

**ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE**

**Inquiry into Manufacturing in Victoria**

Melbourne — 18 August 2009

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Witnesses

Mr M. Brockhoff, Managing Director, and

Mr S. McMurtrie, Group Marketing Manager, MaxiTRANS Industries Pty Ltd.

**The CHAIR** — I welcome Mr Michael Brockhoff and Mr Stuart McMurtrie to this all-party parliamentary hearing which is gathering evidence today on the Inquiry into Manufacturing in Victoria. All evidence taken at the hearing is protected by parliamentary privilege, but any comment you make outside the hearing is not afforded such privilege. Could you each please state your name, your position, whether you are appearing in a private or business capacity and the address of the business?

**Mr BROCKHOFF** — I am Michael Brockhoff. I am Managing Director of MaxiTRANS Industries Pty Ltd. Our address is 346 Boundary Road, Derrimut, and I am representing the company.

**Mr McMURTRIE** — I am Stuart McMurtrie, Group Marketing Manager, MaxiTRANS Industries, 346 Boundary Road, Derrimut, representing the company.

**The CHAIR** — Thank you. It is over to you. You have up to 15 minutes for any comments you would like to make, and then we will ask questions.

**Mr BROCKHOFF** — Thank you very much. I thought I might just remind the Committee just what MaxiTRANS is. We are the only publicly listed manufacturer of semitrailers in Australia, and we are the largest operator in every category that we manufacture. We employ about 650 people in Victoria across four factories, and the largest of those is located in regional Victoria, in Ballarat. It is important to understand in discussing this issue today that our industry is already under very severe import competition. We believe we operate in an international marketplace where our competitors enjoy significant financial and tax incentives, and I am not talking about labour or rates either. So we do not believe there is any such thing as a level playing field or free trade.

The other thing is that during the global financial crisis our business was very severely impacted, and we are a cyclical company. I need to point that out because flexibility of labour is very important to us. Our profits have been down 75 per cent, and I will not go into any more detail because we are due to announce our results on Friday.

We had to let go 300 employees. We had to implement a capex freeze. We implemented a salary freeze where the directors and senior management also took a 10 per cent salary decrease. Before the GFC we were the third largest employer in Ballarat of apprentices. We did that I suppose for three reasons — one is, we think it is good for the company because we have an enormous skill shortage that we are trying to deal with; we think it is very good for the community; and we think it is very good for youth generally. In presenting this submission to you today we have not come to ask for tax reductions because we think that is a little bit naive, but we believe they need to be restructured so we can continue to be internationally competitive and stay here in Australia or Victoria.

I might just go to my submission and talk about some of the aspects of that. The first point I would like to make is that we believe there needs to be a restructure in the way business is taxed, and that taxes need to be changed from input taxes to consumption taxes. I know it is controversial and probably very hard to get up, but input taxes, such as payroll tax, are a huge disincentive to employing labour. When we try to compete with overseas countries who have low labour rates, it makes it very hard. The other thing is that we have enormous skill shortages in our industry.

**The CHAIR** — Can you specify what areas?

**Mr BROCKHOFF** — Skills? Welder-fabricators is the area. We have brought in approximately 40 Chinese welders who are very highly skilled. That was the short-term fix. The long-term fix was to increase our apprenticeship program. At one stage the company had about 80 apprentices, about 8 per cent of its workforce as apprentices, to try to fix that. But the cost is just too great.

We believe that payroll tax and PAYE tax on apprentices should be removed, to really give industry some incentive to start engaging them again. It costs our company over \$21 000 a year to have an apprentice on its books. In Victoria last year, when we had about 31, it cost us over \$600 000 off our bottom line to have apprentices going through the company. I think that is generally an unsustainable cost.

**Mr ATKINSON** — Is that a training cost or is that an apprentice cost? In so much as there are also bodies and they are productive, albeit not as productive as a fully trained person, and the fully trained person would have to be paid.

**Mr BROCKHOFF** — I am not talking about their pay.

**Mr ATKINSON** — Is the \$600 000 above and beyond that?

**Mr BROCKHOFF** — I am talking about the disadvantage of them, not their absolute pay. The cost of block training, which might suit TAFEs, certainly does not suit us because we end up having to pay our permanent employees overtime. For 31 employees we are spending \$370 000 on overtime to cover them when they are away at training. There is the cost of mentoring — we estimate that about 10 per cent of our tradesmen's time is on mentoring; and the cost of inefficiency through their inexperience. We estimate that is about 10 per cent. Again, for 31 apprentices we think it is about a \$650 000 cost.

**Mr ATKINSON** — Exclusive of their wages and employee entitlements?

**Mr BROCKHOFF** — Exactly, yes. It is a very big cost to the company.

**The CHAIR** — But that could not be eliminated? You could not eliminate the mentoring, you could not eliminate the inefficiency — —

**Mr BROCKHOFF** — No, what I am saying is — —

**Ms THOMSON** — Nor the training?

**Mr BROCKHOFF** — No, you cannot, and we do not want that. But block training is a very unsuitable structure for companies and it needs to be spread out again. We are happy to work with it, but it is too hard to get apprentices or young kids interested in apprenticeships these days, and the fall-out rate is very high. So I think there needs to be greater financial incentive for both the company and the individual to have a go.

**The CHAIR** — All right. Perhaps we can take that up and explore it a little more in questions.

**Mr BROCKHOFF** — We are also, in Australia, significantly disadvantaged in our business in raw material inputs. We are paying, in Australia, 46 per cent more for our flat-plate steel than we can buy it for overseas on a comparative basis.

**Ms THOMSON** — Australian steel you are buying back.

**Mr BROCKHOFF** — Thank you for reminding me. That ends up being an over \$3.5 million cost to us operating our factories in Australia.

**The CHAIR** — Sorry, we can ask questions at the end, but it is probably simpler to ask them as we go through.

**Mr BROCKHOFF** — No problem.

**The CHAIR** — Why is it 46 per cent higher?

**Mr BROCKHOFF** — I am not sure of why it is 46 per cent, but the reality is: it is. If I buy it locally from a local manufacturer — —

**The CHAIR** — Say, BlueScope?

**Mr BROCKHOFF** — Companies such as that, or — —

**The CHAIR** — You are under parliamentary privilege.

**Mr BROCKHOFF** — Okay, BlueScope or OneSteel. Or if I go and buy it from a reseller in China, I have a 46 per cent comparative difference. Admittedly, I have to ship it here, but again it is a — —

**Ms THOMSON** — That is without the shipping costs?

**Mr BROCKHOFF** — Yes, but again my competition in manufacturing trailers in China has a very distinct advantage in cost. I am not talking about the tax rebates they get offered for exports as well; that is a very significant issue to us.

**The CHAIR** — How would a state parliamentary inquiry address that? I do not know that we can.

**Ms THOMSON** — No, but it is an issue. Has the global financial crisis seen the price come down?

**Mr BROCKHOFF** — Yes, it has.

**The CHAIR** — In Australia?

**Mr BROCKHOFF** — Quite significantly, yes.

**Ms THOMSON** — Yes, because Western Australia and Queensland were taking up the steel for mining industry stuff.

**Mr BROCKHOFF** — I am not saying the issue can be dealt with here.

**The CHAIR** — No, but you are flagging it.

**Mr BROCKHOFF** — What I am trying to point out is that our competitive cost structure has to be understood very clearly by government, and that is why we would like to see changes from input taxes to consumption taxes. You cannot tax them for their inputs, but certainly the consumer at this end can be taxed. The same goes for proposed carbon taxes. We are very nervous as a company about the future cost of power for our manufacturing in Victoria. That is without talking about the unreliability of infrastructure in itself.

**Ms THOMSON** — Who supplies your power?

**Mr BROCKHOFF** — To be quite honest, I cannot tell you; a number of different organisations.

**Ms THOMSON** — I just noticed that you mentioned power issues.

**Mr McMURTRIE** — I have the name in here. If you really want it, I will just look it up. In Ballarat it is Powercor; in some of the other sites there are different companies.

**Ms THOMSON** — I noticed in your submission you talked about power outages being an issue for you.

**Mr BROCKHOFF** — Yes.

**Ms THOMSON** — Has that been in a specific location or has it been across the board?

**Mr BROCKHOFF** — We have had power outages in both our manufacturing areas, which are Ballarat and the Dandenong area. It is not necessarily the outage per se; it is the risk of the outage and the level of concern we have about the potential risk. From our perspective it is an unreliable infrastructure, so much so that we have had to buy our own generation capacity at Ballarat. We have it in one of our factories in Melbourne, and we will probably have to put it in two other factories in Melbourne. It is a very inefficient use of funds to have something there that may be needed only occasionally.

The same goes with water. I know it is a state and national issue, but the reality is that the lack of water in regional centres has caused us a lot of inefficiency in bringing equipment that has been manufactured to Melbourne, to clean it before we can sell it, because it is food-grade vehicles. So infrastructure is a real issue to us.

Also the quality of the regional education program, the TAFE system, does not meet our needs. It is underfunded and it is old-fashioned in that the people who teach the courses are not dealing with current issues.

**Ms THOMSON** — Is that pre the new announced scheme?

**Mr BROCKHOFF** — That is what we have been living with, so it is pre the new announced scheme, yes.

**Ms THOMSON** — And you have not had a chance to trial the new one yet because it is not in place.

**Mr BROCKHOFF** — No, not yet. We believe Victoria, as the manufacturing heartland of Australia, should have a university of excellence. I know there has been a recent announcement about the manufacturing excellence in Ballarat, but I think that is, crudely, no more than a glorified TAFE. If Victoria is going to stay at the forefront of manufacturing, it should have a dedicated university that is absolutely world class. We do not see that. It needs something that is high quality and dedicated.

**The CHAIR** — I am thinking of asking probably the same question; go on.

**Ms THOMSON** — What would be the subjects within that university that you think would single it out from degree courses that are already offered? And how does it fit with Victoria University, which has a TAFE and university system so you can actually follow through from TAFE into a degree course in any of those fields? I think Swinburne probably does the same. Can you just go through with us what you would see as being the difference?

**Mr BROCKHOFF** — We think it has to be an integrated approach, not subject by subject — everything from logistics to MRP planning to production efficiency on the shop floor.

**The CHAIR** — MRP?

**Mr BROCKHOFF** — Manufacturing resource planning. Also engineering — I know it is taught everywhere, but it is not in an integrated package back to manufacturing. Those sorts of things need all tying together into one centre of excellence. At the moment they are all over the place.

**The CHAIR** — Have you got a recommendation on whether any of the current universities or sites are pretty close to the mark of what you want?

**Mr BROCKHOFF** — We do not think any of them are.

**The CHAIR** — Did RMIT in bygone decades attend to what you now think is needed?

**Mr BROCKHOFF** — I am not sure I can answer that, to be honest.

**Ms THOMSON** — Have you had any recent discussions with any of the universities, particularly with RMIT, Swinburne and VU, which have what they now call their pathway courses, which actually take you through to degrees.

**Mr BROCKHOFF** — We work with Ballarat University and Monash University on various projects, R and D things, but we have not had any, what I would call, holistically integrated discussions with the university. We think that is the bit that is missing.

**The CHAIR** — So you do not want a new university, you want a component within an existing university?

**Mr BROCKHOFF** — Ideally I think it is big enough and important enough for Victoria to have one.

**The CHAIR** — Do you?

**Mr BROCKHOFF** — But realistically that is probably not possible. There needs to be someone very serious about pulling it together.

**Ms THOMSON** — Would you put business skills in there as well?

**Mr BROCKHOFF** — Absolutely, yes. Quality standards — we suffer from import competition where our own product is copied and then brought back into Australia. It does not have to meet Australian welding standards, which we find very frustrating because our products do. We also have the other ludicrous situation in Australia where after-market parts for cars and trucks do not have to meet the Australian design rule standards.

**The CHAIR** — If you were writing the report, what recommendation would you make in regard to quality standards? If Australia has got welding standards now, if there is a vehicle that is being registered, for argument's sake, should there be a requirement that Australian welding standards be applied prior to registration?

**Mr BROCKHOFF** — Absolutely.

**The CHAIR** — What else would you like? If you were writing the report what would you —

**Ms THOMSON** — And the parts.

**Mr BROCKHOFF** — And parts. It is a crazy situation in the transport industry and the car industry that you can put any quality of unknown after-market part on a truck or car after it has been put on the road.

**The CHAIR** — We had evidence earlier regarding gas cylinders. What was provided in evidence was that Australian standards applied to imported cylinders. What that manufacturer was finding was the quality was not up to standard, and he has decided to bring his manufacturing base back here to Victoria. I just presumed that Australian standards applied to all components of a car.

**Mr BROCKHOFF** — No. When they are new — to a truck, trailer or car — but if you want to go and get a new set of brake linings or some other part like that, you can use any substandard quality you like.

**The CHAIR** — Has the argument been put, because they are Federal Government standards — —

**Mr BROCKHOFF** — It has been discussed for years.

**The CHAIR** — Has it? Why would you suggest it has not been applied?

**Mr BROCKHOFF** — Probably one other point I would like to emphasise before questions is that — —

**The CHAIR** — Sorry, we have interrupted you the whole way through.

**Mr BROCKHOFF** — No, that is all right; that is fine. You have made an absolute mess of my presentation!

**The CHAIR** — It shows it is interesting.

**Ms THOMSON** — We are engaged.

**Mr BROCKHOFF** — The other area is the cost and the disadvantage of operating in a regional area. It costs our company over three-quarters of a million dollars a year by being located in Ballarat. That is three-quarters of a million dollars worth of costs that we would not incur if we were located in the suburbs of Melbourne.

**Ms THOMSON** — Can you go to that more fully?

**Mr BROCKHOFF** — I thought you would ask me that.

**Ms THOMSON** — The reason I say that is because most businesses are telling us the reverse.

**Mr BROCKHOFF** — The cost of freight — keep in mind we cart a lot of steel, the heavy products — is about \$700 000 alone.

**Ms THOMSON** — Do you rail or road it?

**Mr BROCKHOFF** — We have to road it; that is the only way we can bring it in. We not only have to bring it in, but then we have to take the finished product back out, so there is an additional cost on that. Management time, travelling backwards and forwards, electricity costs — in Ballarat it costs us \$26 000 more than it does in metropolitan Melbourne. It is probably closer to over \$800 000 for our small company to operate in a regional area. You have got some great advantages in quality and labour, but they are offset by a limited supply of labour — limited in trade skills and the number of people you can get.

**The CHAIR** — Do you find it difficult to get skilled labour back to Ballarat?

**Mr BROCKHOFF** — Very hard. Forty per cent of people who apply for a job with our company fail the drug test.

**Mr ATKINSON** — Sorry, what was that?

**Mr BROCKHOFF** — Forty per cent of people who apply for a job with our company fail the drug test, so it is very hard.

**The CHAIR** — The question I was asking was, say, if you want a highly skilled accountant or a highly skilled engineer — —

**Mr BROCKHOFF** — Very difficult to attract.

**The CHAIR** — To attract them to Ballarat?

**Mr BROCKHOFF** — Yes, Ballarat is probably the best place in Victoria because of the quality of schools and the quality of hospitals and things like that. It has got first-class — —

**Ms THOMSON** — How long have you been operating in Ballarat?

**Mr McMURTRIE** — Since the early 1970s.

**Ms THOMSON** — Have you found over time that that has changed? Are you seeing greater diversity in what is on offer in more recent times?

**Mr BROCKHOFF** — I can only speak about the nine years I have been with the company. But, yes, it is improving.

**Ms THOMSON** — It is?

**Mr BROCKHOFF** — It is going from a town to a city, I suppose. They are improving.

**Ms THOMSON** — It is a question of whether or not it grows quickly enough for you.

**Mr BROCKHOFF** — In the last two economic booms in Victoria we ran out of people who made trailers. We could not get enough skilled people, and that is the disadvantage of being located in a regional town where you have virtually a fixed or limited labour pool to draw from.

**The CHAIR** — Sorry, we have completely taken you off your presentation.

**Mr BROCKHOFF** — No, that is all right. At this stage I might just throw it open to questions.

**The CHAIR** — The matter I wanted to explore a little more relates to the Australian standards. If you were writing our report — keeping in mind we would be making recommendations only to the State Government — what would you be writing in regard to insisting that Australian standards apply to all components in transport, and why?

**Mr BROCKHOFF** — There are very clear written standards, and we as an organisation in Australia have to comply with them. It comes down to a safety issue, to be honest. If you are not using qualified welders, the quality of the product being brought into the country is unknown.

**The CHAIR** — Do we have evidence from coronial inquiries or other experts?

**Mr BROCKHOFF** — I cannot answer that. I am not aware of it. Anecdotally, we certainly have seen some very poor quality work come into the country.

**The CHAIR** — How would we as a parliamentary committee be able to identify that in our report?

**Mr BROCKHOFF** — That it is an issue?

**The CHAIR** — Yes, that it is poor quality and it is a safety issue. I mean, we do not have your level of skill and expertise.

**Mr BROCKHOFF** — No, I do not know. The answer is that I do not know. New Zealand has its own standards, and when we export trailers to or manufacture trailers in New Zealand we also have to meet the standard there, and trailers going from China into New Zealand have to meet an American standard, so we seem to be an anomaly.

**Mr McMURTRIE** — I think that is the answer. That answers the question. They have to meet the standard at the factory, not on inspection here; before they are exported they have to be built to the standard.

**The CHAIR** — But we are hearing that even with Australian companies importing manufactured products that have had standards set, they are finding that anywhere between 25 to 40 per cent of the product imported is not meeting the standards as signed off in the country of origin.



**Mr BROCKHOFF** — We have to present a certificate from the factory that they meet the US standard on welding with every trailer or component that we bring into New Zealand.

**Ms THOMSON** — I have probably two questions. You have been in regional Victoria for a long time, by the sounds of it. Firstly, I guess I would like to understand a bit about what you see are the strengths of being in regional Victoria and why you continue to have a presence in Ballarat. Secondly, I notice you are in a licensing arrangement with a German company, and I want to hear about how that works, the benefits to your company, and why you have operated in that licensing arrangement.

**Mr BROCKHOFF** — The benefits of operating at Ballarat are, I think, the quality of the people; a lot of people will not only come from Ballarat itself, but from the surrounds, off properties and from the rural areas. I think we are very fortunate that there is a fantastic work ethic there. That is the biggest thing. Unfortunately we have an ageing workforce, and our problem is that we are not attracting new young people in at the rate that we will need them just for our own replacement program.

In terms of the licence agreement we entered into with Krone last year, that was a newly designed trailer that we have world patents on; it was designed in Melbourne. We licensed them for a licence payment and a royalty structure to manufacture and distribute that all throughout Europe. It is a well patented product.

**Ms THOMSON** — And what are the benefits coming back to you? I guess I want to understand the arrangement. This is obviously a new model for you; you have not used it before.

**Mr BROCKHOFF** — Yes.

**Ms THOMSON** — I guess I am trying to get to the reason why you chose to go down this path and whether or not you would do it again.

**Mr BROCKHOFF** — Trailers are not commercially exportable out of Australia; it is just not a financial proposition. We got a nice one-off licence payment up front, and then we have an ongoing royalty payment, which is a percentage of what they sell, for a very long period of time. The financial benefits back to the company are good. The other side of the equation is that it is also starting a sort of cooperative arrangement with Europe's second-largest trailer manufacturer. They are very much larger than we are. We are starting to get an interchange of technology and IT.

**Mr ATKINSON** — I have a different line of questioning. The very first one is: why are young people not interested in careers in manufacturing? I note the university proposal which I think elevates the status of manufacturing. I understand that is part of your response to that, so perhaps we do not need to go there because I understand that bit. But what is it? Is it that young people just do not see a future in manufacturing? Is there a perception that manufacturing has no future? Is it the nature of the work? Is it perceived that the work is just too hard, or whatever? What do you see as a constraint on attracting young people into the industry?

**Mr BROCKHOFF** — I think the first thing is that every day they pick up a newspaper they read about manufacturing dying, going out, not being competitive — it is all negative. They never hear anything positive about manufacturing, so I do not think it is at the forefront of their choices.

The second thing is that in this day and age the Y generation wants it all now, and they are not prepared to live on an apprenticeship wage. They cannot do it when their peer group are off doing things that are far more exciting and they are not wearing dirty overalls every day. We think that is part of it.

We also have quite a dropout rate with apprentices. They get enormously frustrated by the TAFE system and the lousy equipment they are using which is not even current generation, and the

teachers that have been there for 50 years. They just get so frustrated that they explode and just disappear.

**The CHAIR** — This is resonating with me. If we were to come to Ballarat, would we be able to talk to some of the young people that left because of frustration with apprenticeships?

**Mr BROCKHOFF** — I am sure we could try to find them, yes.

**Mr ATKINSON** — Can I come back to the questions that I really did want to pursue? There are two lines I want to pursue. One of them is the supply chain — that is, your confidence in the supply chain and so forth, but I will come to that in a moment. Yours is a public company, is that correct?

**Mr BROCKHOFF** — Correct, yes.

**Mr ATKINSON** — I am interested in the volatility of your capitalisation as a public company, given your exposure to the manufacturing industry compared with some of the, if you like, sexier industries and companies, and the sort of effort that you have to put into road shows and the duchessing of financiers and institutional investors to maintain your capitalisation and some stability that enables you to go forward and do what you do best.

**Mr BROCKHOFF** — It does take a lot of time. As I said at the outset, we are a cyclical industry and business, so it is very hard being a public company and expecting our loyal shareholders to share the cycles with us. That makes it very hard.

The greatest challenge we have is to be able to continually flex our labour force with the cycle. What we see coming under the new award structure in 2010 is that our ability to hire casuals for more than six months will be stopped. We cannot afford to make people redundant — and it is wrong to do so — every time there is a down cycle, so as a company we have tended to have to carry a lot of casuals in the system, far more than we would like. We know it is very hard on them as well, but that is the reality of our business. If we do not have that flexibility in the future we will not be able to afford to put more people on. We will have to run only on the bottom, whereas we do not today. We will be forced to either outsource to other companies around either Victoria or Australia or import components.

**Mr ATKINSON** — On the perception of those institutional investors, financiers and so forth, when you come to them as a manufacturer and say, ‘Look, this is what we’re doing’, what is their view or level of enthusiasm for your industry for their investment?

**Mr BROCKHOFF** — Excuse the expression, but we are not in the sexy end of town, and they know it. We are metal bashers, crudely, and I suppose they do look beyond that and those who understand the business and the cycles well are okay with it. Many will just write us off; they just do not want to know that sector of industry in Australia.

**Mr ATKINSON** — Do you feel that because you are a public company you have some comfort with the financiers that might not be available to other manufacturers?

**Mr BROCKHOFF** — I do not think it makes it any difference.

**Mr ATKINSON** — On the supply chain, you are in an interesting industry and in this country it is an imperative because of the distances that freight has to be transported and there is some difficulty in terms of just the bulk of your product to shipping — not to say that cannot be done, obviously — how confident are you about supply chain and how important is that to you now in terms of your production and particularly future investment?

**Mr BROCKHOFF** — Reliability of supply is an absolute imperative. You just have to have it; it is very important.

**Mr ATKINSON** — Are you losing people from the supply chain, who are perhaps also exposed to the automotive industry or other areas of manufacture?

**Mr BROCKHOFF** — We are slowly seeing our suppliers migrate offshore. For example, six or seven years ago trailer axles used to be manufactured in Victoria. Today I cannot think of a local manufacturer at all. That has gone. The same for suspensions, the same for wheel hubs and brake drums — the vast majority now come from overseas. So it is a greater logistics challenge.

**Mr ATKINSON** — All from China or some from Europe?

**Mr BROCKHOFF** — No, the Asian area.

**The CHAIR** — If we had the Australian standards applying to imported axles, suspensions and brake drums, would they meet the test currently?

**Mr BROCKHOFF** — Some would, some would not.

**The CHAIR** — If we had Australian standards, do you think — —

**Mr BROCKHOFF** — It would not bring them back to Australia to manufacture.

**The CHAIR** — It would not?

**Mr BROCKHOFF** — No, not at all. They will certify the factories overseas. It is a local safety issue. So reliability of the logistics chain is very important. Generally supply chains are reliable. Shipping is reasonably reliable. You build in a bit of safety stock to manage that. You certainly have to carry more stock on the ground here than you would like to. In our industry we are sourcing all over the world: the UK, through Europe generally, the United States, all throughout Asia — it comes from all over the place.

**Mr ATKINSON** — We have had no shortage of people telling us how they could spend government dollars on their business. Can you, from your perspective as a successful company in your sector of manufacturing, tell us what government can do to really support the manufacturing industry in the best way, not just throwing money at a whole range of programs? What do you think should be the priorities of government, in terms of supporting industry? I guess that comes back to your university to some extent again.

**Mr BROCKHOFF** — I think it comes back to the university and I think a lot of it starts there. I think we have to change the mentality in Australia and I am not sure it can be done from input taxes to consumption taxes. I think that is enormously important. We have to get reliable infrastructure back into Victoria. It is unreliable, and it is going to get worse. That is our view, that the power stations have not been maintained properly and in a few years we are going to have a much — —

**Ms THOMSON** — Power supply.

**Mr BROCKHOFF** — Power supply. We are going to have a much bigger problem than we have today even. That is why we will probably go to the trouble of investing in more power generation than we have today. I think that is very important. Then we have to bring youth, young people in, attract them back into the industry, because we are running out of skilled people. Before the GFC, we ran out of labour in our factory. We could have made a lot more trailers but we ran out of labour. The alternative for us is to look beyond our factory and our regional centre to do that next time around.

**Mr ATKINSON** — Was the demand met by imported product or was it simply — —

**Mr BROCKHOFF** — Yes, to a certain extent the excess demand was met by imports.

**The CHAIR** — Different people have talked about the need to encourage young people and their teachers and their parents to consider manufacturing. I have been musing over what might resonate. A previous witness was talking about a proposal to [inaudible] money in the south-eastern area, where successful young workers in the manufacturing industry talk to students and now they are expanding it to students and parents. That has worked. Have you seen anything that has worked that perhaps happened years ago but needs to happen now?

**Mr BROCKHOFF** — With respect, I think that is over simplistic. I mean, that is one part of a smorgasbord of things that need to be resolved.

**The CHAIR** — Yes, that was one, so give me the smorgasbord.

**Mr BROCKHOFF** — We need youth to see that it is as good to go to the university of manufacturing in Victoria as it is to go to law school or engineering school at Monash. They do not see that today. You do not hear it; you do not read about it: Australia or Victoria has the best manufacturing excellence in the world. It could be. We are the best innovators in the world but we are not the best manufacturers.

**The CHAIR** — So how do we get it across?

**Mr BROCKHOFF** — It is a long program, but I also say that we have to deal with the income they get. We have to give a company a tax break. Given we are wearing \$21 000 a year per employee, we cannot keep doing that. As competition increases against us, these penalties become too great.

**The CHAIR** — So income for the workers needs to rise?

**Mr BROCKHOFF** — And I am talking about a movement in tax. I am not here to ask for more taxes or more government money because I think that is wrong — it is about shuffling it around. With all the unemployment benefits we pay, if we restructure what I am talking about I think it will cost neutral for the community. So you need the university, you need to encourage youth financially to take it up as a business and it needs to be talked about in a positive light. Today none of those things are happening.

**Ms THOMSON** — We heard before from the south-eastern region of Melbourne that the hall of manufacturing is a great idea. In your own mind, how far into the community does the fact that Victoria has a hall of manufacturing filter down?

**Mr BROCKHOFF** — Do not even know about it.

**Ms THOMSON** — Exactly.

**Mr BROCKHOFF** — And I also say to you that in my nine years in manufacturing there has not been one university come to our company to talk about how they could develop a relationship, how we could work together in cooperation or form some affiliate. We are only one small manufacturer; I understand that.

**Mr ATKINSON** — TAFEs?

**Mr BROCKHOFF** — I have never met one person offering their services. I accept we are only one small manufacturer but I think we have enough of a profile for that to happen. I think that is what we lack in Australia, which happens so well in places like the United States, where universities and companies work very closely together.

**Mr ATKINSON** — In terms of the regional locations, what could we do to make regional locations more attractive to manufacturers?

**Mr BROCKHOFF** — I think get rid of some of the penalties of cost in terms of infrastructure. Power is unreliable in Ballarat. I am sorry; that is the reality, in our view. You have to get the basics there at the right price. I know that you cannot get rid of my three-quarters of a million dollar transport bill, but I think there are other things that can be worked around that.

**Ms THOMSON** — How can we do the power when it is not ours?

**Mr BROCKHOFF** — I do not know. But in all honesty it would be better for me to bring the factory back to Melbourne. And it will not happen because it is the wrong thing to do, but the cost of moving a factory of that size is just enormous.

**Mr McMURTRIE** — Can I just add there, if I may, the electricity we pay has a number of components, one of which is the distribution charge and distribution losses. A percentage of the bill in Ballarat is dramatically higher than it is in, say, Hallam. Even in Hallam we have two different — —

**Ms THOMSON** — Who supplies your power in Hallam?

**Mr McMURTRIE** — I would have to look it up.

**Mr ATKINSON** — Origin or AGL?

**Mr McMURTRIE** — I have the number here, but I will come to that. Even in Hallam we have two factories that are 500 yards apart. One of them has a different percentage distribution charge to the other because of the age of the infrastructure to that factory and the power losses distributing to its street. So there are distribution losses.

**Ms THOMSON** — Could you do us a favour? Could you provide us a bit more information on the cost differential with the age of infrastructure?

**Mr McMURTRIE** — I would have to talk to our supplier in order to get that clarified.

**Ms THOMSON** — Not now, but could you provide us with that information a bit later? I would like to see that.

**Mr BROCKHOFF** — Sure, would be happy to.

**Ms THOMSON** — It would be useful to the Committee to look at that.

**The CHAIR** — As it seems like you two have asked the questions you want, I will take the last one. Some years ago Victoria sponsored — I do not know what the name of the show was, but let us call it *Getaway*. It was about tourism in Victoria, and it really generated a lot of interest.

**Ms THOMSON** — *Postcards*.

**The CHAIR** — *Postcards*, thank you. It really generated a lot of business. Has there been any discussion about how such a show or segment could be done to encourage young people, teachers, parents and financiers to start thinking about manufacturing in a really positive light?

**Mr BROCKHOFF** — I am not aware of anything that has been done like that.

**Ms THOMSON** — You would have to go to YouTube now to get the kids.

**The CHAIR** — It might be YouTube, Channel 31 — sorry, not Channel 31 itself, but with that sort of concept of being community based, and it could also be professional. Anyway, it was just a thought I had.

**Mr ATKINSON** — Very quickly, in terms of the licensing opportunity in Germany, about what percentage of your budget would be invested in research and development or innovation areas? And do you see that licensing opportunities is something you could expand on?

**Ms THOMSON** — You can come back to us if you do not have it.

**Mr BROCKHOFF** — I will probably confirm the figure. Just keep in mind that 80 per cent of what we manufacture are one-offs, so it is very hard to define what is R and D and what is standard. We probably spend \$4 million or \$5 million a year, but I would like to confirm that figure and come back to you and verify.

**Ms THOMSON** — Yes, if you can confirm the percentages.

**Mr BROCKHOFF** — We do spend a lot.

**Mr ATKINSON** — Do you see further opportunity for export, a licensing-type deal?

**Mr BROCKHOFF** — Yes, into Asia.

**Ms THOMSON** — Would you do it back into the US as opposed to just Europe and Asia?

**Mr BROCKHOFF** — Asia is crying out for technology; it is like a big sponge. They are very interested. Australia makes some of the world's best trailing equipment. We are pioneers in the world. We lead the world on logistics in transport. Asia is very keen to get our technology. We probably think that is the greatest opportunity.

**The CHAIR** — Thank you very much to both of you. Hansard will provide a copy of the transcript in about a fortnight. Typing errors may be corrected but not matters of substance. Thank you very much for a very considered submission.

**Mr BROCKHOFF** — Thank you.

**Witnesses withdrew.**