

ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into Manufacturing in Victoria

Melbourne — 6 August 2009

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Ms A. Krepcik, Chief Executive Officer, Advanced Manufacturing Australia.

The CHAIR — I extend a welcome to Ms Angela Krepcik. Thank you for appearing before our all-party parliamentary committee hearing to give evidence in the Inquiry into Manufacturing in Victoria. All evidence taken at the hearing is protected by parliamentary privilege; comments you make outside the hearing are not afforded such privilege. Could you please state your full name, your position and the company you are representing together with the company or organisation's business address.

Ms KREPCIK — Ms Angela Krepcik, Chief Executive Officer of Advanced Manufacturing Australia, and the business address is suite 8, 322 Mountain Highway, Wantirna, Victoria 3152.

The CHAIR — Thank you. It is over to you for verbal evidence, and then we will ask some questions.

Ms KREPCIK — How much do you know about our organisation?

The CHAIR — The only information I have personally is what has been provided by our research team.

Ms KREPCIK — I am probably going to give you enough throughout this presentation, but what I have decided to focus on — and I have seen the terms of reference — is mainly the investment into Victoria, the GFC and government grants. The rest of it will be in our submission; the probity issues and also IP will be highlighted throughout. I think the last reference point was the impact of the global financial crisis on future decisions regarding manufacturing locations. They are covered in our submission in more detail. I am just going to pick on those that are really relevant to our sector and what we experience every single day.

Just to answer the questions in terms of investment into Australia, our observation is that the overseas investors look for quality operations that are world class or best class; high levels of innovation; and the shortest time from order to delivery, which is speed to market, reducing the need to hold stock and guarantee these short runs. Investors will look at the ability to customise designs to suit specific markets, particularly those in Asia or the growth markets in Asia; free trade agreements to reduce land costs; and regulated regions for emissions and power pricing to ensure ongoing control over costs. That is a snapshot on investment attraction into Victoria, but it will be covered in more detail in our submission.

In terms of infrastructure programs, we believe in our organisation that there is a real disconnect between government and businesses. Government is a huge player in terms of procurement, but it does not have the mandate to include the small to medium enterprise supply chain to integrate that into our supply chain network. So whilst we might be good at winning some of these procurement projects, that is about it. We might be promised as a supply chain to pick up on some of these defence opportunities but they fade away. We have a real issue here with our membership in terms of the defence sector.

Also, I think, on the ability to cluster, we need to improve and encourage that to be done professionally. Some of the success stories have been where the clustering has been for the JSF program. Also one of our successes a few years ago was — —

Mr DAVIS — This is the plane.

Ms KREPCIK — Yes, the joint strike fighter, I should say. The other clustering success that we had about three years ago was with the Boeing 787 aircraft, where we clustered around winning aerospace tooling work, which resulted in about \$50 million worth of tooling for Victoria and New South Wales.

We need to see more of that clustering development occur, particularly in projects in aerospace, automotive, defence et cetera, and we also need to see that success through infrastructure programs. We need to integrate, and that is one thing we are struggling with at the moment.

The CHAIR — When you say ‘we’, that is based upon you and the government collectively struggling.

Ms KREPCIK — Government, industry, yes. As I said, there is a bit of a disconnect there between government and businesses in identifying the benefit to the supply chain.

In terms of the global financial crisis we believe on the one hand it will open up new opportunities for the manufacturing sector nationally and internationally, but only for the well-structured manufacturers. But it will also lead to the demise of less organised manufacturers in this country. It will also lead to the realisation that we are no longer competitive in some fields of manufacturing. We have encountered this over the last six years, and that is purely because we do not have the volume of sales to sustain ourselves — and sustaining ourselves in certain markets.

We need to rethink our business models and build innovation to provide us with a competitive advantage for Victoria. The downturn in the automotive industry particularly, which has had a major effect on our membership base, has caused the reduction of firms over the last six years, more than I have ever seen before, and I have been around for about 20-something years in the manufacturing-type environment. When I first started, which was six and a half years ago, we would have had members that were servicing the automotive industry — about 70 per cent. It would be under 20, maybe even less than 10.

Mr ATKINSON — That is the component of their work or your membership?

Ms KREPCIK — Local tooling — yes, our membership.

Mr ATKINSON — And that membership reflects those companies exiting the sector; it does not suggest that they simply left membership?

Ms KREPCIK — No, they have either left the sector or the services have been provided by China or India as a commodity tool, because the automotive industry can get it cheaper and faster. Quality is not an issue; quality gets repaired over here. So some of our guys have been forced to close the doors, which is a real shame for the local manufacturing industry. But on the other hand, there are some successes, because it has forced our members to diversify. Whilst they were putting all their eggs in one basket, being in the auto sector, those that realised about 20 years ago that that was not going to be viable today have invested infrastructure into defence projects, into aerospace projects, into mining, into medical devices to stay alive. So our membership, and hence the name change over the years, has basically been a reflection of how our members have been travelling. Once it was automotive tooling, now it is diversified manufacturing businesses: precision machining — still tooling — robotics, integrated systems, design.

Mr ATKINSON — What is your current membership?

Ms KREPCIK — We have about 120 members at the moment. We have a database, though, of roughly around 1500 to 2000.

Mr ATKINSON — And the percentages or proportions for Victoria?

Ms KREPCIK — It is over 50 per cent for Victoria — I think it is roughly about 55 per cent. The next biggest state is New South Wales, and then a handful in Adelaide and Queensland.

The automotive industry predominantly is directed by parent companies, which means that their ability to make decisions is very limited and their hands are behind their backs. That makes it really hard for the supply chain and restricts us.

Our membership sector is predominantly innovative and creative and can potentially bring new opportunities to Australia. There has been that significant increase in aerospace projects and defence work, which most of our members are involved in, and if it was not for these niche areas

they would not be able to continue their businesses. Manufacturing being the worst affected by the global financial crisis has made a significant impact on our membership and the manufacturing community. However, the automotive industry has not affected the total local industry to any significant level because they have diversified. If they were in the one market many of them would be gone today.

One thing I would like to mention is that the non-automotive manufacturing companies do not get exposure equivalent to that of the automotive sector.

The CHAIR — Exposure in — —

Ms KREPCIK — In terms of government funding, government grants.

The CHAIR — Exactly. Would you care to make a recommendation on that?

Ms KREPCIK — Yes, I probably will. No matter how hard our organisation lobbies government to say that there is this other sector that is fighting and will be here in the next 20 years but needs assistance programs, you are putting money into an automotive industry, and like we have seen, money is put in and the company diminishes. Mitsubishi is a classic example. ACL has just been awarded \$7 million for an automotive structural program, I think, under the Green Car Innovation Fund. Our guys have put applications in for the automotive structural adjustment program and have not been successful.

The CHAIR — Could you give us examples of that in your written submission — if your companies do not mind being named — where they believe that governments and public servants need to think differently?

Ms KREPCIK — Yes. That is something that is very obvious to us. For example, today I could not get my president here because they are trying to just stay alive; they have no time whatsoever. Government funding — I will probably talk about it later — should be made simpler for some of these struggling firms that are doing everything they can just to stay alive until tomorrow. We are not thinking 2020, we are thinking today and tomorrow. That is the sad part of the whole industry sector, and I would say that is pretty much like the automotive industry, too.

Going on to government grants, the government should be commended for all the government grants out there. There are so many; there are stacks of them, but in our sector, unfortunately, more of them are streamlined into the automotive industry. Having said that, and commending the governments for that, there are too many. They are many and varied, they are too inflexible and they are confusing. I have spent probably two weeks on one at the moment. I have not finished yet; it requires a lot of time just to get a little bit back. And if I am going through that, my manufacturers that are trying to stay alive are in a worse position than I am. I am giving you warts and all, I guess.

A lot of people are just so busy out there trying to protect their businesses that they do not even know what is around. I think that is why industry associations can play a really good advocacy role when it comes to government grants and helping our members out. I also think there needs to be more interaction between the bureaucrats and the companies. Anecdotal information is that they come along, have a cup of coffee and out the door they go, and you will not see them for another year or something like that, which is not really a client liaison representation of assisting companies.

The CHAIR — Again, if you could make a note, we might get some questions and some further explanation on that.

Ms KREPCIK — Again, on the government grants, there are a lot out there, but they are not really relevant to the needs of our manufacturers that are not necessarily in automotive.

The other thing we have difficulty with is that the state and federal government grant incentives are very different from one state to another. I think the system in Victoria is probably better than in New South Wales, particularly when you are applying for grants like the export market development grant for your members and so forth. I can go into detail there, but it is probably not necessary at the moment. The gist is that the grants are not consistent, so they are often very difficult to understand.

The CHAIR — Angela, you may think it is not relevant, but you live and breathe this every day and we do not. When our team is writing up the report it will be really helpful if you can give them a better understanding by providing case studies or examples. You may have some members who would like to jot down a paragraph or two — I am stressing this in an electorate report I am preparing at the moment — on what key things should be addressed from their individual company perspectives.

Ms KREPCIK — I can provide that easily.

Again, it is too complicated. These government grants are too complicated for little return back, and often it is dollar for dollar. In these economic times — even in manufacturing in general — no-one has that dollar anymore. Whilst there are a lot of packages and incentive schemes out there, manufacturers do not have that dollar to spend any more. It is very difficult. Given a glimpse of that, they then shy away because it is all too hard. They go back to work in their business.

The other thing is that if you have a smart manufacturing firm who sees an opportunity in terms of a government grant, a commercialisation process or whatever, the amount of money the consultants charge to write these applications is enormous. I have a classic example of a company that applied for the structural adjustment grant. They spent \$20 000 on a grant that was not big. They applied for \$2.7 million, and the consultant charged \$20 000 and then \$70 000 on the success of that grant.

The CHAIR — How many pages was the grant application?

Ms KREPCIK — It was not long. I had a look at it, and I thought it was a below-average result. These guys are not asking for a lot. They are doing this because they want to transition their businesses into something that will be viable for the future. A government grant is available, the consultant charges through the roof, and they do not get the grant in the end.

The CHAIR — Do any of them think of approaching their state or federal MP to help them navigate or to deal directly with the public servant? Again, in my electorate report that is about to go out I talk about using a state or federal MP's office where advice is provided free of charge.

Ms KREPCIK — I think they do not think of that until the end — until the result is unsuccessful. Then they ring their industry association and they say, 'What did we do wrong?'. We say, 'You should consult with your local member or your client manager within the department'. But often they are probably as frustrated as we sometimes are by client managers who do not understand their own processes. It is like banging your head against a brick wall sometimes. You think, 'I have no help'. We are feeling alone. If we could, we would streamline some sort of approach there or become more proactive in terms of our communications to the manufacturing sector, saying, 'What is out there? We are here to help. How can we assist you?' and taking that kind of line. Normally once they have steered you in the right direction, you are on your own. We deal with that regularly, so we are talking from experience.

Again, the matching funds require significant up-front investment from the manufacturing company, and often they cannot part with that money. They would rather pay their wages.

Mr ATKINSON — What is the alternative to that?

Ms KREPCIK — The alternative is not to match it.

Mr ATKINSON — No, I mean what is the alternative as a government requirement? How does the government get away from just trying to pick winners, which governments are notoriously bad at? How does it ensure that taxpayer funds are invested in a grant that does not require some sort of equal contribution from the company, which is the one that is actually going to gain in the longer term? How can it come up with some sort of guarantee that these are not wasted taxpayer dollars?

Ms KREPCIK — It is going to be more like, ‘What is in it for the government?’. You have to get better dividends for your money. I am probably not answering your question, but often governments will put money somewhere and you will never see the end of it. But that organisation has not matched it because it might go to some sort of conduit organisation that matches research with industry. Broadly speaking I think government has to be really careful where it is putting its money and I think there are significant outputs for taxpayers and for the industry they are serving. You have to get outputs from us; I understand that. I am not here to say that the government has to give us money for free; I know how it works. Maybe the dollar-for-dollar rate could be reduced. Maybe there could be an outcome at the end to capitalise on which is going to require more jobs and provide stability. I guess the whole thing has to be reviewed. There is a company out there that is getting a lot of money from the government. It is supposed to service the SMEs, which are predominantly — —

The CHAIR — SMEs?

Ms KREPCIK — Sorry, small-to-medium enterprises. This is when people are going to complain during the global financial crisis. They are going to complain now because they need the money. They see this money coming into an organisation, but they do not see anything come out.

Mr ATKINSON — What sort of organisation is it, just in terms of industry?

Ms KREPCIK — It is a research-type conduit which brings together research and industry.

Mr ATKINSON — Is it university-based?

Ms KREPCIK — Their constituents or their board would have a university-based structure plus an independent chair.

The CHAIR — How about you give us some examples of what works well and what works less than satisfactorily, without jeopardising your industry associations.

Ms KREPCIK — I hope I have not done that! What works well, and what does not? As a wish list, if I was a company out there, I would have my own client manager who would visit me and go through the problems of my company and suggest to me ‘What if you look at this?’ or ‘This is a new development; what can I do about it?’. You should sort of hold hands with the manufacturing firm. I think they would really appreciate that dialogue and that Victorian Government advocacy to try to keep these people here. They really need help. They need their hands held. They are busy people, and it would be good to get a client manager per se to basically steer them in the right direction. Often we will call about certain things and we just go around in circles. By the time we get our result it is a couple of months later and time has slipped by. We are all urgent people at the moment too; all the manufacturing sector is urgent.

What would be good is if we simplified our grant system so that it is understandable, it is not repetitive, it is not inflexible and the guidelines are straightforward. At the moment you need to hire a consultant to understand it. Many of our guys will not bother because they are too busy. Consultants are trained to read these things. There is a creative art to writing government grant applications. It is a world of its own. The panel should be carefully selected, because you can

often lose really good opportunities that have been rejected. That is not a gripe or anything — we see it.

I have a whole presentation I prepared on government grants.

The CHAIR — We are going until 1 o'clock with you, so keep going.

Ms KREPCIK — That is all right. There is a disproportionate number of assistance stimulus packages available to the automotive sector — we have sort of covered that. The other thing we see happening is that we can keep local manufacturing here; we just do not have the passion of the supply chain. The OEMs, the manufacturers — the Toyotas, GM Holden and also Ford — are off overseas getting their quick tooling done and they are off overseas getting their components done on the three new small cars that are coming out. I think it has now been announced that the Ford Focus it is going to be manufactured overseas and assembled over here, so that means there is no tier 1 work.

I have always said — and it might be a really bold, gutsy statement — that the automotive industry is killing the manufacturing sector, and it has been for a long time because it is quicker to go overseas. I will give you an example of a real story. When we were doing the aerospace tooling work for the 787, Boeing tapped on our door from Seattle and said, 'We want you as an industry association to cluster for the 787 tooling work'. About 8 per cent of the wing tooling was issued to Boeing here in Australia, which meant that we were good contenders for the supply chain, but it was Boeing overseas that tapped us on the shoulder. We got a supply chain network happening. We achieved something like \$50 million worth of work. It was supposed to be more, but some went offshore to Austria and some went offshore to Korea. Offshore capability we could have done. God knows why we did not get it, and it gets political — all sorts of things. We could have had a bigger piece of the pie.

We went to Japan to visit all their key partner players: Mitsubishi, Kawasaki, Fuji, heavy industries. Little Australian firms going into big Japanese companies; that is pretty big stuff. We arrived and were in the hotel. We had a drink, and in walks the engineering director of Holden and Denny Mooney, who was the managing director at that time. So we are over here and they are over there. I knew them from previous jobs and I said, 'What are you doing here?', and they said, 'We're just sourcing tooling for our new VE Commodore'. They go, 'What are you doing here?', and I said, 'We're selling our tooling expertise to the Japanese market' — a real disconnect and a real story. I have to say that was a pretty embarrassing situation to be in. We did not even talk to each other. So that is our industry.

I go to Toyota supply chain meetings, which I try not to any more because all I see there is the Toyota people and the first tiers; you never see anybody else. It needs to be integrated in order for it to work. I believe we can do better than the Chinese and the Indians, but we just need to have that focus. We need some reciprocal arrangements by the automotive industry. If you are going to put money in them, we want money to come through the supply chain. I know that is difficult. It is a wish list, but it can happen.

The CHAIR — But that is what this parliamentary inquiry is about, so feel free to write the recommendations that you think we should be including.

Ms KREPCIK — Yes, okay. Our sector is easy to blame, because you get the tier 1 engaged. The tier 1 hires or sources out the supply chain. The tier 1 stuffs up, the OEM stuffs up in their design and there are lots of design changes, so the little guy down here gets the blame. And it is not necessarily the little guy; it is that tier 1 protecting its reputation to the OEM. That is reality. We get kicked around.

Mr ATKINSON — Just for the sake of the report, can you describe what you mean by tier 1?

Ms KREPCIK — Tier 1 is a component producer. The automotive company assembles the car, and the tier 1 is the supplier of the componentry into the car.

The CHAIR — I was going to ask this question at the end, but we have probably interrupted you more than we have interrupted anyone else, so I will keep the continuity going. Government procurement in the automotive industry is that, for example, we as the state government insist that the cars that are available are Australian made, but we do not actually say what percentage is Australian made. Is there one particular finished product that is a vehicle that is more Australian-made than any other?

Ms KREPCIK — Yes, that is a good question. I could eliminate probably Holden and Ford; probably Toyota would be. I will not know the stats on this, and it is very difficult to find it, I must say; we have tried before but car companies will not reveal stuff like that. Can I say Toyota would have to be the most loyal company out of the three in terms of its corporate citizenship and its ability to communicate effectively with its supply chain. The others slam down the phone on you. That is true; it is so aggressive out there you cannot get through to any one of those companies at all. You could talk to any component provider and they will tell you the same story: how ruthless it is out there.

The CHAIR — It is just something that could be done in terms of government information; it is not a huge market, but that information could be provided to the various departments and to parliamentary services for MPs. But car companies like to supply government. If we knew what percentage of finished product was Australian made, it could be highlighted to the departmental secretaries and purchasing officers.

Mr ATKINSON — You have got ingredient labelling for biscuits.

Ms KREPCIK — Yes.

The CHAIR — That is a good point.

Ms KREPCIK — And for hams at the supermarket.

Mr ATKINSON — Yes, that is right. Can I just ask, in terms of Boeing's decision to reduce its presence in Victoria, what sort of impact are you anticipating across your membership and across our industry opportunities as a result of that international player leaving or reducing its operation?

Ms KREPCIK — They have now decided to get rid of all their other projects and just focus on the 787 work, so that is going to keep 30 years of that sort of plane happening here locally. How have we combated that? It is probably that yes, it has reduced, but yes, our members are exporting for the JSF — the joint strike fighter project — and there are also other opportunities there. I think it is secure, but because they have been heavily involved in export through JSF, it would not have too much of an effect, I would say.

I have copies of this, but not too many because one is a chart. I thought I would just talk about our industry and government aspirations together, collectively, which are to encourage the automotive work and to diversify businesses and the profile of Australia in terms of it being an icon in some way for manufacturing. We are here, but so many people still think that we are not here. We go overseas quite a bit and there is that thinking. Even though our members are out there, it is still the perception that we do not really do much except offer a venue for a great holiday.

It is a better dividend for government funding. You need to get that dividend, not a poor dividend. I am saying that the more engagement with government and industry, including industry associations like us, is extremely important. We are the voice, we are the communicators, we can advocate — all those sorts of thing. We have a close relationship with all our constituencies within

government; but somehow it has to be a threesome — industry association, industry and government.

I will just see if there are any clear points here I can turn to. Governments tend to compete with their own constituency as well.

The CHAIR — What do you mean by that?

Ms KREPCIK — Governments can create things without realising that other people are doing it. It would be more streamlined if we were to do it together. It can take away our numbers, and I am talking about an industry association; it can take away us. I think as a community spirit we all have to be inclusive rather than exclusive. I think assistance packages that incorporate the highest possible range of manufacturing sectors are more likely to succeed rather than focusing on one or two high-profile companies.

Offshore manufacturing — because that is where we are going — is going to create inefficiencies in the end; it is going to increase overall costs and logistics because of freight et cetera. It reduces local manufacturing supply chain support. When it comes back, we will not have it — if it does come back. It is downsizing our skills base. I have a company that exists because it has changed its business to manufacture the tools in China — bring it back, fix it up. They are bored. They do not like doing it, but they are surviving.

Australia becomes a service provider, with offshore manufacturing, basically. Our recommendations are to reduce the multiple and complexity of the existing grant funds available, increase the accessibility of manufacturers to government and support schemes, and ensure that we meet the needs of the changing manufacturers so we are engaging all levels of the supply chain — not just one, but the people who are making the effort to change. Global engagement is really important. The GO program introduced by the federal Liberal government was canned when Labor got in. That was a huge setback for our global opportunities and what we could do.

The CHAIR — I am not familiar with the GO program.

Ms KREPCIK — The GO program, which was for global opportunities, was introduced by Minister Macfarlane. Senator Carr came in. We thought it might have been re-batched, but it went into Austrade with a huge reduction in the funding available. Those programs need to happen, because the only way we are going to survive is that we diversify and we take our manufacturing offshore — sorry, we export. There is no real incentive scheme to get out there anymore, particularly now as it is a poor climate anyway and no-one is thinking of getting outside Australia. Overseas marketing must — —

The CHAIR — Do you have any comment about Victoria moving into that?

Ms KREPCIK — Victoria has a scheme called trade and missions funding. It is for \$35 000; it does not give too much. It is a competitive grant, so you might be up against 150.

Mr ATKINSON — What is it called?

Ms KREPCIK — Trade fairs and missions.

Mr ATKINSON — I thought you said ‘trade emissions’.

Ms KREPCIK — No, sorry — for \$35 000 that will help you assist getting companies overseas. It is probably not good enough. I say that it should not be a paperwork exercise, where you go, ‘Here’s my \$35 000; I’m going to take a group of people overseas and we are going to do this’. I think we have to do this with better buy-in, so it is not just an application. We need to get together — the industry association, the government and the industry — and say, ‘Look, this is a potential opportunity; what do you think? How can we work together to get that potential

opportunity in a clustering-type of environment overseas, rather than just a straight-out standard mission grant?'.

There could be a lot of improvements in the way the grants are organised, just to get a better return for your money. You are handing out this money, so let us do it properly and get a better bang, and let us make it sustainable and not just a visit and a presentation and we come back again, which can often happen.

The CHAIR — This might be a rather outlandish suggestion, but given what you have just said, do you think there is any potential for us hearing evidence, with you as the industry association, from two, three or four of your members — two, three or four of the relevant public servants from Victoria — and hearing what potential improvements there could be?

Ms KREPCIK — I am sure my members would welcome that opportunity.

The CHAIR — It would be a most unusual thing to do, but it might do what you are trying to suggest and come up with conclusions that would assist the manufacturing industry in Victoria. I will have a think about that and talk to the other committee members.

Ms KREPCIK — That global engagement — I have highlighted that we need to engage in overseas markets; we need to set up a good, solid network of markets and people and so forth.

Mr ATKINSON — Who is the 'we'?

Ms KREPCIK — When I say 'we' it is collective: government and industry. We would never expect it and say, 'You've got to do it'; it is we. We have to change that mindset as well — it is not 'us', 'you', 'them', 'us', whatever.

Mr ATKINSON — We already have business offices and trade commissioners from Victoria, and Austrade has a range of offices in key locations around the world. The suggestion would be that it has already been done at a government level; is there an implied criticism that it is not being done? Is it that it is not an engagement with industry or that in fact they are operating in their own world? What are you saying?

Ms KREPCIK — With Austrade, for instance, you get knowledgeable people in some countries and not so knowledgeable. Put it this way as an example: we can go to America and set up appointments with key players in the automotive industry ourselves. If I asked Austrade, I have to pay \$190, and I might not get a result at the end. In England when we went to Farnborough airshow a few years ago we got an Austrade representative who could not really line up any appointments and we paid something like \$20 000.

The CHAIR — What about the Victorian Government business offices overseas — whatever they are now called?

Ms KREPCIK — Yes, I know the ones you mean. We are basically doing it on our own. I think we do it on our own because we know we are going to get a result — the bottom line.

Mr ATKINSON — Isn't that good?

Ms KREPCIK — Yes, it is good, but I am just saying the engagement of all of us should be there because Austrade might find that it is learning something from us as well. We have connections there. I know the Austrade officer in Chicago, but I guess because we have developed solid networks ourselves along the way, we have got a point to go to which is not inclusive of Austrade. I guess so many people are burnt by Austrade too that they do not tend to think of it first. It depends on the market. I am just talking about our market. In India, for instance, we engaged an Austrade representative to show us around the auto industry, and he was brilliant, but he was in the industry once upon a time. When they are in industry — and the Indians have a

completely different way of doing business — he got us where we wanted to go. But if you have not been in the industry, which is often the case, it is very difficult for you to find companies — it is just like us going fresh. That is a fairly general criticism of Austrade all around; you will not hear it just from me.

I also think, giving a plug for the industry associations, they need to be utilised more, probably to a better degree than our just being there and representing our members. We should be included in a lot of the policy decisions, because we have got our finger on the pulse all the time; we live it and we hear it.

The CHAIR — How often would you hear from the Victorian public servants?

Ms KREPCIK — I ring them more; I might not get a result. Yes, I will leave it at that. I am going to get into real trouble here; I will not have a job tomorrow.

The CHAIR — Maybe the opposite.

Ms KREPCIK — The inclusive rather than exclusive — again, that is a real clear message. I think the assistance towards export market development requires some overhaul; it needs a revamp, a new image. Our survival is directly linked with successful export markets and programs if we want to maintain a solid manufacturing base that is not automotive.

One last thing I will leave you with is that the profile of the manufacturing industry — you know, being dirty — I think that the government has a real strong role to play. I will take you back. A few years ago the Victorian Government invested in a TV commercial for automotive to create jobs and stimulate that sort of thought, but they had people who were over 60 and not one of them was Australian. How can you convince a young person to think — —

The CHAIR — Sorry, not of them was Australian, Anglo?

Ms KREPCIK — The MDs were Japanese, American; I think they had VDO, which was German or Austrian from memory.

The CHAIR — I see, yes, okay.

Ms KREPCIK — Wrong approach! We need to get creative and change the profile, change the uniform. Let us not do blue anymore, let us go green — green-collar workers. Let us be technologists instead of, 'I am a fitter and turner'. Let us be technologists, let us raise the bar. I think we could do that; not quickly but we can go it over — that could be our icon. Change the terminology — like I said, we are not manufacturers, we are technologists in this clean manufacturing industry environment. Change the public perception, and then once we have got that creativity, let us promote it. There could be a way of taking a much different creative approach to manufacturing so it is not seen as blue, not seen as grubby but seen as clean. Most of my members are clean manufacturing firms but everyone thinks they are still dirty. They have to be clean because they are doing JSF — really important defence work — they have to be spot-on. Intelligence comes into this — the regulations and the understanding of those. Anyway, I have probably talked too much now, Christine, sorry.

The CHAIR — I found that very, very interesting. I have tended to ask my questions as we have gone along. What I will look to do when reading the Hansard transcript is perhaps follow up some of the points you have raised. Finally, I know this is most unusual in terms of a parliamentary inquiry but I would be really interested in putting a few people around a round table to follow up some of the points you have made. It would drive the Hansard staff crazy, but it could get us outstanding evidence. Anyway, I will bounce that idea around with committee members. I have not got anymore to ask. Bruce, have you got anything?

Mr ATKINSON — I am perplexed by your approach to government grants and the extent of government grants that you want or that you have covered. I certainly understand there is concern about the complexity of processes, and I tend to agree with you that there are too many grants, which probably diminish their effectiveness. I certainly appreciate the value of structural adjustment programs. Apart from anything else, my experience of every business-owner that I have ever met is that they want the government out of their business, not in their business, which to a large extent was what you were suggesting in terms of the hand-holding and a closer relationship and this, that and the other thing.

I think it is all very well to criticise the grant system — that is fair game — but what I really need to understand, and I think we really need to understand, is what is the alternative. What overhaul or what is the structure of grant funding going forward that is going to do the job? What is the structure to be going forward? That is probably too hard to address today. I am happy for you to take that on notice and have you come back to us, but, as I said, it is no good just sort of saying let us overhaul what we have got without our having some understanding of where you want to get to.

Ms KREPCIK — Sure.

Mr ATKINSON — The concept of extending grants to these companies because they are good companies and so forth but cannot come up with a dollar-for-dollar commitment — my immediate reaction from a government point of view is if they cannot actually match funding, what is their future and therefore is that government funding just at total risk? Industry restructure — they have to have some sort of investment in it. There are some fairly crude terminologies for what people's investment ought to be in the vernacular, but if they are not in the game, if they are simply relying on government funds to try to find some future for their company, then I think there is a real problem for those companies.

Ms KREPCIK — I will give you an example. I see your point of view too. I understand how it works. I understand you just cannot throw away money. You have to have an investment from the company, but if that company has a new idea and is working on some new process and it is to do with renewable energies, because I have a company like that at the moment, it is going to be groundbreaking stuff for this company and there will be global opportunities, but they struggle to find where they can get help. Yes, there is the AMCRC, which is the advanced manufacturing CRC, which is probably going to look after the research part of it and do all that, but how are they going to commercialise it? What are their opportunities? There will be dividends for the Victorian Government. I think it is just about how do we improve our selection of grant funding?

Mr ATKINSON — What are the dividends for the Victorian Government in that?

Ms KREPCIK — Jobs, new technology, commercialisation, IP.

Mr ATKINSON — One of the problems for the State Government is, frankly, that it does not share in many benefits from many of these things. Federal governments get a good glob of that and local government picks up some rates and so forth and some other charges, but state governments' taxation revenue base from all of those advancements that companies make is actually very narrow. We pick up a bit of payroll tax. We might pick up some stamp duty. Apart from that, we are not really picking up very much at the state government level. To invest heavily at a state government level — the dividends are not necessarily there in those sorts of areas.

Social cohesion — and it is important to provide employment and do all sorts of other things; I am not diminishing those, but I am simply saying that to be asking for a significant state government contribution in those areas is a big ask. The taxation return is not there for us.

Ms KREPCIK — Yes. I guess that is the way governments see it.

Mr ATKINSON — This current government has got into trouble this week with Satyam. It provided some land and funding to an Indian company which was going to do all sorts of wonderful things and may well not be able to do them now. The government is highly embarrassed by that. You have got that situation for any government approaching a grant — —

The CHAIR — And the opposition is going hard on them. You might like to mention that, Mr Atkinson.

Mr ATKINSON — And this will always happen, because oppositions are out there, as indeed are a whole lot of people, to question the veracity of the processes, the integrity of the processes, to make sure that in fact that money ought to have been given because it is money that could have been spent on hospitals or such like, which is a government responsibility. When you raise a company that is in green technologies, which is the flavour of the moment, I am sitting here thinking if this stuff is so good, why don't the financiers back it? Why does the company need to come to government? If it is in a product area or a service area that is the flavour of the month and is absolutely needed by the community, then why has it not got private sector backing through financiers or banks? Why does it need the government to find a customer? Why does it need the government to bank it?

Ms KREPCIK — You have got some great questions there. I would welcome the opportunity of taking some of my industry players to talk about this because you have to hear it from the horse's mouth. I am giving you information collectively, generally, but they will tell you why, and I will be happy to get my best guys together for you to ask those questions, which hopefully would add value to your inquiry. They need to be answered; you are exactly right.

Mr ATKINSON — I think that is critical.

Ms KREPCIK — I think we all need to know what you are saying from a government point of view and from their point of view why this is not happening. You would get a better answer from them. I would encourage that discussion because we need to get to the bottom of it as well. I need to also understand as an industry body so I can tell them that this is the way government sees it. That is what you have to do.

Mr ATKINSON — The other area is commercialisation, which you touched on. I agree that is a major problem for Australian companies — commercialisation. Do you want to tease that out a bit?

Ms KREPCIK — I guess, generally speaking, we are good at R&D development and we are good at design and the rest of it but that is about it. We do not know what else to do with it. We might already have hidden secrets in our company. The mindset around IP and commercialisation is just not as effective as other countries. There needs to be some sort of education process. IP too — the interpretation of what that really is. We need people in. You know how you said before about most governments and how businesses want them out? I think that is changing. In my sector, say, maybe that is changing; maybe they are asking, 'Where is government? Why are they not here to help us? How come it takes me two months to get a result?'.

Mr ATKINSON — Yes, but my experience of that is that the only time they want government is when they are in trouble, then they ask, 'Where is the government? Why wasn't the government here?'.

Ms KREPCIK — Or they have a good product to sell. We are working on two at the moment — two which I cannot say, unfortunately.

The CHAIR — Fair enough.

Ms KREPCIK — This could be a really fantastic opportunity for the Victorian manufacturing sector — in automotive but not a classic vehicle. We are just doing groundwork on that at the

moment. I can bring that person to one of these meetings, if you like, and he can talk about what opportunities this particular sector is going to bring, to be manufactured here and to be delivered to the defence force. So it has an automotive plant per se — we plant it here in Victoria and we export it to the defence industry. I cannot say much more than that, but I am sure that will be revealed.

The person who is looking after this has a poor opinion of the government. He is not going to go there. He is going to just try to do it himself and just move on. We need to be stronger. I do not know. We have to work out a solution to the poor perception of the assistance. It is not a reflection on anyone. That is just how they feel, that they are not getting the help and assistance that they need.

Yes, you are right; they will go to you when they are in trouble. But sometimes there are those hidden opportunities that could be quite valuable.

The CHAIR — Am I picking up correctly that many of these people obviously not only want to make a dollar but they are committed to having jobs in Australia?

Ms KREPCIK — Yes, they are very loyal.

The CHAIR — That is a component that is difficult to quantify.

Ms KREPCIK — They are loyal. The automotive industry is not loyal, in my opinion, but the supply chain is loyal. The purchasing department, I should say, is not loyal. The engineers who work within GM are loyal but they have no say. I hear all the time how an engineer at Holden will say, ‘We’ve got it here but we’ve got to go overseas and it’s not fair’. There is a company in Geelong called Blackwell IXL. They always try to do as best they can to keep the tooling in the country. You do not get too many Australian icons like Blackwell IXL. I think it is that loyalty and reciprocal arrangements — all that needs to happen again.

Mr ATKINSON — Just as an aside, the problem with loyalty is that GM and Ford are broke and Chrysler is broke. So it is all very well to be loyal and sort of say, ‘There are things that ought to be happening here’, but if they have not got any money, that is why they are making other decisions. There is a structural readjustment there.

Can I just ask you about import replacement? To what level do your members understand opportunities or identify opportunities for import replacement? Have you got any experience of the industry capability network in terms of supporting it?

Ms KREPCIK — In terms of industry capability, I wish I understood exactly what they do sometimes. They are not inclusive of industry associations, so I do not really know. They have their own database and they go direct to our members. The only success story I have seen out of ICN has been with Blackwell IXL — that did the import replacement, I think, for the Toyota components. Apart from that, I do not think our members really engage ICN. This is pretty open and honest sort of stuff, but they have that SAMP program. We were actually fortunate enough to get ICN SAMP funding, but we have never received any money out of it. We decided to develop a tooling aerospace cluster, we got the SAMP program. ICN gets the SAMP money, we have to prove our KPIs, we have done that and there has been nothing back.

My president, if he was here today, could tell you more about it because the recipient is his company, together with its supply chain. We are banging our heads against the wall about what is going on here. If we do not spend the money by a certain date, it goes into ICN’s bank account.

The CHAIR — You might care to hand a copy of the transcript to the relevant public servant in the federal arena.

Ms KREPCIK — You have to be so careful, too, of what you say.

The CHAIR — Are you aware that this is evidence that can go on the internet?

Ms KREPCIK — Oh, no, I am doomed. I probably did read that, but, look, I am just telling you from experience.

The CHAIR — I just make the offer, that the Hansard transcript is there, if you wish to forward it to the federal public servant.

Mr ATKINSON — Apart from the government grants situation and the importance of that in terms of structural adjustment, what are the major challenges to your members in terms of maintaining a manufacturing base in Victoria or growing a manufacturing base in Victoria?

Ms KREPCIK — What are the main challenges?

Mr ATKINSON — What are the key things that they see as hurdles?

Ms KREPCIK — It would be the dollar. It would be the demise of the automotive industry — I should not say ‘demise’, but the reduction of the automotive industry and the reduction of the supply chain. Having said that, though, things are not that glorious in defence, either, at the moment, but at least there is another sector, as I said, that keeps them going. The hurdles are those companies within the automotive industry in our sector that have just put all their eggs in one basket and do not know what to do any more. They do not know how to diversify — and is it too late to diversify? They probably see no light at the end of the tunnel.

Also, because the aerospace and defence sector is very cliquey — if you are not in the clique, you are not in — for the new guys who want to have a piece of that it is very difficult for them to share anything. This is real warts and all.

Mr ATKINSON — Is that true Australia-wide, or is that just a peculiarity in Victoria because Qantas happens to be the main player from Australia’s point of view and it is Sydney-centric?

Ms KREPCIK — It has nothing to do with that.

Mr ATKINSON — Any other hurdles — wage costs, energy costs, carbon emissions trading?

Ms KREPCIK — They probably have not even started looking at that, to tell you the truth, because everyone is here today, trying to survive. They are looking for work. That is all that is happening out there. You can sense the frustration and you can sense the depression. You do not hear good news stories too much any more.

Mr ATKINSON — I am interested in the diversification into medical. We actually have a series of questions. We might give you this sheet as well, so that you can think about that for your submission or further responses, because there are some good questions there that we have not really touched on. I am interested in the medical guys. I have explained before that I have a failed — very modest, I might tell you — investment in a company that had some outstanding technology in two different products that they tried to get into America. In both cases they hit a brick wall and have consequently collapsed. Their latest technology, which is actually an artificial heart — this is Ventracor, if you know the company — is likely to be picked up by the Americans for literally thousands of dollars and it is worth millions.

I am interested, therefore, in some of the diversification that your guys have made and whether they have faced barriers in terms of market entry, whether that has also been a constraint on diversification and whether that is an area where they are eager to see government advocacy, support and action, as distinct from just financial funding.

Ms KREPCIK — I agree that that would be a step forward. They are mind-boggling, some of the defence regulations and so forth. There needs to be an educational and assistance program for those sorts of things. I know that there is the export unit in the Federal Government that has been

set up for defence. They have been spruiking, saying, 'We're here to help. Get on board and be a part of the supply chain'. When our guys actually ring them, they say, 'You're not in the aerospace or defence industry, so see you later'. It is sort of like we have to practise what we preach, and it is very disappointing to hear about some of these programs that are out there. Your members, whilst they want to get something into the aerospace industry and know how to do it, they have to ask, 'How do I get there, what regulations do I have to achieve for me to be noticed overseas?'. That is what we need to do, help them step up to that — not be promised something that they are never going to get into. That one is a true one as well.

Mr ATKINSON — The last one, then, is: to what extent — —

Ms KREPCIK — I have answered the question — —

The CHAIR — We have to be fair with occupational health and safety issues here. This is definitely the last question, and it is a single question.

Mr ATKINSON — It is a 20-part question.

The CHAIR — No, it is a single question, because I am about to conclude.

Mr ATKINSON — I do not know if you can put a proportion or percentage on this. To what extent has the diversification of some of your members been based on a reaction to circumstances and organic change — that is, changes they have identified within their own business — as distinct from research and development-driven change that might have been either of their making, their own investment in research and development and identifying new opportunities, rather than simply, 'The machine is idle, what else can we use it for?' — identifying an opportunity through their own research and development or through other external research and development parties associated with unis or the CRCs? Can you hazard an estimate on that?

Ms KREPCIK — All I can do, as best I can answer that, is say that going back to my beginning our membership was heavily involved in automotive. The automotive industry has forced — it would be through capability: 'We have this machine idling, we have the capability to go into different markets, so let's try those different markets'.

The other thing that has helped our membership has been the fact that there has been a lot of trade mission activity involvement, which has opened their eyes to the global environment and opened their eyes to new markets. Those export market development programs are essential. I am just trying to think of one company, for instance, that did not diversify his business until he went offshore to look at new ways of doing things and new industry sectors and meeting new people. I am just trying to think how they turned into aerospace — 'The capability is available. What are we going to do with that capability? We can do all sorts of exotic tooling and so forth with all sorts of different materials. Let's try to capture a different market'. It is not being driven by research and development.

The CHAIR — Thank you very much. As you will see from the Hansard transcript, this has been a very interactive gathering of evidence. Thank you to Hansard. In around a fortnight we will provide you with a copy of the transcript. You are free to correct typographical errors, but obviously not change the substance of it.

Ms KREPCIK — Sure. Thank you very much. Nice to meet you both.

Witness withdrew.