compilation of that report that's tabled into Parliament.

**The CHAIR** --- But you know, a blanket statement is made from your side of the table by a previous witness saying well, if they had gone to the hospital beds manufactured in Australia, they might have been a fraction more expensive, but, the life of them was considerably longer.

**Mr ATKINSON** --- Three times.

**The CHAIR** --- And the figures we can check for you and give you, but it seemed to me an inordinate claim that they made that one could be forgiven -

**Mr DAVIS** --- A whole of life focus.

**The CHAIR** --- One could be forgiven for thinking it was an exaggeration but, if it was true you think well, how on earth do the poor devils who are trying to purchase hospital beds make an assessment about what they should buy and -

**Minister ALLAN** --- I guess it is very difficult for me to make a comment on a previous Minister's contribution -

**The CHAIR** --- No, no, no, it wasn't the Minister.

**Minister ALLAN** --- I'm not sure of the environment in which they made that comment. I can't make any comments on that specific example.

In terms of the question around how it is applied, I have given the answer on how it's applied across government. I know that this is an area that is watched keenly because people are keen to see more local jobs come up, as I am, as the Department is, as the government is, and it is just an ongoing piece of work.

**The CHAIR** --- Because it must be really difficult for someone, for example, in the Department of Human Services or in a hospital's board or whoever it is that's purchasing, and I've just picked a hospital bed because that was an example given by a witness, and you think well, how do you make those kind of decisions? If you could assist us, that would be helpful.

**Minister ALLAN** --- Well, that goes to the previous question about the policy -

**Mr ATKINSON** --- Yes, that's right, and the concern is - I mean, it happens in Parliament. We have Parliamentary Services who have two budgets: one is capital and one is recurrent. So, they are quite happy to spend money on - they don't want to spend money on a recurrent project, but are quite happy to spend capital to actually move you to a new office and do all sorts of things. There is a thinking in government where there is this massive divide between the initial capital purchase



and the recurrent, and they're two separate sums and we just don't think outside that box, and that's what the issue comes down to. The person who has got the capital budget to buy the beds, decides that they'll go for the cheapest price to get the most beds, because they have no responsibility for the recurrent budget, and the person with the recurrent budget down the track has to actually pick up the pieces. You know, the beds is an example, but it really happens across government where there is this massive divide, as I said, between these two buckets of money and the responsibilities. It is an issue that is not a political situation. It is a bureaucratic system that we just have to get a better handle on.

**The CHAIR** --- Does that 90 percent local content for the life of the project, assist?

**Minister ALLAN** --- Sorry?

**The CHAIR** --- Like the Parkville Comprehensive Centre, you don't have the strong divide necessarily between recurrent and infrastructure.

**Mr ATKINSON** --- Well, you don't. The trams was a good example of that, in the context it was supposed to be a project that had ongoing cleaning and maintenance and so forth, so that actually was a recurrent item that was brought forward.

**Minister ALLAN** --- Yes, well, that picked up. You can get up to 50 percent -

**Mr ATKINSON** --- So that actually did break that down, or bridge that divide.

**Minister ALLAN** --- I take your comments as a given. Anyway -

**Mr DAVIS** --- I just wanted to go to this chart "Victorian manufacturing is starting to recover" in your presentation. I wonder if you might just explain what that graph actually means.

**Minister ALLAN** --- This is a graph produced by the Australian Industry Group. What it means is that it provides - if you use the 50 as the baseline -

**Mr DAVIS** --- Fifty what?

**Minister ALLAN** --- It is a 50 index -

**Mr DAVIS** --- What is it measuring, though?

**Minister ALLAN** --- A survey of their members.

**Mr STRAW** --- Anything above 50 is generally expanding.

**Mr DAVIS** --- Fifty what?

**Mr STRAW** --- It is just an arbitrary index. It's an index that could have been -

**Minister ALLAN** --- It could have been zero. Anything above zero is good. Anything below zero is not.

**Mr STRAW:** Anything above 50 is generally expanding; anything below 50 is generally not expanding. Maybe we could ask Simon Penser who used to work for the Ai Group -

**Mr Davis** --- It is the Minister's presentation. I'm just curious if you -

**Minister ALLAN** --- I think David is more interested in me explaining it to make sure we fully understand what we're presenting to the committee.

**Mr DAVIS** --- That is exactly right.

**Minister ALLAN** --- And what we're presenting to the committee is a table that shows - that's produced regularly by the Ai Group that is used by a lot of people around the place, governments and oppositions and the industry and the like, and the index shows it is a survey of their members. The scale on the left is just - they simply use it. They could have started at zero and gone up to 100, or zero and gone below 100 -

**Mr DAVIS** --- But, they haven't. They've done a diffusion index, which you described as 3mma, and I'm just curious as to what that is.

**Minister ALLAN** --- Well, I am not describing it as that, that's the Ai Group's.

**Mr DAVIS** --- But, you were quoting it -

**Minister ALLAN** --- It is well published, and we're using it as a representative sample of the data that is around that is showing the sector is recovering. You'll see how it dips quite dramatically. In March 2009 -

**Mr DAVIS** --- We can see it goes up and down, but I just want to know what goes up and down.

**Minister ALLAN** --- Well, fifty, anything above fifty -

**Mr DAVIS** --- Of what, fifty what?

**Minister ALLAN** --- Manufacturing activity.

**Mr DAVIS** --- It is manufacturing activity, is it?

**Minister ALLAN** --- It is a survey of their members of manufacturing activity, and anything above 50 points shows that the industry is expanding. Anything below 50 points shows that it's not.

**Mr DAVIS** --- Fifty what?

**The CHAIR** --- She has just explained that to you, manufacturing activity.

**Mr DAVIS** --- We might hear it from the bureaucrat at the back, if that is possible.

**The CHAIR** --- No, no, no, the Minister had come along. If the Minister - you're not dictating who gives evidence.

**Mr DAVIS** --- Well, I'm just trying to understand this, that's all.

**The CHAIR** --- We have invited the Minister. My suggestion is if you want some more information, the Minister has provided -

**Minister ALLAN** --- I'm not sure what the point is that he's trying to make, other than I think it's -

**The CHAIR** --- He cannot understand, and he's not going to dial the Australian Industry Group.

**Mr DAVIS** --- No, I am curious about you choosing charts that are not clearly delineated and clearly don't relate to the points that you've made down the side.

**The CHAIR** --- Well, they're very clear to me and if they are not very clear to you, well -

**Mr DAVIS** --- My second point relates to the issues about manufacturing in general over the last decade in Victoria, where we have seen a decline in Victoria's share of manufacturing nationally, the share of goods exports, from around 20 percent to down around 10 percent, and it obviously bumps around month to month, quarter to quarter and so forth, but there has been a significant decline in Victoria's share. I just wondered if you would give the committee the benefit of your explanation of that, and the significance of it.

**Minister ALLAN** --- Well, let's be clear that we are not talking down the manufacturing sector -

**Mr DAVIS** --- No, we are just taking -

**The CHAIR** --- Just let the Minister answer, please

**Minister ALLAN** --- This is an industry that people like to talk down considerably, and the net result is that people have a very dim view of the manufacturing sector. I don't share that view. I see that the manufacturing industry has a very positive outlook, and that what we are seeing is that whilst, yes, we have seen a decline in traditional manufacturing, you can't deny it; we're not denying it.

We have seen that there has been a significant shift in the sectors that have traditionally been Victoria's strengths around textiles, in some of the automotive parts of the sector, and in some of what you call the traditional manufacturing sector. But, at the same time, we are seeing that the numbers, the total numbers of the workforce, is growing. I'm just wanting to find the figures that I have here before me. We're seeing that the industry has grown over that period of time. For political purposes you'll talk about percentage share of the nation's total. I present -

**Mr DAVIS** --- It is not for political purposes, it is a figure -

**Minister ALLAN** --- I will say to you that we continue to employ more people in manufacturing here in Victoria than any other Australian state. It continues to be worth more to our gross state product here in Victoria compared to any other state, and we are pleasingly seeing that employment in the manufacturing sector is continuing to grow. I think we have to be very careful with this, because it is very careful for political reasons to put out messages around manufacturing that might suit a press release of the day. We have seen just in the past six months alone, around 67,800 additional jobs come into the sector over the past six months. So, we have to make sure that we are presenting the whole facts.

And, we are seeing, too, that whilst - I mentioned before some of the decline, and it is as a result of offshore competition, particularly in China and India, and in those lower skilled, in those lower margin areas, we are seeing a tremendous result here in Victoria in terms of companies that employ highly skilled people. The defence industry is one stunning example. There are many others of companies who are employing very highly skilled people, and who are continuing to expand and will tell you there is a very bright future for manufacturing here in Victoria.

**The CHAIR** --- Thank you very much, Minister.

**Minister ALLAN** --- There you go. Randall is able to tell the committee what that weighted index means. I think that's important to get that on the record so there is no misunderstanding.

**Mr STRAW** --- It is a weighted index based on a survey done by the Ai Group. The index has four components in the survey, orders, sales, employment and inventories, and 50 is an international convention as a baseline for indexes like this.

**Mr DAVIS** --- That is very helpful, and it is important that that get on the record.

**The CHAIR** --- Thank you very much to Minister Allan, to Mr Straw and Mr Latina, for your evidence, and I particularly thank you for your time. We understood you were here for an hour. You were time-limited earlier in the day. As I understood it, it was later in the day and it ended up being an hour. Thank you for your generosity of time. Particularly, we thank you very much for the information that you brought along to us today. That's been terrific. It has been tabled in relation to the supplementary. Thank you. A copy of Hansard will be forwarded to you in about a fortnight. You are free to correct typographical errors

but, not change the substance of your evidence. So, thank you, and good afternoon.

**Witnesses withdrew.**