

## Government assistance to manufacturing

- 9.1 The most important role of government in assisting a sector is to disseminate information, facilitate industry links and provide advice within an overarching direction based on sound policy research.
- 9.2 The overriding view expressed in the inquiry's evidence was that government manufacturing policy needs to strike the right balance between allowing the market to operate freely yet assisting where market failure is recognised. Furthermore, there is a need to balance the pros and cons of the form of assistance offered, as noted by Professor Mark Dodgson, director of the Technology and Innovation Management Centre, University of Queensland—appearing before the committee in a private capacity, in reference to research and development tax concessions:
- You have the big, clumsy, relatively inexpensive to administer schemes like R&D [tax concession] supports or you have the more targeted grant type schemes, which are very expensive to administer. No-one has got the balance right. No-one knows what the balance is.<sup>1</sup>
- 9.3 Indirect support is not always effective. It may just be a gift to companies for doing something they were doing anyway, rather than encouraging an activity with benefits to the broader community.<sup>2</sup>
- 9.4 Australian government grants aim to fulfil one or more of the goals of the three pillars of current industry policy, namely, global integration; Australian innovation; and to a lesser extent, investment. The bulk of

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1 Prof M Dodgson, private capacity, *Transcript*, 19 October 2006. p. 16.

2 Productivity Commission, *Public Support for Science & Innovation*, 9 March 2007.

grants to the manufacturing sector are geared towards providing innovation assistance.<sup>3</sup> The Export Market Development Grants scheme (EMDG) administered by the Australian Trade Commission (Austrade), and the Supplier Access to Major Projects programme administered by the Industry Capability Network, are designed to assist industry penetrate global markets or enhance import competitiveness.

- 9.5 The committee heard considerable evidence on the merits and deficiencies of specific support programmes (discussed throughout this report) as well as the overall effectiveness and accessibility of the suite of programmes. This chapter will concentrate on the latter.
- 9.6 Appendix D lists the Australian Government's suite of industry support programmes applicable to the manufacturing sector while Appendix H details the role of the Australian Government agencies that support the manufacturing sector.

## **Direct government support issues**

- 9.7 The committee heard input during the inquiry about the problems associated with seeking, applying for and acquitting direct government assistance, and how, at a high level, support programmes to the sector could be improved.

## **Paperwork and compliance burdens**

- 9.8 Applying for grants and meeting compliance requirements can be extremely time consuming and costly, particularly for small to medium manufacturers. However, when governments provide merit-based funding on a transparent and accountable basis, some degree of paperwork and evaluation is inevitable and necessary.
- 9.9 The Government's objective of providing equitable access to accountable and effective support programmes must be balanced with a reasonable level of resources utilised by manufacturers to meet programme requirements. Applying for support programmes should not unduly divert resources away from manufacturers' primary tasks.
- 9.10 The committee heard of application processes being inordinately demanding on manufacturers' resources. The Council of Textile and

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3 Innovation Investment Fund; Commercial Ready; Commercialising Emerging Technologies; Industry Cooperative Innovation and Intermediary Access discussed in Chapter 8.

Fashion Industries of Australia Ltd noted huge paperwork and eligibility hurdles:

This needs to also incorporate a removal of the bureaucracy accompanying government assistance programs such as 70 page contractual agreements for small business grants of no more than \$50,000, quarterly reporting which takes more time to complete than the project and access to effective assistance for companies seeking to complete an application.<sup>4</sup>

- 9.11 The Standing Committee on Science and Innovation's *Pathways to Technological Innovation* report also highlights the difficulties and time associated with navigating the innovation programme maze. The report cites Mr Johansson from Gazelle Monitoring systems as saying:

In May 2003, we applied for COMET [Commercialising Emerging Technologies program] funding. We were told we were too early [the development of the technology was not sufficiently advanced]...And it went on until September 2004 when we approached somebody who told us we were too advanced – this is six months after we were told we were too early: 'You are eligible for R&D Start but that finishes this week; you will be eligible for Commercial Ready, which starts in October.' ... In October, the email arrives. I apply for Com-ready. We were confirmed that we were too advanced for COMET, but we did not have enough software development for Com-ready...We basically thought this was just too hard, and we kept on going down the path of running our business without government funding.<sup>5</sup>

- 9.12 The Australian Electrical and Electronic Manufacturers' Association (AEEMA) discussed the considerable time spent in responding to programme evaluation exercises:

One could say that the processes that have been put in place with the form filling and the KPIs [key performance indicators] that are created to check it, make the programs very inflexible and make it very difficult for people. So at the end of the period companies say, 'Thank goodness that is over; we can now do what we really need to do, rather than the box-ticking exercise that was set by the public servants.' ...a lot of the programs are based on that and a lot

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4 Council of Textile and Fashion Industries of Australia Ltd, *Submission no. 17*, p. 20.

5 House of Representatives Standing Committee on Science and Innovation, *Pathways to technological innovation*, June 2006, pp. 52-53.

of the companies do not have the resources to be able to administer that level of detail.<sup>6</sup>

- 9.13 Dr Hadrian Fraval of Science Industry Australia (SIA) remarked that small businesses may not have the wherewithal to apply for a grant or assistance programme. In particular, he noted that when the outlay to secure a grant is a very high proportion of the eventual assistance they may receive, they may not even bother to apply: 'The question is: is it worth the effort? ... If it's going to cost us \$50,000 in order to get \$70,000, is it really worth it?'<sup>7</sup>
- 9.14 This was echoed by the Australian Steel Institute:
- I have heard quotes that it costs you \$100,000 to get \$95,000. There is a balance between due diligence with government funds and getting it to the right people.<sup>8</sup>
- 9.15 The SIA submission referred to the Australian Industry Group's 2006 *Manufacturing Futures* report which gave many examples of the administrative burden in proving the grant's aim had been met. Much of this amounted to proving 'additionality' – that but for the grant, the work or expenditure would not have been undertaken.
- 9.16 SIA suggested reshaping innovation grant programmes into stepped processes so that programme steps aligned with business stages or goals. By providing smaller grants to align with business stages the success of the programme could be more easily demonstrated and future funding could depend on earlier success. This is an approach undertaken by US support agencies. SIA contend that if application and evaluation processes were streamlined with project stages, it would lead to productivity gains.<sup>9</sup>

## Programme stability

- 9.17 Assistance programme changes are unsettling and require time to research and interpret. Sometimes a programme's inherent budgetary structure, like that of the EMDG, means that a grant outcome, irrespective of meeting eligibility criteria, is uncertain. Consequently, the Committee heard that many businesses do not even bother to apply for assistance given the effort and cost involved in continually updating understanding of the programme requirements.

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6 Mr A Robinson, Australian Electrical and Electronic Manufacturers Association (AEEMA), *Transcript*, 7 December 2006, p. 7.

7 Dr H Fraval, SIA, *Transcript*, 2 March 2007, p. 3.

8 Mr I Cairns, Australian Steel Institute, *Transcript*, 29 August 2006, p. 32.

9 SIA, *Submission No. 7*, p. 7.

- 9.18 During the past twelve months the major assistance programmes have undergone either eligible criteria changes (EMDG and Industry Cooperative Innovation Programme) or have received annexed programmes (Supplier Access to Major Projects Global). Others, like Commercial Ready, have been re-branded in the last few years.<sup>10</sup> In addition, the 2007 Industry Statement announced further changes including Commercial Ready Plus, a scheme that is identical to the existing Commercial Ready scheme but enables smaller grant applicants (up to \$250 000) a more streamlined application process.
- 9.19 Many changes lead to reduced applicant confidence. At a hearing in Melbourne, Mr Nixon Apple, formerly an Austrade board member for 15 years, noted that the lack of programme continuity prevents businesses from planning ahead:
- We [the Austrade board] would have reviewed the EMDG scheme about once every two years. If you are the chief financial officer and your export manager comes and tells you, 'This is what I want to do and this is what I'll get back from the EMDG', you will just shake your head at him because the rules of the game will change in year three of his export plans. So continuity is a very important criterion.<sup>11</sup>
- 9.20 NEC agreed that lack of certainty in government incentives means they do not factor these programmes into their business plans. Instead, if they receive them they are an 'after-the-act'<sup>12</sup> bonus.
- 9.21 The Australian Manufacturing Workers' Union attributed continuity of government programmes as being key to the success of manufacturing sectors in other countries:
- A key reason for the success of Ireland and Singapore in capacity expansion by firms in knowledge intensive industries has been the long-term continuity of the incentives provided. The need for bipartisan support to keep the new arrangements in place for at least a decade is vital.<sup>13</sup>
- 9.22 On the flipside, a positive aspect of frequent programme changes is that industry's concerns can be met as they arise. This was reflected in evidence—early in the inquiry process the committee heard industry concerns about aspects of programmes which, by the end of the inquiry,

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10 Formerly part of the 'R&D Start Programme'.

11 Mr N Apple, Australian Council of Trade Unions, *Transcript*, 22 November 2006, p. 15.

12 Mr B McManus, NEC, *Transcript*, 15 March 2007, pp. 26-27.

13 Australian Manufacturing Workers' Union, *Submission no. 27*, p. 26.

had been addressed. Examples include the increase in the eligible turnover cap in Commercial Ready and the changed guidelines for the Industry Cooperative Innovation Programme which clarified its international focus. The Commercial Ready change preceded a government response to the parliamentary report *Pathways to Technological Innovation*, which recommended this.

## Providers, programmes and portals

9.23 A number of different government departments and agencies administer grants for the manufacturing industry. Those most relevant to manufacturing are administered by AusIndustry and Austrade and some through the Australian Customs Service.

9.24 The committee heard that when grants are administered by a variety of agencies it is not only confusing for manufacturers, but leads to information gaps and lack of policy unity:

Programs and agencies such as Austrade, the Export Market Development Scheme, the Export Finance and Insurance Corporation, Tradex, Duty Drawback, and improvements to the depreciation scheme are noted as examples of the measures government has introduced to improve exporters' ability to compete in international markets. While these programs can be beneficial in isolated instances, most are non-integrated, ad-hoc and hampered by bureaucratic and administrative burdens for (generally) small companies that have neither the time nor the resources to complete the prolix application processes...<sup>14</sup>

9.25 The report of the House Standing Committee on Science and Innovation, *Pathways to Technological Innovation*, recorded 169 innovation programmes in existence across the Commonwealth, state and territory governments. There are in excess of 20 'parent' industry assistance programmes in the Industry Tourism and Resources portfolio alone and a number of these have supplementary or 'subsidiary' programmes. This may reflect the culture of the department given the number one priority of its *Strategic Plan 2006–09* is that of 'implementing new measures'.

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14 AEEMA, *Supplementary Submission no. 44*, p. 3.

- 9.26 Further to the suite of programmes on offer, individual programmes have various goals and eligibility complexities, making it difficult for manufacturers to determine readily what is suitable for their business. This is particularly so for small to medium sized manufacturers (SMEs):
- SMEs have a more acute difficulty than larger and more sophisticated firms in dealing with government and understanding what programs are available.<sup>15</sup>
- 9.27 To address part of this issue the Australian Government, with support from the states and territories, has initiated a one stop business portal called the 'Business Entry Point'<sup>16</sup> (BEP), managed by Department of Industry Tourism and Resources (DITR). It is designed to bring together all government requirements and assistance programmes for business under one internet umbrella. It enables 'eGovernment' by providing secure on-line application process for many business activities, covering all three tiers of government. The site is clear and comprehensive and is an excellent example of joined-up government reducing the transaction costs of interacting with government.<sup>17</sup>
- 9.28 However, the BEP is not manufacturing specific. It focuses on the more administrative and regulatory aspects of starting, running and expanding a small to medium business in any sector.
- 9.29 As has been discussed earlier in the chapter, AusIndustry is programme-centric and their website reflects this. AusIndustry has an export focus in a further portal, the 'Export Hub', which is a joint initiative with Austrade. The hub includes Austrade's TradeStart and AusIndustry's export oriented programmes. Again, the Export Hub is not a self-contained site for manufacturers. Interestingly, the link to the BEP and Export Hub are not on the home pages of DITR, AusIndustry or Austrade websites.
- 9.30 In contrast, the UK has a specific manufacturing advisory portal<sup>18</sup> which serves a similar function to the BEP and Export Hub portals combined. The UK portal supports the Manufacturing Advisory Service (MAS) which, as was discussed in Chapter 3, is centrally run with regional phone and face-to-face contacts.

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15 Mr G Evans, Australian Chamber of Commerce and Industry, *Transcript*, 2 March 2007, p. 24.

16 <[www.business.gov.au](http://www.business.gov.au)>

17 The site won the 2006 United Nations Public Service award for eGovernment.

18 The Manufacturing Advisory Service (MAS), <<http://www.mas.dti.gov.uk/>>, viewed 11 May 2007. The MAS is not only a web-based service but also has regional face-to-face agency points-of-contacts.

- 9.31 The MAS portal is easy to use and contains a sophisticated level of information about the manufacturing climate in the UK and how government can assist manufacturers with this in mind. It goes beyond providing links to assistance programmes and giving broad business-oriented information. Information covers issues such as process and systems improvements; materials technology; management and logistics skills; utilising emerging manufacturing applications and export strategy.
- 9.32 The US Government has a very similar portal to the UK MAS, the 'manufacturing portal'.<sup>19</sup> There is no Australian equivalent. The DITR website does not have a manufacturing webpage, nor does it contain a list of manufacturing relevant programmes or action agendas.

## Conclusions

- 9.33 The committee concluded that the large number of government industry assistance programmes creates unnecessary confusion. Many grant programmes relevant to the manufacturing sector are of a similar nature and could be streamlined. Moreover, it is not easy to access manufacturing specific policy information to assist manufacturers to help themselves become more competitive and/or more globally oriented.
- 9.34 A number of inquiry participants reported that the resources required to complete application and programme evaluation processes were unreasonable. Programmes which demand proof of 'additionality' create the most work. The committee accepts that merit-based grants require a high degree of transparency and accountability—but should not unduly interfere in the operation of businesses. It concluded that grant programmes which require laborious ex-post evaluations should instead introduce a staged funding approach which would align with business milestones. This would negate the need for extensive retrospective analysis.
- 9.35 In response to concerns that programme stability is lacking, the committee noted that there is always inherent uncertainty in grant application outcomes. However, business confidence in support programmes is lost when eligibility criteria and processes are changed frequently.

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19 US Department of Commerce, International Trade Administration, *Manufacturing Portal*, <[www.manufacturing.gov](http://www.manufacturing.gov)>, viewed 22 May 2007.



- 9.36 Assistance programmes should be presented within an overarching manufacturing strategy as discussed in Chapter 3. This would make it easier for manufacturers to determine what industry programmes best fit their circumstance. This approach provides manufacturing sector relevance to general industry programmes; thus limiting the growth in programmes.
- 9.37 Despite the number of support programmes on offer, manufacturers may experience difficulty accessing appropriate information. Both the BEP and the Export Hub are valuable sector-generic sites, albeit poorly promoted. The committee recognised a need for a manufacturing webpage on the DITR site with a link to a stand-alone, user-friendly manufacturing portal.
- 9.38 The portal would support the manufacturing-based AIPC network, offering a comprehensive resource for manufacturers, beyond programme information. Clear home page links to Austrade, Invest Australia, ICN, BEP and the Export Hub should be on this site. The UK's MAS portal and the US's Manufacturing portal both have good features that could be used as models for site development.

## **Recommendation 20**

- 9.39 **The committee recommends that the Department of Industry, Tourism and Resources review assistance programmes with a view to:**
- **rationalisation, simplification and programme stability;**
  - **dovetailing programmes into a manufacturing sector strategic approach; and**
  - **conducting grant programmes in consecutive stages where evaluation of outcomes is more readily apparent.**

**Recommendation 21**

9.40 The committee recommends that a dedicated manufacturing advisory portal be developed as the internet face of the manufacturing-based Australian Industry Productivity Centres, linking to a manufacturing webpage on the Department of Industry, Tourism and Resources website. Features of this would include:

- streamlining of other information portals so there is a one-stop-shop for the manufacturing sector;
- prominent home page links to the industry agencies and the generic 'business entry point' and 'export hub';
- an on-line venture capital information service; and
- a focus on sector specific issues beyond assistance programme advice including information on production, process and entrepreneurial developments; forums and key global issues.

The Hon Bruce Baird MP  
Chair  
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