

ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into Manufacturing in Victoria

Melbourne — 18 August 2009

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Witnesses

Mr P. Yates, Executive Director, and
Mr D. Pallant, VIPP Manager, Industry Capability Network.

Mr ATKINSON — We would like to thank you for appearing before this Inquiry into Manufacturing in Victoria today and for the information you forwarded to us earlier. This is an all-party parliamentary committee — and we do look a lot more all-party in this particular session than we did at the outset of the last!

What I have been doing is inviting witnesses to make a few introductory remarks, after which we will ask some questions. I think both of us are aware of your organisation and indeed have a fairly high regard for much of the work that you are doing. You have been mentioned in dispatches in the inquiry. I do not know if you have been following the earlier evidence. There was some championing of what you have been doing. There were some people who felt that maybe you had moved away from some of the opportunities that might have been there to support manufacturers on a marriage-broking basis rather than a project focus. I guess that was probably the import of previous evidence, so you might like to actually consider that. If you do not, we may well visit you with a question to that effect.

The matters that are discussed today are covered by parliamentary privilege so unless you go out and meet a press throng at the front door — which I doubt — and make some statements there, you are covered by parliamentary privilege for what you say. As I indicated to the previous witness, you will have an opportunity to look at the transcript and correct any spelling or typing errors or suchlike.

I invite you each to initially state your full name and address and the capacity in which you appear before the inquiry.

Mr YATES — My name is Peter Yates. I am the Executive Director of the Victorian Industry Capability Network. My business address is 10 Queens Road, Melbourne.

Mr PALLANT — My name is David Pallant. My address is 10 Queens Road, Melbourne, and I am the VIPP Manager for ICN.

Mr ATKINSON — Mr Yates, would you like to make some introductory remarks?

Mr YATES — If you understand ICN, I will not go through the introductory paragraph I have got here —

Mr ATKINSON — You can, because it is for the record as well; it is not just for us.

Mr YATES — Okay. ICN is a not-for-profit company funded by the Victorian Government through the Department of Innovation, Industry and Regional Development. Our role is to create jobs through import replacement, local sourcing and export-related activities across all of the industry sectors. As part of this role ICN also facilitates the Victorian Industry Participation Policy, known as VIPP, on behalf of the Government.

VIPP is used for all government procurement, based on a value-for-money proposition; however, it provides the basis for consideration of local industry involvement. It is not a protectionist policy. This policy has recently been strengthened through the *Building Our Industries for the Future* document, announced by the Premier in November 2008.

ICN is now responsible for providing industry certification on VIPP plans and evaluation of these plans for Victorian Government procurement which is worth over \$1 million in regional Victoria and over \$3 million in the metropolitan areas. As a consequence of ICN's direct interaction with both industry and government, ICN is well placed to view this interaction from an independent perspective.

There is no question in our view that the government plays a considerable role in determining the environment for businesses — whether they manufacture in Australia or overseas, and whether overseas companies invest into Australia. ICN considers one of the most important factors is the

attitude and policies of both the state and federal governments towards manufacturing in this country. In many countries — the USA, Canada and China, to name a few — local content is mandated. If Australian industry wishes to become involved in these countries, it must deliver the required local manufacturing in the country of purchase — that is, it must establish a manufacturing facility in that country.

On an international trade mission ICN auspiced to the USA in 2005 participating companies stated that it would be to their advantage to move their business offshore to America in order to comply with the USA local content requirements, and then free-trade back into Australia, thereby having the best of both worlds. I am sure this is certainly not the intent of a free trade agreement. When we approached the USA companies they said that their government would not agree to a free trade agreement with Australia, even though we had documentary evidence to the contrary.

The Victorian Industry Participation Policy, the free trade agreements and the attitude of government buyers are critical to the business decisions of our local manufacturers as these policies establish the local industrial environment. Equally, they determine whether the overseas company is encouraged to establish manufacturing facilities in Victoria. Whilst ICN is not proposing a mandated local content, the attitudes toward local manufacturing and associated content should be based on ‘Why can’t it be manufactured in Victoria or Australia?’. The culture in China and the USA is ‘We must manufacture and buy in-country first’. We need a similar approach to be developed within Victoria, particularly during the global financial crisis and tough economic times.

As an example, under the current VIPP guidelines only the short-listed bidders have to seek ICN certification of their VIPP plans. The VIPP plans detail the percentage of local content, the number of jobs created and technology transfer and how the contract is going to achieve these in practice. To ensure that the government reinforces its commitment to local content, ICN is proposing that all tender bids develop a summary of the VIPP plan providing the three key elements: the percentage of local content, the number of jobs created and planned skills and technology transfer. This information would be captured on ICN’s database to ensure that ICN and the government have an appreciation of the local content for all types of projects and where the government agency only short-lists fully imported bids with no local content.

A second point is regarding the full, fair and reasonable opportunity to participate. Quite often, government procurement documents contain technical specifications relating to international products or specify international standards, thereby excluding Australian industry involvement. This has recently surfaced during the Federal Government’s Building the Education Revolution stimulus package where imported products were specified by the project architects, even though there are equivalent Australian products. Under these circumstances the builders just comply with the specified product, to the detriment of our local manufacturers.

An order to have the local product submitted and approved by the project architect is a significant step and one that builders normally do not have the necessary time or resources to follow. It also applies to projects where an international company wins a contract, for example, Victoria’s trains and trams where the main contractor specifies international standards or international manufactured components. ICN has been involved in trying to maximise local manufacturing opportunities for Victoria’s imported trains and trams since 2001.

The Government has recently released an expression of interest for another 50 trams and some other upgrades of facilities, which closes on the 20 August. ICN is aware from the Government’s transport plan that a significant number of trains and trams have to be purchased in the future due to patronage growth and the retirement of the vehicle fleet. The manner in which Government talks to industry through these types of documents determines the strategies that industry must put in place to be competitive. If we discuss 50 trams in the marketplace then we believe they will be fully imported from the overseas production lines. However, if we discuss the planning

requirements for over 250 trams then this brings a different emphasis into local manufacturing, maintenance, support and spare parts over the life of the vehicle.

This raises the issue of how the Government should present these opportunities to industry. The Department of Transport is only focused on securing the best trams on a value-for-money principle. They do not consider the impact that can have on local manufacturers or the impact they have on the attitude of the overseas companies in establishing facilities or investment in Victoria. The opportunity for the 50 trams is further complicated by the fact that if the trams are manufactured overseas, Victorian companies may be obligated to establish a plant overseas to be near the tram OEM or to compete using the low-cost manufacturing countries.

Technology roadmapping may provide the government with a suitable mechanism to explore the future manufacturing activities to be undertaken in Victoria that provide economic value, including jobs, investment, skilling and innovative technology for the state. Establishing the key industry sectors within the state and providing the appropriate policies around these sectors would assist industry to determine the commercial opportunity, the level of investment required and the ability to make and secure profits. For example, if the government publicly stated that it intended to establish a tram manufacturing centre in Victoria with a requirement of over 250 trams over a period of, say, 10 or 20 years, this would have the potential to attract international players to invest. This compares very differently to purchasing 50 trams over five years.

This leads to the next point of how governments are able to spend money to capture footloose investments or major sporting activities due to the economic benefit derived by the state. When the government undertakes a procurement activity, price is the predominant determinant, with no real mechanism to identify the economic value to the state. There should be a similar economic calculation undertaken on projects involving Victorian manufacturing to ensure that either the specific capability or industry sector capability resides within the state to sustain the ongoing viability of that sector.

There may be in certain sectors or specific industry manufacturing capability an economic imperative to ensure that the government pays additional money to retain the skill or capability within that state. This is the case with the automotive sector, however it is not reflected in other manufacturing sectors. Again, a combination of technology road mapping in an economic benefit calculations may be required to determine the best outcomes. In a number of market segments Victorian manufacturers are being encouraged to take their high-volume, low-technology manufacturing activities offshore to low-cost countries to remain competitive.

This can enable them to retain the high value-added activities in the country to be able to bid for other work. The government may wish to consider how they could support industry to develop these overseas partnerships to ensure the retention of IP, quality and delivery of product on time. On one overseas trade mission to Europe that I was involved in the participants attended the Bombardier top 100 suppliers day in Berlin. Bombardier insisted that all component suppliers use low-cost country manufacturers to be able to reduce their supply cost to them. Again, their policy was determining the location of the manufacturing base.

In order to cover your question, Bruce, the focus of ICN traditionally was with the small-to-medium manufacturing companies, and because of the return on investments required under our contract agreements we found that we were getting better return out of project-based activities. A couple of years ago this was identified by both the board and the Government, and we commenced what we call the Buy Local program.

Under the Buy Local program one of our consultants is required to visit up to 400 manufacturing companies per year with the view of linking in with them, finding out what they import and how we can assist them to maximise local companies. That is a key program we are running right at this point in time, and, as I said, we have a dedicated resource to undertake that activity because of that recognised development to projects.

Ms THOMSON — Can I just clarify that point? You are saying that the contracted person goes to 400 manufacturing companies per year, encouraging them to buy local, or use local in the production of their own manufacturing.

Mr YATES — Yes.

Mr ATKINSON — Identifying import replacement opportunities?

Mr YATES — Correct.

Ms THOMSON — In their own manufacturing chain?

Mr YATES — Correct. And to also market our services to them. Part of our activities is also to look at the international scene.

Ms THOMSON — How long has that been the practice?

Mr YATES — That has been the practice over the past three years; this is our third year of the current program.

In summary, we believe that the Government can set the framework and the policies that determine whether a business decides to manufacture locally or move offshore. This framework should be based on technology roadmapping and economic benefit to the state. It can be reflected into the government tendering process and put into practice through the Victorian Industry Participation Policy.

Mr ATKINSON — Fantastic. You are actually in a very unique position as an organisation to have a perspective on the manufacturing industry. You have really got a bird's eye view that many others do not have, and an objective view, I suppose, which is also important. I guess the first thing would be to understand some of the impediments to manufacturing in Victoria that are brought to you in those discussions you have with manufacturers. What do you see as the constraints to manufacturing in Victoria, or the capacity threats, if you like, for our manufacturing sector?

Mr YATES — Maybe if I can kick off on capacity: going back to when we were having the mining boom, capacity was being put forward as a reason for the internationals particularly to buy offshore. We were finding that what we were being asked to do was capacity mapping and that particularly became prevalent in Western Australia and Queensland, but we found that we had the resources here that could supplement that. Certainly with the downturn in the economy, that is not an issue now. In actual fact people, as you are probably aware, are down to four days a week which is a common trend as we speak.

Mr ATKINSON — I would just like to talk about some of those constraints that the manufacturing sector has. I do not want to lead you in this because I am more interested in what you say rather than what I say, but one of the areas in which we have had some evidence led is about a perception that is afoot that the manufacturing industry in Victoria or Australia is dead — that it is a dead duck — and how that impacts on financier attitudes, venture capital, superannuation funds, banks and other investors and so forth in terms of them providing the money to develop new technology, expand manufacturing opportunities or create new manufacturing opportunities, and whether or not there is a reluctance because they think —

Ms THOMSON — Access to finance from capital is just generally your question, isn't it?

Mr ATKINSON — It is.

Mr PALLANT — Manufacturing is viewed as a low-margin operation so investors are difficult to find. Venture capitalists in Australia do not really exist. It is a bit of a misnomer. Venture capitalists call themselves venture capitalists, but they are really just banks and are very

risk averse, so it is very difficult for companies to get people to invest in new technologies. Peter's reference to technology roadmapping is one way that we believe that we can look very seriously at long-term viability. The technology roadmapping we are looking at here is taking a look over 5, 10, 15 years at what has happened with technologies and making some tough decisions on which manufacturing sectors we can participate in into the future.

There are two international ways of looking at this. The Americans just have market forces define what is going to happen, but Scandinavian companies in particular have quite a strong policy of government intervention in undertaking this sort of exercise and analysing which are potential winners in terms of industry sectors and which are not. For the ones that are not, they take an active role in making sure that people can be retrained to move into sectors that are viable.

There is no doubt in my mind that traditional manufacturing in some areas is probably not going to survive very much longer. Some of the traditional metal bashing, casting and those low-tech areas that are suffering from very strong import pressure are maybe not going to be around, and maybe there is a role for government to really look very seriously at how people in those industries can be rechannelled into something else. There is downward pressure on some industries. Some industries are very successful because they have found niches and they have found they can compete. If you find the six things that China does well and you can do the opposite, then you have got yourself a market.

Mr YATES — I was just going to say that one of the things I have noticed over the past few years — I have been in ICN for 13 years — is that the smarter companies have been taking their low-cost, high-volume manufacturing offshore. They did that in order to remain competitive. But it is also I think a reflection in some of our decisions from a government side that manufacturing is dying, and as a consequence they cannot supply product on time or to delivery and to the right quality. I think that is a misnomer. I think there is a very strong manufacturing base there. They are being definitely smarter about the way in which they carry out their business. I also believe there are financial pressures on them, and sometimes I think that can come about because of mismanagement. There are lots of companies out there that are not really smart in that.

But there is the program called Enterprise Connect. That is a federal government program which is there to help companies to manage that side of the deal.

Of course the government has put together the industry transition fund, and I think that program is being fairly well heavily used now in terms of getting companies into that transition period, which I think is a good program that should be continued. But certainly dollars are tight; there is the question about that.

Ms THOMSON — I have got lots of questions. I will start with the key industries sectors work, and that has been done by numerous federal governments and by state governments, year in and year out. As a matter of fact we currently work under an industry program that targets certain industries for more assistance, and others are left to basically fend for themselves. We have an export policy which does work and lends itself towards working with companies about partnering and finding opportunities to partner with companies offshore to make them more viable for contracts both here in Australia and offshore.

My issue is a lot of your focus has been about the government agenda, and I can understand why. But when you give your example of the architect specifications, this is a problem that exists right across the board in relation to whether or not the person who is drawing up the specifications has a bias towards product rather than specifications — what a product is capable of doing — and thus drawing up the contract. That is both going across government and private sector.

So I am interested in broadening the base to an attitudinal situation where we have private architects actually specifying in contractual arrangements specific product, product-specific, rather than functionality or in the specifications and issues around that and whether you see that as being

an area that is more able to be addressed rather than some of the bigger chunks. So we stage a change of attitude incrementally rather than by big-bang theory. I just wondered what your thoughts are in relation to that?

Mr PALLANT — One of the difficulties with specific technology requirements is that you incur much greater costs in your procurement if you are going to say, ‘I want a product that does X, Y. and Z’, rather than performance specifications, saying, ‘I want this particular outcome’. A classic example of this is New South Wales rail where they are very strong on specifying the actual product that they want and what they want it to do, and it turns out to be quite an expensive product.

That is rather than do what is done in Victoria here, where they say, ‘I want a train that is going to take so many passengers in such-and-such a time’. So there is a bit of a trade-off there, and how you make people more conscious of doing that — —

Ms THOMSON — There are a number of issues now in construction, more than in train manufacturing and those sorts of issues, in actual construction of buildings where specifications are made by product rather than by output. Are there grounds there for some changes? I am grateful to think Victoria is doing it better than New South Wales, but the issue is whether or not on some of those contractual arrangements what work could be done with the architects, I guess?

Because none of us — I am not an expert — but the notion is you do rely on your experts to draw up those specifications and understand what they are doing. What work could you see as possibly being done? I note that you are working with manufacturing industries, but should we be looking to ICN actively working with those who draw up the contracts? What work could government and other agencies be doing in actually working with those who actually draw up the specifications to give a wider scoping?

Mr YATES — It is an interesting question. I spent two years down at Colonial Stadium, the building down there, or Telstra Dome, or Etihad Stadium as it is now. It was very interesting because the architects and interior designers tended to want to design a room which would get them into an international magazine. They wanted to have that flair, that dimension, that — —

Mr PALLANT — Pizzazz.

Mr YATES — Yes, the pizzazz that would give them that. They were not particularly fazed about where that product came from in that they never considered Australian content over and above anything else. They were more interested in the look and the feel of the room. There was a different dynamic taking place. They are not just looking at it from a purely functional perspective as an engineer would; they are looking at the look and feel of the thing from the whole room perspective.

Ms THOMSON — I do not have a problem with that.

Mr YATES — No, but that is what it is. So as a consequence, if you have got a whole range of products and brochures in front of you, then that is what you are going to be looking at doing; you are going to be looking at selecting that product that looks best and for the feel of that room, rather than looking purely at the Australian content. We have had discussions with architects. It is a very good question; I do not know how to solve that one.

Mr PALLANT — One of the problems we have is actually getting in at that very early stage of the project. It is one we have been grappling with for years; how do we get to the people doing the design at the very front end, because often our involvement does not come until the project is actually — —

Mr YATES — But you would have thought from a school project that the functionality is the key element. It is not the look and feel of it in a school environment; it is to make sure that the

lock or the hinge or just the simple things are going to work a hundred thousand times rather than ‘That looks really great’ and it falls over in two weeks. It is that question.

Mr PALLANT — But you know the little anecdote — the one we had with the department block, where the architect said, ‘If we design Australian toilets in here instead of Italian toilets, we will never sell the place. We are going to the top end of the market with this apartment block, we need something that will sell. We need a selling point. That is the important — — ‘

Ms THOMSON — So in truth what you are saying is, although the attitudes of government to manufacturing — and you have got to say that the Victorian Government’s attitude towards manufacturing has been a strong one; about domestic manufacturing, and the Federal Government likewise — the issue is the attitudinal one of the private sector that actually tenders the contracts.

Mr PALLANT — Commercial.

Ms THOMSON — Yes. The challenge I am going to put to you is what is the kind of work that could be done with the sectors that could actually initiate the contracts and actually opens it up so that Victorian companies and Australian companies can more readily compete. Because the point is if they are closed off before they can even enter the market, then it does not matter what the government has put in place, they are closed out.

The other issue I wanted to raise too — I have left you with that challenge because I do not think you have got an immediate answer, but come back to us with one if you do — is in relation to the way that you tend to go out to the manufacturing industry in relation to the chain. In covering the 400 a year, which sounds like a lot of companies, how much of it would be repeat business — going back to the same company?

Mr YATES — We undertake from a company perspective around 2500 industry visits a year. That is just through our normal course of action of having an inquiry and then going to find us an Australian company that can manufacture that product. This person is specifically focused in terms of going out but not undertaking effectively the inquiry and solving the inquiry — that person brings it back into the office. He has to do on average between 20 and 50 company visits a week, which is a lot.

Mr PALLANT — But he would get requests from companies he has previously visited to come back and talk to them again about some new situations. Yes, there is an element of repeat business.

Ms THOMSON — How do you source the companies that can supply? How do you find them?

Mr YATES — We have a national database of over 40 000 companies, and in Victoria we have got a database of about 7500 companies. And every time that we undertake an industry visit or an inquiry what we do is we add that company to our database. But of course in today’s age there is Google, there is the *White Pages*, there is the *Yellow Pages* — —

Mr PALLANT — The telephone.

Mr YATES — The telephone — we use every resource we can.

Mr PALLANT — Word of mouth.

Mr YATES — And our consultants have an industry knowledge in the sector.

Mr ATKINSON — I am interested in the issue of identifying opportunities and companies understanding opportunities, both in terms of what the initial opportunity is and the processes by which they can get a piece of that action. Is there a role for industry groups in that? Or are they simply doing other work? Do they have the expertise as such, or could they have the expertise?

What other initiatives could be taken to skill up organisations to identify opportunities or to participate more in the tender processes and so forth.

Mr PALLANT — Some industry groups are quite proactive in getting their members to try to network and exchange. I personally have not seen a great deal of take-up, which is interesting because you would think that companies would embrace that. There must be a role here to be able to help companies do this, but we certainly find often that our people will go out and see situations that will lead to inquiries that the company cannot see itself. A classic example is someone will go out — and this happened — and talk to a company, and in the course of the conversation the company said it was expanding.

Our guy said to them, ‘What are you doing? He said, ‘We putting up a big building, blah, blah, blah’. He then said, ‘Where are you getting your cranes from?’. He said, ‘We hadn’t thought about that’. He was just going to go where he got them last time. Our guy said, ‘Have you thought of going to such and such?’. He was a local crane manufacturer, and that is how that opportunity arose, but the company itself was not focused on that in its first thought. How do you educate them? I do not know; that is something we have been grappling with for 25 years, I guess.

Mr YATES — I was going to say that one of the things we are being very conscious of at the moment is how to best get the opportunities to industry. We do run a program called Project Gateway on our website, where we list the major projects and all the opportunities; you can go and register your interest. We also run a program called Regional Industry Link.

We have just had an announcement by Minister Allan that that will be expanded across Victoria. That is all about engaging the local community and getting the opportunities on a website. People can come in and register their interest on that website. There is a linking mechanism so you get an email. If you say that you are a chair manufacturer and a chair opportunity comes up, you will get an email which says, ‘Peter, jump on the website and go and have a look at that opportunity’. That has come through the Commonwealth Games program that we ran here.

We are very conscious of how to get those opportunities across. The point that I would make about the associations is that they tend to be — and rightfully so — looking after their membership. So their opportunities would be focused on their members, whereas we try to get it across the whole industry sector. That has been the challenge for us. How to keep those opportunities up-to-date and relevant for industry and how to educate the companies to get in and respond to those opportunities is another challenge. Hopefully through the Enterprise Connect program we are lifting them.

I particularly found this down at the Etihad Stadium project. Baulderstone Hornibrook were the builders. They used to put out documents this thick, so the smaller-type manufacturers just did not know how to approach that type of documentation. I was able to assist them in getting into that project. It is the challenge of how we educate our SMEs to take that step and get into the major projects.

Ms THOMSON — That is the point I want to go to now. We have a whole lot of SMEs doing niche manufacturing, and they are producing high-quality products. They are not necessarily great businesspeople but produce a high-quality product.

Mr YATES — Correct.

Ms THOMSON — I have got an issue too — you mentioned the VIPP and having all those who tender actually supplying a local content component. The issue I have in relation to that is how much of an additional burden are we putting on companies that wish to bid and how many would then not bid because of the additional burden we are putting on them in the paper warfare process, particularly if they are relatively small companies?

I guess the issue is what is the balance between what changes you think the new VIPP will make to the potential for increased content around the VIPP. Also, my last question — and if you have got an answer to this you will be the first one who has, because as a small business minister I could not get it — is how you can really assist businesses in actually skilling up their business practice skills and, in the true sense of the word, their entrepreneurial skills.

Mr YATES — Maybe I will go first. There is a balance, you are right, in terms of the bureaucratic processes. What I am proposing is that we ask for three pieces of information only at the first stage — that is, purely the percentage of local content, the number of jobs, and the skills and technology transfer.

When you prepare and submit a bid you need to know those figures, you actually need to determine where they are in order to prepare the bid. So I believe that there is actually no additional activity that they need to do, apart from fill out three pieces of information.

What it does do, though, is it does focus their thoughts in terms of how they are going to engage local industry and what skills and technology they are going to be bringing to the table. If you do not ask the question, they will not worry about it. I have been on both sides of the fence, and if you were not asked for it, you will not deliver it, there is no question about that. So I believe it is not a very big impost on the company; it is very easy to do.

What my concern is — when it gets to the agency, if you have say 10 bidders and the agency short-lists, at the time of short-listing they actually have no VIPP information. At the time of short-listing there is no requirement for them to have any data on local content percentages, and if they short-list the predominant determiners would be pricing structure and fit for purpose, and they might short-list down to three companies that are providing a fully imported solution.

When we become involved to look at local content, they could be all fully imported activities, so the local content on that project is zero because we have got no visibility of what took place prior. My theory is that the government, or the agency, cannot short-list without local content, because that should be a determinant.

Ms THOMSON — A key criteria.

Mr YATES — A key criteria, but how can it be a key criteria if no information is being passed to the agency in the determination? There could be a very good opportunity for a particular project — whatever — to have the local content and have 100 per cent local content which is dismissed because it is never considered, particularly when it gets to the short-listing phase. I am suggesting that the three key elements should be put in; this would be easy for the company.

Particularly for an SME — that is a major selling point for them, it is a major marketing point for our local manufacturers, which in theory is being dismissed by the agency. The company should see it as a benefit; and one of the things I have found in my experience with ICN, is that we, the Victorian SMEs, are very bad at marketing and very bad at getting that sales message across to the agencies. It should be a major selling point.

Rather than a detriment to them, they should see it as an absolute positive to get in there and say we are 100 per cent Victorian, we can do it totally locally. There are some added advantages to the government in terms of all of the taxation and the offset costs related to that activity, plus not only the schools and technology involvement. I see it as a positive and an opportunity, rather than a detriment to them putting forward a bid.

Mr PALLANT — The other relevant thing here is you are talking about SME — small and medium. With the thresholds on VIPP at \$3 million, it is usually a medium, at least, that is a prime contractor that has to do a proper plan. Small businesses are only required to make a statement, so it is not a large impost on them. It would be unusual for the smalls to be a prime contractor for anything over \$3 million.

Ms THOMSON — I thought those basics had to be provided but were not looked at in the initial stages?

Mr YATES — No, there is no requirement.

Ms THOMSON — And under the new VIPP?

Mr YATES — The new VIPP I think is a significant change. The original VIPP was a tie-breaker, and under those VIPP requirements the second envelope was only ever opened if the two bids were within 5 per cent of one another. In theory I think they were opened either two or three times across a year in making a determination of who won the contracts, so effectively it did not really work.

The new program requiring it to be a mandatory criterion is a very positive impact in my mind. Because the program only started on 1 July, we are very new into this, as you can appreciate, so we do not have a lot of statistical evidence. But certainly, and I will ask Dave to comment because he is running the program, we have had inquiries from agencies and organisations we did not even know existed. To me that is all for the good of Victoria, because suddenly people are taking an active interest in what is available locally. It also asked that question, and in all my dealings with SMEs they do not mind losing the job provided they have been given the opportunity to bid. When they are not given that opportunity that is when they really complain. I think rightfully so too.

Mr PALLANT — As Peter said, we have not got much empirical evidence at this stage. But there is no question in my mind that the government agencies are taking a much fresher look at VIPP, what it means and how to work with it. There are still a few that are saying there is an impost, it is difficult and it is going to put an extra burden on the contractors, but by and large people are embracing it far more than they were under the old system.

Ms THOMSON — Good.

Mr PALLANT — Which would indicate that it is going to be much more successful obviously down the track.

Mr YATES — We are capturing every piece of information we can at the moment, just because we do not exactly know what our reporting mechanism is back to government. But we are certainly trying to capture that and make sure we can capture all of our — —

Mr PALLANT — Can I just answer your last question — the one where you said, ‘How do you get companies to be more astute in their marketing et cetera’?. Peter referred to this Enterprise Connect program. It is aimed at doing just that.

Ms THOMSON — I know, and we have — —

Mr ATKINSON — We have got a time issue. In regard to grants, in other evidence we have had led on other days we have had a lot of talk about the need for additional government grants, subsidies and support packages. I am sort of interested in whether they are a help or a hindrance in some of these areas. You mentioned the auto industry and that there were assistance packages there. We have had other companies, some of them have had exposure to the auto industry, which have re-engineered, restructured, diversified and started to evolve into other areas and said, ‘The auto industry, if we stayed there we would be getting support packages. We have moved into these other areas — medical, aviation or whatever — and we are not getting support packages’. What is your perspective of those packages in response to that sort of evidence we have had led?

Mr PALLANT — What does tend to happen is that — and this is government philosophy — government tries to help as many people as possible. Grants tend to end up being quite small value. The feedback we get from industry is quite often that there is not enough money in the

grants to actually provide any real assistance. The actual governance that goes with reporting makes it not worthwhile. So it is a real trade-off. There are some programs around that are very valuable but they are expensive; they cost a lot of money. They do not get across an awful lot of companies because they are very focused. So you have this trade-off between lots of little stuff which is maybe ineffective and maybe some bigger programs that might be more effective.

Mr YATES — But this is where the technology road mapping thing comes into play, because you are actually determining where you want to be. I know that is almost like picking winners, but it is a very difficult one. Of course governments are always in a lose-lose situation. The moment I move out of a sector of automotive, which gets that support, I move into a medical sector, which does not yet support. That is a tough one that one.

Mr PALLANT — We are a small economy. Market forces will not be of benefit to us really.

Mr ATKINSON — The other one that people have mentioned previously is skills and skill shortages. There are quite a range of programs that are designed to try to improve our skills base. What is your perspective on the skill shortages impacting on our capacity to actually participate in manufacturing?

Mr PALLANT — There is no question that it is impacting on us. In fact we talk to manufacturers who have off-shore facilities who say to us, 'It is just so easy to get people off shore; it is so difficult here'. So there is an impact, I am sure.

Mr YATES — I think that that is less than due to the global financial crisis, so that has eased off a little bit now.

Mr PALLANT — But the skills are still there — the unique sorts of skills that some companies need, and they can be very difficult to find. Training those people is a long process; they are very skilled.

Mr ATKINSON — The management of manufacturing companies or the changeover, if you like, of ownership — and it goes back to Marsha's question about management skills and again it is based on evidence led the other day — a lot of the people who have been part of our management base in manufacturing are effectively looking to exit the industry in the fairly short term. They are older people who have started businesses and built those businesses up. They are looking towards retirement. Where are we at in terms of ownership change in those businesses? Is that being facilitated by finance availability to allow trade sales, to allow management buyouts, to allow manage family succession? Where are we at, and are there opportunities that we should be exploring to actually get in and boost those management skills as part of that process?

Mr YATES — There certainly is. I think we have probably been saved by the global financial crisis, because a lot of the people who were looking to exit right at the moment have looked at their superannuation and seen the figures dropping down. I think that is a critical issue. I certainly see from where I sit that the number of people of my age who were looking to get out have said, 'No, we need to work for another couple of years'. I think the timing is right that we need to get in there and stimulate that activity.

Mr PALLANT — I was going to mention the groundswell of older, privately owned companies, of people who are going to get out. I think that is coming down the pipe and is going to hurt us badly. These companies do not know even know how to value their own IP in a lot of cases. They do not even know what they have got to sell. There is a huge gap there. Our SMEs have traditionally got into management because they have had to, not because they are trained to. That is our generation I am talking about, not so much the younger generation. There will be a big gap when all those people disappear out of it.

Mr ATKINSON — Just the last one in terms of our terms of reference that we have also been exploring in the hearings — and in fact the chairperson, Christine, has explored it in a number of

previous sessions — is where we have been able to bring production home. Effectively manufacturers have gone offshore for production, be it by contracting out or maybe even through their own operations offshore, but they have actually come back to Victoria. Are there trend issues in that? Are there opportunities, are there observations that you could make in terms of that terms of reference, of where we are at with the manufacturing sector?

Mr YATES — No. The only thing I have found is that they are more likely to go offshore rather than bring it back here.

Mr PALLANT — I am not aware of any.

Mr YATES — As I said, it is also that the internationals are forcing them offshore through their policies.

The CHAIR — Do you mean international finance?

Mr PALLANT — No, the international buyers.

Ms THOMSON — The big manufacturers who you might contract with.

Mr PALLANT — Yes, they are saying to companies, ‘I want to see where your low-cost manufacturing element is in whatever I buy, because if you have not got it, you must be too expensive’.

Mr ATKINSON — Can we thank you for your participation this morning. As I indicated, a transcript will come to you within a fortnight. I am sure you have done this before. You will have an opportunity to correct any typing errors or suchlike but not matters of substance. The Committee would hope, too, that if there are some other issues that we come across as we proceed with this inquiry, that we would be able to come back to you and gain some responses.

Ms THOMSON — Or you proactively come to us.

Mr ATKINSON — Yes, because, as I said, you have a unique perspective which is valued by us, and we would appreciate that dialogue, if that was possible, in the course of the inquiry.

Mr YATES — Absolutely; we are only too happy to help

Mr ATKINSON — Thank you very much.

Witnesses withdrew.