ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into Manufacturing in Victoria

Melbourne — 6 August 2009

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Mr P. Burn, Associate Director of Public Policy, Australian Industry Group.

The CHAIR — I welcome Mr Peter Burn, Associate Director of Public Policy, Australian Industry Group, to our all-party parliamentary committee. Today we are hearing evidence in the inquiry into manufacturing in Victoria. Could you please state your full name, business address and your position.

Mr BURN — My name is Peter Burn. My position is Associate Director of Public Policy at the Australian Industry Group. I am based in our Sydney office, which is in Walker Street, North Sydney.

The CHAIR — We thank you for the information that has already been provided. I know you have oral evidence to give, and we will ask questions at the conclusion of it.

Mr BURN — Thanks very much. We think it is an important inquiry and we are very pleased to be participating in it. I will not say a lot about our organisation, but we are a national organisation; we are a business association, and we have members in a whole cross-section of industries, including manufacturing, construction, the services sector, the consumer services business sector and services across the spectrum.

I am speaking to a submission that we have not yet completed and have not given to you, but we would expect to give to you next week. Quite frankly we are submissioned out at the moment across the federation. I hope that today is the start of an ongoing interaction with the review; in addition to any general input, we would be keen to assist with any specific questions that you would like to explore more with our organisation or through us with our members, in this context our Victorian manufacturers.

When we saw your terms of reference we tweaked an investment survey that we were preparing at that time to explore the issue of location that you have given some prominence to, and we are sort of interacting the location and the outsourcing/insourcing decision and trying to get a feel for that. We will be able to provide you with some information — hopefully it is useful information — when that is in; it is currently in the mail in-house so the turnaround will be easily within your time lines, I think.

Maybe as a contextual thing to your terms of reference — I think it is very relevant — our last major publication on manufacturing was this one, called *Manufacturing Futures*. It was way back in 2006 but given the title we certainly hoped at that stage it would have currency for some time. Rereading it in the last couple of days preparing for this hearing, we think that it does. The big focus that we were looking at was, in shorthand terms, China and the Australian dollar. These were two issues that we saw as shaping the environment for Australian manufacturing because we were taking a national point of view, and we will continue to do that.

China was really shorthand for the emerging economies. China is big in that context but there are also other countries that should not be forgotten: Brazil, India, the East and European economies as well. But China was the catchphrase. At that time, notwithstanding the global financial crisis, the only thing really that we would change is the view about how long the high dollar was going to last and how far it was going to go. In 2006 we were probably thinking, 'It is going to be up there for a little while and then it will come back down when commodity supply reacts to demand'. I think that imbalance between supply and demand may well last for a lot longer than we thought. In the meantime Australian capacity has increased and when prices come down volumes will rise as well. We think that there will be an ongoing pressure for the dollar to remain high, and that is, of course, of considerable importance in the location decisions of manufacturing.

The key theme that this report explored was the degree of global engagement by manufacturers; that applies globally. In relation to Australia, we were particularly interested to observe a few things. One was an increase in the degree of importing. Another thing was the increased investment by Australian-based manufacturers abroad. We noted in the report that Australia had become a net exporter of manufacturing capital — direct foreign investment. A further thing was the extent of offshoring, and those two are really a part of a broader issue, which is participation in global supply chains.

That globalisation, if you like, gave rise to two fundamental questions about what Australian manufacturing meant: what the ‘Australian’ part meant, and what the ‘manufacturing’ part meant. We often measure Australian manufacturing, say, as the share of GDP contributed by the sector. But that does not account for Australian-owned manufacturing produced in China or the US or anywhere in Asia or anywhere else — not even New Zealand for that matter. Increasingly, Australian businesses have operations around the world and they are Australian manufacturers. So when we measure what is produced in Australia in the manufacturing sector, we are not capturing that contribution.

Mr ATKINSON — Have you been able to quantify it though?

Mr BURN — No. What we do is just throw open that when we are considering; we do not simply rely on that GDP measure. We also consider the income earnt abroad and so forth.

Mr DAVIS — Is there data on that though, I think is Bruce’s point? Is there reliable data on that?

Mr BURN — It is very hard to disaggregate this data because it is balance of payments-type stuff. I do not know if you have ever explored it, but I find it baffling. Whenever we get it, we find it very difficult to decode, so I do not think there is great data on it.

Mr DAVIS — Is there someone who you would recommend we talk to on that?

Mr BURN — Can I take that on board perhaps, because just off the top of my head I cannot think of anyone. I have been asked that question before and I do not think I have come up with an answer, but let me take that one on board.

Mr ATKINSON — I am sorry to distract you.

Mr BURN — No. I have a terrible memory; if it is not written down, it goes.

The kind of thing we asked in a fundamental way was what manufacturing meant, because we were looking at Australian manufacturers locating their production facilities offshore. They either directly owned it or had titles to what was offshore; they were providing the design input yet they were doing the R and D in Australia, and they were selling the product largely in the Australian market perhaps. It was simply that part of their operations had been taken offshore, and that was really the servicing of the broader company.

Does this mean that they had ceased to be an Australian manufacturer? They were not producing anything here. There was no production line in an extreme case. Maybe we needed to rethink what we meant by manufacturing. In fact we often read in the literature now about this blurring of the lines between the services and the manufacturing sector. Conceptually you think of a business, for example, as really a cluster of service operations around a little bit of physical capital.

It seems to be a bigger issue now with production more footloose and different segments of a manufacturing company located in different parts of the world. These are the sorts of interesting and important issues in the context of the sort of questions you are asking, I think, about location and what you need to do to have manufacturing in Victoria, for example. What does that mean?

These are very contextual things. I should just say on a policy front the sorts of things we went to here and broadly what we would stick to at the moment. We steered away from sector-specific stuff. We also steered away from fortress-Australia sort of stuff. We were interested more in capability development and facilitating business evolution in whatever way it made sense for that business to evolve. We were not too fussed if businesses were improving their performance by taking some of their operations offshore, getting low-cost advantages and being more competitive as a result. That was not something that was upsetting us, although it was upsetting some of our comrades on the other side of the table sometimes. We were about facilitating business development, removing obstacles to that evolution.

On a broader level we are not too fussed about the decline of manufacturing as a share of state product or GDP or anything; this is a worldwide phenomenon across developed economies. We do not think our relative decline is any faster than anywhere else. We note from looking at the most recent data that that linear fall since the 1970s really has continued. It is very starkly linear too; it does not really go up and down. But recently with the GFC there is a bit of a dip because manufacturing has fallen faster than other sectors. We would expect that to be due to the collapse of trade and temporary factors — touch wood!

In the last few years Victoria has fared worse than any state in aggregate. It is most apparent when I look at the share of Australian manufacturing. We will supply this chart to you. New South Wales over a 20-year period has had a more or less constant share of total Australian manufacturing; South Australia and Victoria are falling; Queensland, a rise; Western Australia, a rise; Tasmania, a little bit of a rise; and Northern Territory, a rise associated with its metals. It is dominated by its metal operations.

Mr ATKINSON — In the key states of Queensland and Western Australia are they big rises or they are simply off a small base?

Mr BURN — Initially off a small base in Queensland but a consistent rise, and now it is not a small base any longer but is still rising.

Mr DAVIS — And the share of their state product?

Mr BURN — No, manufacturing is falling everywhere, which is an advanced economy phenomenon.

Mr DAVIS — Because of the growth in services.

Mr BURN — Services, and in Western Australia and Queensland in particular the growth in minerals as well is not matched by a growth in minerals processing, which would be recorded in the manufacturing share. It is minerals: coal, iron ore. There has certainly been an increase in capacity in minerals processing in both of those states. That is a factor behind the manufacturing increase. Another is population growth and the associated stuff with housing and so on.

Mr DAVIS — And advanced manufacturing in those states?

Mr BURN — We have done a little bit on that, but it is very hard to get this aggregated data. Looking at it, eyeballing the sectors, we think that New South Wales, Victoria and South Australia still have the higher tech stuff that we might call advanced manufacturing. I just want to mention something about the relationship of value added to the idea of advanced manufacturing. I think in all states food processing is the no. 1 manufacturing sector. That might not hold in some of the mineral states. A large part of the decline in Victorian manufacturing appears to be in the clothing, footwear and textiles sector. Victoria had a big presence, but that sector has just shrunk. If you look at the chart, it is just astonishing how much it has shrunk. If you look at a chart comparing different elements of the broader sectors of manufacturing, because it is much more complex than that, you see that really the only thing that has changed from, say, 30 years ago is the textile, footwear and clothing sector. Everything else in those broad categories is more or less similar. I looked a chart the other day again in preparing this report — you will see that when we give you our submission — and the share of advanced manufacturing has basically been constant over quite a long period as well. We should not forget that Australia has a great competitive advantage in resources and the processing of resource products — food processing and minerals products; we have got a great competitive advantage.

Mr DAVIS — Agricultural products generally.

Mr BURN — Agriculture and minerals products, yes. We are a big metals maker. Alumina and aluminium: we are very big in world supply of those commodities. We are a big steel producer, and zinc and so forth.

The CHAIR — In your submission can you give some attention, please, to the manufacturing in food?

Mr BURN — Yes.

The CHAIR — That would be helpful, on what your members are saying are important factors in manufacturing and value-adding.

Mr ATKINSON — And in terms of that massive competitive advantage that you would expect we would have with the ingredients, the horticultural and agricultural products, you might give some thought to why the retailers are increasingly going overseas to source food directly from overseas markets to sell through their stores, perhaps undermining that competitive advantage.

Mr BURN — Interestingly the food and beverages sector as a whole is growing faster than the sector as a whole. It is one of the healthier sectors in aggregate. There might be some movements around different commodities within that. It is very hard to get disaggregated data at the state level on industries at different levels.

Mr ATKINSON — Are you through that point?

Mr BURN — I am through that point, but do you want me to just say a little bit about location things?

The CHAIR — That is really important.

Mr BURN — It is very high level. We have put some thought into it, but I do not know if it will add anything. There are decisions about location, cost of production, administration and distribution, and those costs relate to the cost of factors and inputs, regulatory cost, taxation, marketing, quality control and all of those sorts of costs, and they may well be different in different markets. Access to market is an important thing: transport costs, perishability, timeliness of supply and those sorts of things. Standards are of some significance. Procurement regulation, again, is of some significance. IP protection is of some significance.

I also wrote in my notes here the importance of clustering and what Alfred Marshall, a British economist, called external economies — the phenomenon that businesses will tend to come together around a geographically close location because they learn from each other and there are external economies of scale. They do not have to be one big firm to get these. With retailers, for example, you will often see three or four of the same sorts of people selling the same things. A conglomeration of restaurants is a classic case; that sort of thing. There are external economies and the holes in manufacturing and other non-retail sectors.

Mr ATKINSON — Advertising agencies in Walker Street, North Sydney!

Mr BURN — Yes; business associations. We also think that there is a very close interrelationship between location decisions and the make-or-buy decision — the make-or-buy is insourcing or outsourcing. Insourcing and outsourcing are polar choices. There is also a range of, if you like, hybrid franchising arrangements where there is a fair degree of control; you might have a joint venture and those sorts of things.

The CHAIR — Can you give us examples when you are preparing your submission, if your members allow you to do so?

Mr DAVIS — A case study is what you are saying.

The CHAIR — Yes. Is there a place in Victoria where clustering is working really well? That would be a good example.

Mr DAVIS — Even an interstate example too.

The CHAIR — Yes. You mentioned transport; is there a really good example of where it works well and why? Sorry, back to your submission.

Mr BURN — Interestingly, transport costs come up in a very interesting way sometimes, and then in some areas they are not the factor that you would think they would be. We have a member — not in Victoria, but the example is interesting — who makes the steel frames for big engineering projects; for example, on pedestrian overpasses on highways. You would think that the steel frame for a pedestrian overpass would be pretty well protected by transport costs. They are shipped holus from China ready to be put on there. It is amazing.

Mr DAVIS — EastLink.

Mr BURN — Is that right?

Mr DAVIS — Yes. Absolutely

Mr BURN — I was totally unaware of it until quite recently.

Mr DAVIS — Big chunks of EastLink's gantries are imported.

Mr BURN — The decisions about location and the make-or-buy decisions are very closely related and need to be explored a bit.

Mr ATKINSON — I am interested in the comments you made on the Australian dollar. I do not disagree with your assessment, but I am interested in the aspect of competition for funding. Given what has happened in the meltdown globally a lot of companies are obviously needing to recapitalise and the demand for funds is very high internationally. Australia has traditionally done fairly well in attracting funds, because higher interest rates and stability have provided a good return to international suppliers of finance. Are you expecting that that situation will continue in terms of underpinning the Australian dollar's strength, or is the competition for funding going to start to impact on the assertion that the Australian dollar might remain high, recognising the importance that you place on that in terms of manufacturers being able to compete elsewhere?

Mr BURN — I do not know the answer to that. Are you thinking of the demands by governments for funds around the world, or whoever?

Mr ATKINSON — Governments and companies. We have had a flight of financiers from Australia, but perhaps not as bad as expected.

Mr BURN — Yes; the financing companies.

Mr ATKINSON — GE Money and so on have certainly withdrawn. The reason for that is they really could not meet the demands for finance in their home markets, so they have gone. As I said, it was probably anticipated that it might be worse. It is demand certainly from governments but also from the private sector. Is that likely to have an impact? Is that something you took into account in that original proposition?

Mr BURN — No, it was not. Stratton has raised a hell of a lot of capital internally in the last nine months; a phenomenal amount.

Mr ATKINSON — And we have been fortunate with superannuation funds in particular as a source.

Mr BURN — Yes; a lot of them put their money into cash for a while there. Yes. The other thing is that Australia's looking relatively good in terms of return relative to other developed economies for the next little while.

Mr ATKINSON — Yes, but this time the competition could mean the others rise. Victoria in particular has always claimed as a competitive advantage low energy costs and for that matter quality and cost of water. Historically lower costs in those areas have to some extent offset what were in real terms higher labour costs. We are now entering a brave world where energy costs and water costs are on the march, and we are facing a carbon emissions trading scheme that is going to add another layer of costs. To what extent are they going to be impacts on some of these manufacturers' decisions going forward? Have you assessed that with members to see where they sit on those sorts of issues?

Mr BURN — We have done a lot of work on the impacts of climate policy on our members. There are three phases: the impact that a carbon pollution reduction scheme itself would have on electricity prices and gas prices for that matter; the design of the compensating arrangements within the context of it; and the broader question of the pace of international movement along similar lines, which comes to the competitiveness issue. Putting aside that very hard last one, Victoria is not in a great position relative to other states. It has got high-emissions electricity. There is no way we can deny it. There is that great source. We currently have the cheapest electricity just about in the world, I think, and that is not going to stay the cheapest electricity in the world. That will impact on your electricity-intensive industries. Many of them get pretty solid offsetting arrangements under the CPR — I am thinking of aluminium and the like.

Mr DAVIS — The trade-exposed industries.

Mr BURN — At the emissions-intensive end of that. On 1000 tonnes of CO_2 per million dollars of sales and above they get something and below that they get nothing. Murray Goulburn is a big Victorian producer. I think it is the biggest exporter from the port of Melbourne; that is one of their boasts.

Mr ATKINSON — It is.

Mr BURN — But they are not getting anything under that scheme. They have got a solid emissions bill, but they are not of sufficient emissions intensity to qualify. At a $50 carbon price your margin erosion, without any compensation, has got to exceed 5 per cent of sales before you qualify for compensation. That is how the arithmetic works out. It is pretty solid. A lot of companies who are energy intensive by any other definition will not get it.

I should say in that context that we are supporters of an emissions trading scheme and also supporters of ways to offset the impact of that on energy-intensive businesses.

Mr DAVIS — Just picking up Bruce's point, the reality is that Victorian industry has relied for a long period on cheap power and clearly there is a need for adjustment in the long term, so it is going to face a significant hit. It is going to make it very difficult for a number of our export industries. They have to compete. We have got that layer of cheap power, trade-exposed industries and heavy manufacturing industries; we are an economy that could face a massive hit.

Mr BURN — Yes. The difference between Victoria and other states is not quite as stark as that, but the emissions intensity of manufacturing overall in Victoria is not noticeably higher. In fact it is lower than in some other states, particularly the metal states of course. There is not a great deal of metals processing — I am surprised at the degree — but a low amount in Victoria.

The CHAIR — Could you repeat that?

Mr BURN — I am surprised how low the aggregate metals processing share in manufacturing is in Victoria. I looked at the data quite recently, and it was quite low. That is the big energy-intensive sector of manufacturing. Food is big, but nowhere near the thresholds.

Mr DAVIS — Petroleum?

Mr BURN — Petroleum is quite big at round about the bottom threshold. If you measure it one way, you are in; if you do not, you are not. The other one of course is the plastics and chemicals people. They are very high emitters — and aluminium of course.

Mr DAVIS — Cement?

Mr BURN — Cement is big, and it is everywhere. There are cost disadvantages related to water and electricity; they are very serious across the country. Electricity is a bit more important in Victoria because of the higher emissions. On the lower cost of energy in Victoria, our work has suggested that businesses have not paid a hell of a lot of attention to improving energy efficiency and that there is a hell of a lot of scope to do it. The lower the electricity price, the greater the amount of scope for improvement. Everywhere we look there is very strong scope for abatement. There is a strong potential for businesses to offset, at least for a decade or two, the impacts of prices, depending on their emission profile.

Mr ATKINSON — In terms of industry thinking, are there alarm bells over these sorts of new costing plots in regard to their location decisions — regional manufacturing production decisions — at this point?

Mr BURNS — That is right. The whole debate about trade-exposed businesses is a location debate, whether it is them or their competitors taking up that slack.

Mr DAVIS — Should there be another layer of compensation assistance for the introduction of these schemes, given Victoria's overlay of historically cheap power, heavy industry and so forth, and geographic concentrations? There was discussion recently about Geelong, which is a significant centre of manufacturing, but it appears nobody has really thought about the geographic impact.

Mr BURN — Yes, I think there has been a bit of work on the geographic impact but the attention has focused elsewhere, and that is a very important point.

Mr DAVIS — New South Wales frontier.

Mr BURN — The Hunter Valley has attracted attention. I think Geelong has attracted attention somewhat as well. We argue for another layer of compensation. There is, within the context of the carbon pollution reduction scheme, an arrangement called the climate change action fund, which is the several billion-dollar fund available basically for non-emissions industry trade-exposed businesses. There is a great deal there that could be available, but those programs have not really been specified to the degree to which they would give business any confidence that it is going to be eligible for anything yet. There is nothing in the legislation, for example, about that. There are sort of four dot points about how that couple of billion — $3 billion — might be divvied up, but there is not a lot of detail below that. That is something that we are pushing about that additional layer of compensation. More funds would be great, but greater detail about how those programs will work would also be good. That really is an avenue for compensation. That, administratively at any rate, is much more attractive than trying to work out a permit allocation system for a lot of businesses with relatively lower emissions intensities. It becomes very complex.

The CHAIR — I have got one on a completely different topic — that is, the importance of transport for the manufacturing industry here in Victoria and those that wish to expand their manufacturing here to increase their export market. Have your members made comment on what would be required in relation to transport?

Mr BURN — Do you mean in infrastructure?

The CHAIR — Infrastructure. Is rail the most relevant? Are highways? Discussion that is taking place here is in relation to B-doubles, the port itself.

Mr BURN — Freight is a big issue for our members. Freight costs rise faster than output — the costs of manufacturing. It is like trade rises faster than world growth, so it is a rising issue.

The CHAIR — Have they got solutions for what they see as problems?

Mr BURN — Quite frankly, I do not think the manufacturers have solutions. I think there are a range of solutions being discussed at the infrastructure provision level. Transport companies have some ideas as well. It is the coordination between modes of transport. I think an important dimension to the transport issue is urban congestion and how that can improve traffic flows from reduced transport costs and transport times quite a lot.

The CHAIR — Have you got examples of where industry might have decentralised and used rail freight direct to the port as a competitive advantage, given you have just mentioned urban congestion?

Mr DAVIS — If you have got any material or data that we should see on urban congestion, I think we would certainly be interested in that.

Mr BURN — I can certainly arrange for it. I can do two things on that. I have just taken an interest in this area quite a lot recently. I could recommend that you speak to a specific person who knows a hell of a lot about urban congestion. Maybe I could give you those details offline.

The CHAIR — Thank you.

Mr BURN — I think he would be very delighted to do it. He is very passionate about the area. That would probably be the short answer to that question. I will certainly see if I can find examples of rail freight decentralisation.

Mr ATKINSON — We have had a bit of a focus even in the last few days on government incentives to attract business. I have actually just been in Ireland, and I noticed on the flight a lot of companies that were attracted there with incentives. When the incentives expired, they trotted off to Eastern Europe where there are new incentives. So there is the whole question of government incentives to attract business. I guess historically we have had a lot of competition between the states for enterprises that were looking to invest in Australia. I wonder, as a national organisation, if you have some observations on the value of government incentives — the targeting of those incentives to get the most effective result and whether or not the interstate rivalry is still at play. I certainly understand it has reduced from what it was, but I wonder whether or not it is still at play in terms of attracting investment.

The CHAIR — Corporate philanthropy.

Mr ATKINSON — Exactly. 'Corporate socialism' we call it.

Mr BURN — As an organisation I suppose we have got an open mind about this sort of stuff, although we are pretty hesitant about whether it really works and the effectiveness of it and certainly the economy-wide effectiveness of it. That is probably where our biggest reservation is, because you are diverting money from other uses and you are deliberately attempting to divert economic activity into a specific channel into which it otherwise would not go. Who are you taking it away from in order to do that? Is that higher product higher value-added and so forth?

Mr ATKINSON — The other question there is that it would not go, or that it would go in anyway.

Mr BURN — That is right. You may not be making the difference; you might be actually just chucking taxpayers money out. Singapore always stands out. Recently people have been talking about Ireland and the Irish experience, and indeed the Singapore experience, because it is an incredibly volatile economy. It just went through an enormous fall. Mind you, it has grown very quickly in the last quarter. The other thing is that there seem to be countries that can do this well, and some countries cannot do it well. I do not know that we have got a great record of doing that that well. I still can remember Kodak and all these sorts of examples and so forth.

The other thing is that I wonder when we are talking about all that whether there is a sense of, 'Are we concentrating on the main game or not', because there are a hell of a lot of things that governments can do and should do and ought to put attention into and fund that can improve things across the board that would make it better for a whole cross-section of businesses. I am talking about regulations, staff and just efficiency of the product markets and taking hard political decisions rather than easy political decisions by giving someone a bit of money in a regional centre — about, for example, urban congestion.

The CHAIR — How about I give you an offer? If you were to write the report and you were to make three recommendations, particularly in relation to incentives — you actually threw out the challenge then; hard political decisions as opposed to some of the more opportunistic ones — what would be the three?

Mr BURN — That is such an important question, can I take it on board and put it in our submission that I will give you next week?

The CHAIR — If you are going to put it in your submission, you can have up to five weeks, because we are writing the recommendations.

Mr ATKINSON — I would not mind if he also got a copy of the draft questions — we prepare some draft questions in case we are not fluid. We have been so fluid we have not even looked at the draft questions. Perhaps we might make a copy of those available to you, because there are some issues there that you might want to reflect on, given that your submission is still in progress.

Mr BURN — That would be very handy.

Mr DAVIS — Just as a final thing, at the opposite end of the spectrum from the set of incentives — base costs and state government taxes, charges and, as you point out, regulations — is there something you think we should be focusing on there?

Mr BURN — States collect a hell of a lot of taxes, but what they do collect is a hell of a lot of damage. They collect some shockers. There is a disproportionate efficiency gain to fixing up some of the state taxes. That overlays with this Henry review that is currently going on, but that is relevant for you too. We will include something on that as well.

The CHAIR — Thank you very much.

Mr ATKINSON — Can I just ask a couple of quick things in terms of observations that you might have that might not be in this. I know your membership base is very broad and the business-to-consumer area is perhaps not as significant as some of the other construction industry suppliers and infrastructure suppliers and so forth. Have you got any observations on the impact of the retail consolidation in Australia on the manufacturing sector? Also, and this comes back to perhaps a greater parallel with your membership, what are the opportunities for import replacement programs? We have already got the Industry Capability Network, which I think does a very good job, but I am not sure that everybody understands some of the opportunities that are available for us to increase our manufacturing simply by addressing product needs that are not met by Australian companies because of an ignorance of the opportunity. I am interested in just those two points.

Mr BURN — I am not sure what is meant by 'a consolidation of retail' — is there an increased market share in a certain number of players?

Mr ATKINSON — Yes, Woolworths and Coles essentially — with about 85 per cent of grocery, getting onto a similar percentage of liquor, dominating clothing and footwear, and a lot of home wares, electronics, and so forth. A very significant consolidation in that area.

Mr BURN — Because there is also a contestability and the arrival of new retailers, which is interesting, in that area as well. But anyway — —

Mr ATKINSON — Although Costco has come in with almost all imports.

The CHAIR — Can we go back to Bruce's point on import replacements and our manufacturers becoming aware of markets that are not being met perhaps as well as they could be from our Australian base?

Mr BURN — Look, we think it is a great area for policy and the ICN is a good way to build it up, but to improve it and take some of the mystique away from it and make it better understood — what it does and so forth — I think that would be great. I think it got some extra funding quite recently and maybe even some funding in the Victorian context, as well. But that is the sort of policy I think is very useful; it removes those information gaps and gives businesses an opportunity to do stuff that can then help them develop scale and move them to a different level. The other thing, related to that, is whether governments might not as procurers encourage a little bit more innovation in their suppliers that might help them develop a competitive edge, rather than simply give them a protected market. Now we are entering into an area of controversy that my members will kill me for.

The CHAIR — Well, we will save you from a death sentence — —

Mr ATKINSON — Just one quick thing to also include in your response back to us, but not today. You mentioned the exporting of manufacturing capital. We would be interested to know where that was at this point, if you are able to get some sort of handle on that as it is today compared with when your original benchmark was set, particularly to understand any adverse experiences that any of the companies that you have had discussions with might have had in regard to offshore manufacturing. In other words, was there a leakage of their intellectual property because they were located somewhere offshore, or any other adverse experience? Particularly if that has underpinned any decision to bring them all back home.

The CHAIR — Perhaps we could gather evidence from the big wheel down at Docklands — that was manufactured overseas.

Mr BURN — There was a very interesting article in the *Australian Financial Review* not long ago by McKenzies on a shift in sentiment about offshoring. I will see if I can dig that one out.

The CHAIR — Thank you. We appreciate your time this morning. We look forward to your written evidence. A copy of the transcript will be provided to you within about a fortnight. You are free to correct typographical errors but not change the substance of it.

Witness withdrew.