



**VICTORIAN GOVERNMENT
RESPONSE TO THE
EDIC INQUIRY INTO
MANUFACTURING IN VICTORIA**

**Minister for Manufacturing, Exports
and Trade**

January 2011

Minister's Foreword

The Victorian Government was elected with a policy of revitalising the manufacturing industry and restoring jobs in the sector.

Manufacturing plays a vital role in the Victorian economy. It is the state's second largest sector and is a key driver of employment, business development, productivity, exports and innovation in metropolitan and regional Victoria.

Victorian manufacturing accounts for over \$30 billion in gross state product, employs over 311,200 people in mainly full-time jobs, exports over \$9 billion in goods and services, and spends over \$1.6 billion on research and development.

Over the last decade, however, the sector has barely grown in nominal terms, and has declined as a share of the state economy.

We will be calling on the Victorian Competition and Efficiency Commission (VCEC) to advise the Government on the best overall strategy to support the manufacturing sector. The report of the Economic Development and Infrastructure Committee's Inquiry into Manufacturing in Victoria provides a valuable input into the VCEC strategy, and will assist in the framing of the Terms of Reference.

The Victorian Government is looking to respond positively to the Committee's recommendations, which are reflected in the Government's initial plans for manufacturing. This report outlines the details of the Government's response to each of the Committee's recommendations.

The Industry Roundtable, to be established by the Victorian Government, will build upon these ideas when they seek input from industry to improve the efficiency and effectiveness of government in the delivery of infrastructure projects designed to improve Victoria's competitiveness. It will also advise me on a range of procurement policy initiatives.

I thank the members of the Inquiry for their efforts in supporting the development of manufacturing in Victoria.

The Hon Richard Dalla-Riva MLC
Minister for Manufacturing, Exports and Trade

VICTORIAN MANUFACTURING

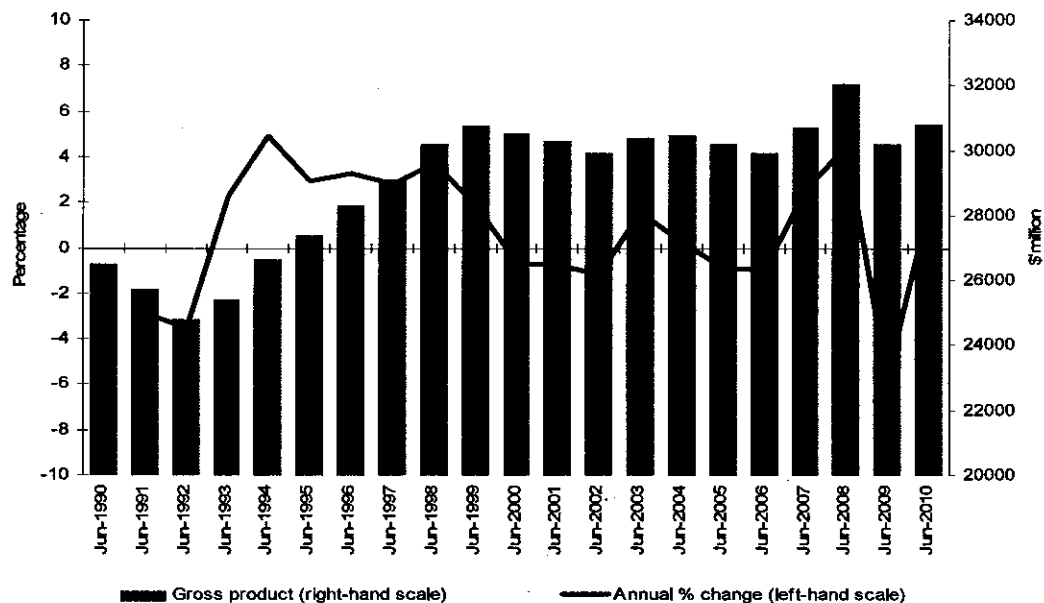
1. MANUFACTURING IS IMPORTANT TO THE STATE

Manufacturing makes a significant contribution to Victoria's prosperity and employment, both directly and within related services sectors. It drives innovation, technology transfer, skills development and connects Victoria to global supply chains.

Manufacturing is Victoria's second largest sector in terms of total real output, after finance and insurance services. There are over 25,000 manufacturing establishments located in Victoria.

While there have been some improvements in productivity, manufacturing output has largely remained unchanged in nominal terms over the last decade and has declined as a share of Victoria's economy (Chart 1). The Victorian Government believes that a new approach to manufacturing is required which gets the basics right, backs local innovation and creates more jobs.

Chart 1. Victorian Manufacturing Gross Product, 1990 to 2010



Source: Australian Bureau of Statistics, 5220.0 - *Australian National Accounts: State Accounts, 2009-10*

The future of manufacturing is important to employment in the state. It accounts for 10.9 per cent of our workforce and is Victoria's largest full-time employer. Victoria's annual average share of national manufacturing employment is 30.5 per cent. Manufacturing will be a major source of employment and skills into the future.

Our advanced manufacturing sector remains comparatively strong, with the largest investment in research and development (R&D) of any state/territory. Manufacturing accounts for 43 per cent of all Victoria's expenditure on R&D. In 2008/09 Victorian manufacturers spent \$1.6 billion on R&D.

2. COMMITMENT FOR STRONGER INDUSTRY AND MORE JOBS

The Victorian Government has made a clear policy commitment to revitalise Victoria's manufacturing industry. This commitment is reflected in the appointment of a Victorian Minister for Manufacturing, Exports & Trade.

The Victorian Government will encourage manufacturing by working collaboratively with industry to drive improved efficiencies and competitiveness.

The Government recognises the challenges faced through the decline in manufacturing as a share of the economy. The shift to the services sector mirrors developments in other countries, more can be done to refocus and reactivate growth in the sector, facilitate improved productivity and competitiveness, and create a more forward-looking manufacturing policy. This is why the Victorian Government will request within the first 100 days of office for the Victorian Competition and Efficiency Commission (VCEC) to:

- advise on the best overall strategy that can be taken by the state government to support the manufacturing sector;
- identify manufacturing strengths in Victoria's regional and rural areas;
- provide recommendations on the manner in which these industries can be promoted; and
- identify the costs to the Victorian economy of allowing the manufacturing sector to continue to decline.

This Government's response to the Economic Development and Infrastructure Committee (EDIC) Inquiry into Manufacturing in Victoria will also help inform the development of VCEC's work in developing a forward looking strategy for Victorian manufacturing.

The Victorian Government will also establish an Industry Roundtable, led by the Premier, to improve the efficiency and effectiveness of government in the delivery of infrastructure projects, along with government procurement initiatives. The membership of the Industry Roundtable will include peak industry groups, financial services sector groups, education institutions, logistics bodies, energy suppliers and distributors, gas producers, business leaders and leading specialists.

The Victorian Government's Plan for "Stronger Industry and More Jobs" also commits the government to a number of other important initiatives:

- Local procurement of 40 new six-carriage suburban trains, to be largely manufactured in Victoria.
- Consolidation of existing state government manufacturing support programs, incorporated into Grants Victoria, a one-stop shop for industry.
- Streamlining of grant application processes.

- The Victorian Industry Manufacturing Council (VIMC) to play a stronger role in monitoring and evaluating existing support programs.
- A new centralised procurement policy for industry and for whole-of-government procurement, including a review of whole-of-life valuations of local contracts.
- A commitment to the Australian Industry Participation National Framework.
- Establishment of a textile, clothing and footwear precinct, including the establishment of a TCF National Innovation Centre.
- Strengthening the Defence Industry Unit to target investment opportunities and assist manufacturers to better identify capabilities for defence projects.
- Greater resources to the Industry Capability Network to more effectively broadcast opportunities.
- Strengthen industry links with university research through a pilot program partnering Deakin University Geelong campus with the Geelong Manufacturing Council.
- Strengthening the role of Business Development Officers to help manufacturing companies plan for recovery and build their business.
- Establish and support *VicMade* and *VicGrown* marketing strategies and campaigns to support Victorian-made products and services.

Background to the Inquiry

Victorian manufacturing companies operate within a competitive international marketplace. This presents opportunities to expand markets for domestic companies and encourage foreign investment in Victoria. However, at the same time, in order to compete in this international market, some Australian manufacturers are finding it necessary to shift some activities offshore.

In the 56th Parliament of Victoria, the EDIC was tasked with exploring the criteria used by businesses to determine whether to manufacture in Victoria or overseas. The EDIC received the terms of reference for the *Inquiry into Manufacturing in Victoria* from the Legislative Assembly on 9 June 2009. These were:

That the Economic Development and Infrastructure Committee inquire into, consider and report to Parliament on the state of manufacturing in Victoria and, in particular, the Committee is required to:

1. *Explore the necessary criteria used by businesses to transfer offshore manufacturing to Victoria ; and*
2. *Identify and report on the factors which influence businesses in determining whether to manufacture in Australia or overseas including the consideration of:*
 - (a) the retention of intellectual property rights;*
 - (b) maintaining consistent quality standards in line with both federal and state laws;*
 - (c) probity matters;*
 - (d) assistance and incentives provided by governments; and*
 - (e) the impact that the global deterioration in economic conditions in recent months will have on future decisions regarding manufacturing locations.*

The EDIC was an all-party, Joint Investigatory Committee of the 56th Parliament of Victoria established under section 5(b) of the *Parliamentary Committees Act 2003*. Its membership included representatives of the Legislative Assembly and Legislative Council:

- Christine Campbell (Chair) MLA
- The Hon David Davis (Deputy Chair) MLC
- Bruce Atkinson MLC
- Peter Crisp MLA
- Hong Lim MLA
- Brian Tee MLC
- Marsha Thomson MLA

The EDIC Inquiry received 65 written submissions, held public hearings with 68 witnesses, and met with key organisations in the United Kingdom, France, Belgium and Germany.

The final report of the EDIC was tabled on 28 July 2010, including 45 recommendations for government to consider.

The Victorian Government will request the VCEC to provide advice on the best strategy for the next phase of manufacturing policy. The Victorian Government Response to the EDIC *Inquiry into Manufacturing in Victoria* will inform the VCEC's preparation of this advice to government.

Both the EDIC final report and the Victorian Government response will prove useful foundations for VCEC in considering a forward looking strategy for manufacturing, how to revitalise the sector and shift it back into growth.

The Victorian Government's response to the Inquiry is set out in the remainder of the report. Typically, responses are classified in the following four ways:

- Support - Government supports the recommendation as it is currently worded or government is already doing this.
- Support in principle - Government supports the general theme of the recommendation, but does not support the recommendation as it is currently worded. There may also be funding implications that the government has yet to consider. The Government's response may also be informed by further analysis – for example, as part of the forthcoming VCEC inquiry into manufacturing, or by the Industry Roundtable that is being established to provide advice on procurement issues.
- Support in part – Government supports one or more aspects of the recommendation, but does not support another aspect of the recommendation.
- Not Support - Government does not support any part or theme of the recommendation.

Government Response

The Victorian Government has responded below to each of the 45 recommendations of the EDIC Inquiry into Manufacturing in Victoria.

This response recognises the task the Victorian Government will give VCEC in developing advice on a new strategy for manufacturing policy. The Government's response to the EDIC Inquiry is not intended to limit, but help inform, any advice VCEC may recommend. Similarly, the Victorian Government will be looking to the Industry Roundtable to provide independent advice on industry investment and government procurement.

Implementation of individual responses will be subject to normal government budgetary processes. Implementation of some of the report's recommendations may have financial implications, and funding for these will be sought as part of forthcoming budget process and in the development of a future strategy for manufacturing.

In summary, the Victorian Government supports 13 recommendations; supports in principle 28 recommendations; does not support two recommendations; and two recommendations are no longer applicable.

The Victorian Government's response is provided by themes, as this better articulates the Government's policy commitments to the manufacturing industry in relation to the EDIC Inquiry.

There are six themes running through the EDIC recommendations: procurement, assistance, promotion, skills, research and development, and capital markets. Comments on specific recommendations are contained within each theme, where appropriate.

The Government may further refine its response as a result of the forthcoming VCEC inquiry into a more competitive Victorian manufacturing industry.

1. PROCUREMENT

Procurement is an important economic activity of government and industry, with clear impacts on business and employment.

The Victorian Government's response relates to activities by industry and across government. The response considers, among other aspects, valuation of local content, bidding process, the new Industry Roundtable initiative, procurement as a catalyst for innovation, rail procurement and programs such as *VicMade* and *VicGrown*.

The Government's responses to the EDIC Inquiry's procurement-related recommendations are outlined in the following table.

No	Recommendation	Govt Response
1	That the Victorian Industry Participation Policy (VIPP) be amended to require all tender bids to provide a summary of the VIPP Plan, which describes their estimated levels of local content, and that tender bids with high local content be considered a key advantage by government agencies when short listing bids.	Support in principle
2	That the calculation of local content targets for public projects declared of "strategic significance" be solely based on capital costs.	Support in principle
3	That the Victorian Government request that the Procurement and Contracting Centre for Education and Research develop an information session that focuses specifically on the implementation of the VIPP. All personnel with VIPP responsibilities should be required to attend this information session.	No longer applicable
9	That the Victorian Government approach the Commonwealth and other state and territory governments with a view to coordinating rail procurement and other major infrastructure projects across Australia.	Support
10	That the Victorian Government request that the Council of Australian Governments and the National Transport Commission (NTC) commence a program toward development of uniform standards and regulations for rail transport, building on experience obtained by the NTC through the establishment of the National Rail Safety Regulator.	Support
11	That the Victorian Government ensure that project briefs for public project tenders require materials sourced for the project be certified to comply with relevant Australian standards.	Support in principle
24	That the Victorian Industry Participation Policy information session, to be developed by the Procurement and Contracting Centre for Education and Research, include a focus on the role of procurement in driving innovation among local manufacturing firms.	No longer applicable
25	That the Victorian Government consider the role of government procurement as a driver of innovation, with a view to developing a program that offers support to small and medium-size enterprises, including start-up companies, through procurement as an alternative or in addition to direct financial assistance.	Support in principle

The Victorian Government supports the development of a strong centralised procurement policy for industry and a whole-of-government procurement approach.

When short listing tenders, the Victorian Government will take into account the consideration of bids with high local content. Value for money will remain the principal consideration in government procurement decisions.

Action will be taken to strengthen procurement policy in conjunction with the Victorian Government Purchasing Board's (VGPB).

In addition, project briefs for public project tenders will require materials to be certified to comply with relevant Australian Standards where appropriate. Standards Australia coordinates standardisation activities within Australia, develops internationally aligned Australian Standards and delivers a range of Standards for products in the manufacturing industry.

The Victorian Government will convene an Industry Roundtable for a whole-of-government and whole-of-industry approach to high-level planning for state infrastructure. The Industry Roundtable will provide recommendations to government on a range of procurement policy initiatives that take into account Victoria's competitive advantages, strong manufacturing base, accessibility to ports, rail, road and air and the availability of cheap energy.

Government procurement can be an effective tool for promoting innovation within the economy. Procurement has the potential to stimulate innovation by providing a 'first customer' for new technologies – decreasing risk for suppliers and helping to build their credibility to compete on a global scale.

The Council of Australian Governments has agreed to regulation reforms, which will result in the implementation of national rail safety legislation and a nationally consistent rail safety regulatory framework. A new National Safety Regulator is due to be established by the end of 2012. It will administer a single national rail safety Act, which will encompass all aspects of rail safety, including operations, equipment standards, hours of work, fatigue and worker health.

In November 2009, the Commonwealth appointed the first Supplier Advocate to the rail sector. The rail Supplier Advocate is responsible for supply chain mapping; supply chain improvement activities; technology road mapping; harmonisation of technology standards in rail rolling stock procurement; forecasting of domestic demand for rolling stock; and industry capability directories and opportunity matching.

The Victorian Government has earmarked \$1.4 billion to purchase 40 new six-carriage suburban trains for the Melbourne transport network. The initiative will expand Melbourne's suburban train fleet by about 20 per cent. As part of the tender process, these new trains will largely be manufactured in Victoria in line with increasing local content for public procurement.

The Victorian Government will reinvigorate the Industry Capability Network to more effectively broadcast project opportunities via enhanced networks direct to manufacturers and industry organisations.

To further support Victorian manufacturers, the Government will establish *VicMade* and *VicGrown* marketing strategies and campaigns to promote local products and services.

2. ASSISTANCE

Government undertakes many activities to support businesses and economic growth.

In relation to the assistance theme, the Victorian Government's response relates to government support for the manufacturing industry. The response considers, among other issues, assessing the performance of Victorian Government support programs, streamlining access to grants and assistance, strengthening the role of business development officers, purchasing by the health sector and the expansion of effective industry clusters.

The Government's responses to the EDIC Inquiry's assistance-related recommendations are outlined in the following table.

No	Recommendation	Govt Response
4	That the Victorian Government develop a manufacturing-focused performance framework that specifies key areas for government support, and which will contribute to a competitive and sustainable manufacturing sector. The framework should be regularly reviewed and updated, and should also be made publicly available.	Support
5	That the Victorian Government examine, simplify and streamline grants and assistance programs offered to the local manufacturing sector. This should also include consideration of grants and assistance programs offered at the Commonwealth level.	Support
6	That the Victorian Government establish a network of manufacturing business advisers that work solely with manufacturing firms to identify and apply for appropriate assistance programs offered by both the Commonwealth and Victorian Governments.	Support
7	That the Victorian Government consider introduction of a simplified front-end grant identification and application process for manufacturing businesses, based on the Single Investment Fund model employed by the Welsh Assembly Government.	Support
12	That the Victorian Government require, as part of its grant and assistance programs that provide subsidies for use of prescribed products or systems, that recipients demonstrate that the products or systems used have received appropriate certification.	Support in principle
22	That the manufacturing business advisory service described in Recommendation 6 provide manufacturing businesses with access to subsidised or no-cost diagnostic and advisory services in management practice and lean manufacturing techniques.	Support in principle
38	That the Victorian Government facilitate re-establishment of the Family Business Australia mentoring program and implement it across Victoria.	Support in principle
42	That the Victorian Government examine its capacity for offering incentives to expand the creation of industry clusters.	Support in principle
43	That where support is offered by the Victorian Government for industry clusters, the cluster be required to provide information about participant businesses, products, and areas of research, and that where such information is not commercial-in-confidence, the Victorian Government make this information publicly available.	Support in principle
44	That the Victorian Government consider introducing a pilot program to provide part-funding for industry cluster coordinators, in collaboration with industry, with funding limited to a set period of time.	Support in principle

The Victorian Government supports the development of a performance framework for the manufacturing industry. The Victorian Government will work with the VIMC, as well as other industry bodies, to establish a rigorous monitoring and evaluation framework for existing government support programs, to ensure they are effective and in line with industry needs. Programs that fail to meet performance benchmarks will be reviewed and where appropriate be replaced (excluding federal programs).

The Victorian Government will introduce a new set of strategic goals and rigorous performance measures for each Government Business Office (GBO). The results of these performance measures will be publicly released each year to ensure Victorian GBOs are better focused on delivering tangible results for Victoria's small and larger businesses.

The Victorian Government has a network of Victorian Business Centres that work with businesses, particularly manufacturing businesses, to connect them to relevant programs across the three levels of government.

The Department of Business and Innovation's (DBI) Business Development Officers will continue to work directly with small and medium-sized businesses, particularly in regional Victoria. Business Development Officers will assist these businesses to develop commercial and employment opportunities, and ensure that they remain sustainable and retain local jobs. The Victorian Government will strengthen the role of Business Development Officers to help local manufacturing companies to build their businesses.

The Victorian Government will overhaul industry grant and assistance funding to maximise jobs growth and commercial opportunities under a new overarching strategic direction to guide the distribution of industry grants and assistance. The Government will ensure grants and assistance are invested only where it will maximise jobs growth and business success for Victorians.

The Victorian Government supports having a simplified front-end grant identification and application process for manufacturing businesses. Through the new Grants Victoria web portal, the Victorian Government will deliver a central portal for business to identify and apply for grants.

Relevant information on the Government's Business Victoria website will be rolled into the new Grants Victoria website. The Government will consolidate existing state government manufacturing support programs, and then incorporate grants and government support programs into the new Grants Victoria website. The Government will streamline the grant application and approval processes and the grants given to small businesses by DBI.

In addition to grants and direct assistance, the Government will support industry growth and jobs by encouraging the expansion of industry clusters. The Victorian Government supports existing clusters where they have demonstrated outcomes and will carry out further work in mapping/examining opportunities for new clusters. Further support for the development of industry clusters will be considered as part of the Victorian Government's review of manufacturing.

The development of industry clusters in Victoria should be generated out of business interest and be led by industry groups. The role of government will be to support the development of industry clusters within the state to facilitate economic growth.

The Victorian Government encourages the provision of information generated from its support of industry clusters.

3. PROMOTION

An important role of government is promoting local businesses, particularly internationally, to support the state's economic growth.

In relation to the promotion theme, the Victorian Government's response relates to raising the profile of the manufacturing industry. The response considers, among other matters, developing an effective framework to monitor and evaluate state government assistance programs, engagement between the states on manufacturing policy issues, initiatives such as the Victorian Manufacturing Hall of Fame, information provision to prospective investors and developing Victorian export markets.

The Government's responses to the EDIC Inquiry's promotion-related recommendations are outlined in the following table.

No	Recommendation	Govt Response
8	That the Victorian Government request that the Council of Australian Governments consider development of a national manufacturing strategy.	Support in principle
36	That the Victorian Government investigate media and communication strategies to publicise the Victorian Manufacturing Hall of Fame, and effectively raise the profile of the local manufacturing sector among the broader community.	Support
37	That the Victorian Government request that, as part of the development of a national manufacturing strategy, the Council of Australian Governments consider a joint campaign to publicly champion the achievements of the Australian manufacturing sector.	Support in principle
39	That the Victorian Government, as part of its Trade Fairs and Missions program, provide an ongoing advisory service to individual firms following attendance at a trade fair or mission to encourage follow-up with international contacts and work towards the realisation of export opportunities.	Support in principle
40	That the Victorian Government produce a booklet about Victoria's business environment to target potential international investors.	Support in principle
41	That the Victorian Government encourage firms in the aerospace industry to consider formation of a peak body.	Support

The Victorian Government will consider the need to engage with other Australian jurisdictions on manufacturing policy. The VCEC review of manufacturing policy will consider federal and state manufacturing policies in preparing a strategy for the next phase of manufacturing policy.

The Victorian Government supports the development of targeted information for potential investors in the state. Invest Victoria, the investment promotion agency of the Victorian Government, provides potential international investors with a range of information about Victoria's business environment. This information is available at the Invest Victoria website at www.invest.vic.gov.au/.

The Victorian Government will continue to assist and support Victorian exporters to develop targeted export market plans to enable them to export products, services and ideas to the world.

The trade fairs and missions program will improve its follow-up advice after completion of a company's attendance at a trade fair or mission. In the past this has not included assisting participants to follow-up with international contacts. The Victorian Government will assist companies that request additional facilitation with international contacts, where appropriate.

The Government will assist Victorian manufacturers to capture opportunities at the 2012 Yeosu Expo in South Korea and the 2015 Milan Expo in Italy. As part of the Shanghai World Expo, the Victorian GBO in China helped facilitate a MoU to undertake collaborative research in the area of intelligent transport systems and safety between AutoCRC and Tonji University.

The GBO network includes offices in the United Kingdom, the United States of America, China, Hong Kong, South East Asia, Japan, India, Germany, and the United Arab Emirates. Victorian manufacturers can contact GBOs directly to investigate opportunities to collaborate with overseas businesses and research organisations.

The Victorian Government supports the role of the Victorian Manufacturing Hall of Fame in raising the profile of manufacturing within the local and international community. As such, DBI will continue to market and promote the Victorian Manufacturing Hall of Fame. The Victorian Manufacturing Hall of Fame is supported and promoted by industry associations, the manufacturing community, and for the past four years by The Age and Curve magazine, as media sponsors.

4. SKILLS

Skills and training are fundamental foundations to our economy, through the delivery of a highly capable workforce.

In relation to the skills theme, the Victorian Government's response relates to developing training and skills in Victoria. The response considers, among other issues, the activities of the VIMC and Manufacturing Skills and Training Taskforce, initiatives to support young industry leaders, strengthening mathematics and science fundamentals in schools, fostering collaboration between researchers and industry, reducing the tax burden on Victorian businesses and developing group training schemes for apprentices.

The Government's responses to the EDIC Inquiry's skills-related recommendations are outlined in the following table.

No	Recommendation	Govt Response
13	That the Victorian Industry Manufacturing Council collaborate with industry groups and associations to develop a workplace model that aims to utilise the skills of retiring employees and retain their knowledge in the workplace prior to them exiting the workforce.	Support
14	That the Victorian Government extend funding of the Young Industry Ambassador Program for an additional five years.	Support in principle
15	That the Victorian Government write to the Australian Curriculum, Assessment and Reporting Authority to ask them to consider the incorporation of real-life examples of the application of science, technology, engineering and mathematics into the science and mathematics curriculum as a mechanism to increase student awareness of the relevance of these subjects in day-to-day living.	Support in principle
16	That the Victorian Government request the Ministerial Council for Tertiary Education and Employment commission a review into the effectiveness of training packages, including the processes used to develop and revise training packages.	Support in principle
17	That the Victorian Government encourage and support Victorian vocational education and training institutions and local manufacturing companies to establish training partnerships, and to facilitate such partnerships where appropriate.	Support
18	That the Victorian Government exempt apprentice wages from the payroll tax.	Not support
19	That, in concert with encouraging the development of industry clusters in Recommendation 42, the Victorian Government assist the manufacturing industry to develop group training schemes for apprentices and trainees, that allow apprentice and trainees to experience work in Tier 1, Tier 2 and Tier 3 manufacturing businesses.	Support
20	That the Victorian Government consult with Victorian Universities to investigate the feasibility of introducing a Knowledge Transfer Partnerships program for postgraduate students in manufacturing-related disciplines.	Support in principle
21	That the Victorian Government consult with higher education institutions to examine the merit of introducing positions for university-employed manufacturing analysts.	Support in principle
45	That the Victorian Government consider the development of a program to further collaboration between research institutions and multiple businesses.	Support in principle

The Victorian Government supports the collaboration between the VIMC and industry to ensure the skills of employees retiring from the workforce are maintained. VIMC was established to consider industry-wide issues and is the Victorian Government's key manufacturing industry advisory body. However, the Manufacturing Skills and Training Taskforce, managed by the Victorian Skills Commission, may be a more appropriate forum for this discussion.

The joint COAG/National Quality Council project VET Products for the 21st Century has undertaken a review of the development and endorsement of national training packages. Recommendations from the project are currently being developed for implementation by the National Quality Council.

Skills Victoria currently works with manufacturing industry parties to:

- identify and target enterprises to promote access to subsidised training under the Victorian Training Guarantee;
- facilitate partnerships between the manufacturing sector and tertiary education providers; and
- address any potential barriers to, and opportunities for, increased participation in tertiary education.

It is important to build the skills of young people in the workforce. Encouraging young people to enter a career in manufacturing will also be an essential element in creating a strong industry. To spark the interest of young people in manufacturing, the Victorian Government supports the inclusion of real life examples of science, technology, and engineering and mathematics applications to industry within the educational curriculum.

The Victorian Government will undertake a comprehensive review of all state taxation (including payroll tax), other revenue sources and government regulatory red tape with a focus on identifying inefficient taxes, charges and red-tape burdens that are impeding business investment and employment decisions. The previous Victorian Government abolished the payroll tax exemption for apprentice wages in 2003. The Victorian Government's planned taxation review will be able to consider more fully the costs and benefits of tax exemptions, such as that proposed by the EDIC inquiry.

At the tertiary level, the Victorian Government will work with leading universities and other research institutions to better coordinate the state's engineering, manufacturing and materials science research and higher education programs. The Government encourages a relationship between Victoria's academic institutions and manufacturers, to provide businesses with the opportunity to participate in industry advances, practically apply the expertise of researchers, and involve themselves in the research outcomes of the institution.

Furthermore, the Victorian Government will work with leading universities and other research institutions to better co-ordinate the state's engineering, manufacturing and materials science research and higher education programs.

5. RESEARCH AND DEVELOPMENT

Research and development are key elements of innovation and also support economic growth through new and expanded markets.

In relation to the research and development theme, the Victorian Government's response relates to supporting innovation in Victoria. The response considers, among other issues, the proposed Federal Research and Development (R&D) Tax Credit Scheme, intellectual property administration and protection, strengthening collaboration between industry and researchers through initiatives such as a new Office of a Lead Scientist, and creating a more sustainable manufacturing industry.

The Government's responses to the EDIC Inquiry's research and development-related recommendations are outlined in the following table.

No	Recommendation	Govt Response
23	That the Victorian Government, through the Small Business Ministerial Council, encourage the Commonwealth Government to assess the efficacy of the Research and Development Tax Credit for stimulating new research and development by small to medium size enterprises.	Support in principle
26	That the network of manufacturing business advisers, as proposed in Recommendation 6, provide education and advisory services to manufacturing small to medium size enterprises regarding management of intellectual property.	Support
27	That the Victorian Government raise with the Council of Australian Governments the need to commission research on the existing IP system to determine whether it adequately stimulates innovation among industry sectors in Australia.	Support in principle
30	That the Victorian Government review and pursue opportunities for new models of collaboration between local manufacturing firms and overseas firms and/or research institutes. The government should work closely with the Victorian Government Business Offices to identify opportunities for collaboration.	Support in principle
31	That the Victorian Government conduct a review into local manufacturers' current level of, and priorities around, employing sustainable practices and developing new products that contribute to improved environmental performance.	Support in principle

To assist in better understanding the likely impact of the proposed R&D Tax Credit on national and Victorian industry, DBI engaged KPMG Econtech to model the economic impacts of this policy. The modelling, based on current funding levels, found that Victorian industry would be a net beneficiary of the proposed changes. The Federal Minister for Innovation, Industry, Science and Research has received a copy of the consultant's report, as have members of the VIMC. This report will be provided to VCEC as part of its considerations on manufacturing policy.

IP Australia administers Australia's Intellectual Property (IP) rights system, which includes patents, trade marks, designs and plant breeder's rights.

Design Victoria, a DBI initiative, currently partners with IP Australia to provide intellectual property education and advisory services to small and medium sized manufacturing businesses.

The Victorian Government will establish a pilot program, partnering Deakin University and the Geelong Manufacturing Council, to raise awareness and utilisation of the university's research and its practical application to the manufacturing industry.

The Victorian Government will establish an "Office of a Lead Scientist: Victoria" to:

- foster linkages between institutions and industries across the entire innovation value chain (education, research, industry, venture capital and commercialisation); and
- support the commercialisation of Victorian research, amongst other activities.

The Victorian Government will establish a "Green Working Committee" to:

- help bring existing/emerging overseas production practices and technologies to Victoria;
- identify 'green skills' shortages and gaps and develop programs;
- encourage and assist businesses to incorporate environmental quality into their mission and goals and to take up new technologies;
- raise awareness of Green Chemistry in secondary schools, tertiary institutions and community;
- encourage manufacturers to form partnerships with local community educational institutions; and
- continue to support green infrastructure projects that are 'shovel ready', that have the ability to create long-term jobs and provide a 'green dividend'.

6. CAPITAL MARKETS

Access to finance is important to all businesses, particularly manufacturing operations that are often capital intensive,

In relation to the capital markets theme, the Victorian Government's response relates to providing manufacturers with greater access to capital markets. The response considers how the Victorian Government can encourage financial institutions to invest in manufacturing through initiatives such as targeted roundtables, forums involving the banking sector and facilitating the entry of new finance organisations into Victoria.

The Government's responses to the EDIC Inquiry's capital market-related recommendations are outlined in the following table.

No	Recommendation	Govt Response
28	That the Victorian Government examine how it can help the local manufacturing sector build a sustainable working relationship with the banking sector to achieve a more dynamic and commercially-driven environment for manufacturers.	Support
29	That the Victorian Government establish a brokering service to assist both manufacturing companies and researchers explore opportunities for collaborative partnerships. The brokering service should include an online and searchable directory of relevant research projects.	Not Support
32	That the manufacturing business advisory service, described in Recommendation 6, provide manufacturing businesses with information about how to make businesses 'finance ready', and where appropriate, with information to assist businesses identify loans and finance advisors that are independent of the service.	Support in principle
33	That the Victorian Government engage with professional accountant groups to encourage members to provide information about finance options to small and medium size enterprise clients where appropriate.	Support in principle
34	That the Victorian Government explore opportunities to encourage and/or establish seed and expansion capital funds for Victorian manufacturing businesses.	Support in principle
35	That the Victorian Government encourage financial institutions to investigate opportunities for investment in Victorian manufacturing businesses.	Support in principle

The Victorian Government will continue to support local manufacturers in building sustainable working relationship with the banking sector. Many companies already have relationships with financial institutions and there are a substantial number of intermediaries operating between finance organisations and industry in the marketplace.

The Victorian Government will not consider establishing a brokering service for manufacturing companies and researchers. There may be a case for such a service, but this would be better provided by the private sector rather than government.

The Victorian Government understands the capital market is sufficiently mature to provide capital funds for Victorian manufacturing businesses. The role of government is to ensure the capital market is transparent and responsive.

The Victorian Government supports improving the depth and range of venture capital funds in Victoria and will continue to look for opportunities to do so.

