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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND
AUDIT

Reference: Australian government purchasing policy and practice

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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Wednesday, 3 February 1999

Members: Mr Charles (*Chair*), Mr Cox (*Deputy Chair*), Senators Coonan, Faulkner, Gibson, Hogg, Murray, and Watson and Mr Andrews, Mr Brough, Mr Georgiou, Ms Gillard, Mr Griffin, Ms Plibersek, Mr St Clair and Mr Somlyay

Sectional committee members: Senator Hogg and Mr Brough, Mr Charles, Mr Georgiou, Mr Griffin, Ms Plibersek and Mr St Clair

Senators and members in attendance: Mr Charles (*Chair*), Senator Hogg, Mr Brough, Mr Griffin and Ms Plibersek

Terms of reference for the inquiry:

The Joint Committee of Public Accounts and Audit (JCPAA) will examine whether Commonwealth entities, during the last four years, have achieved effective outcomes in the way purchasing policies are implemented, and whether Australian business has achieved more equitable outcomes arising from these policies. The inquiry will have particular reference to:

- (1) the performance of Commonwealth entities in managing and implementing purchasing policies during the last four years;
- (2) statistical information identifying trends in purchasing outcomes during the last four years;
- (3) an assessment of whether Commonwealth purchasing policies have maximised commercial opportunities for Australian suppliers; and
- (4) possible initiatives that could further enhance Commonwealth purchasing policies.

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Committee met at 9.45 a.m.

CHAIR—I declare open this public hearing of the Joint Committee of Public Accounts and Audit's inquiry into Australian government purchasing policy and practice. The committee will now take evidence as provided for in the Public Accounts and Audit Committee Act 1951. I would like to take this opportunity to welcome to today's hearing members of the parliament of Ireland public accounts committee and, specifically, the chairman Jim Mitchell, Pat Rabbitte, Bernard Durkin and Sean Ardagh. We appreciate your interest in the workings of Australia's Public Accounts and Audit Committee.

In 1997-98 the total value of purchases by Commonwealth budget funded agencies was about \$8.8 billion. It is essential, therefore, that the purchasing function is managed effectively and that appropriate guidelines are in place. Commonwealth agencies must ensure that Commonwealth moneys are spent wisely and outcomes for the Australian public are maximised.

The committee will examine the performance of Commonwealth agencies in managing, reporting and complying with the *Commonwealth Procurement Guidelines*. Some of the key areas that will be examined include how Commonwealth agencies interpret and apply the core purchasing principles of value for money, open and effective competition, ethics and fair dealing, accountability and reporting, and national competitiveness and industry development.

The committee enters this inquiry with the knowledge that, almost over five years ago, a previous parliamentary inquiry noted serious criticisms of Commonwealth procurement. Some of these concerns are being raised in submissions to this inquiry. Examples of some of the statements and claims that have been made in submissions include, firstly, that from Streets Enterprises, submission 4, pages 3 and 4, which says:

Commonwealth entities have poorly managed and implemented purchasing policy during the last four years, and the recommendations in the Bevis Report were ignored in many areas.

Secondly, the Ballistic Innovations submission 10, page 3, says:

It has become apparent that, frequently, the selection of the winning bid is largely based upon price.

Thirdly, the Australian Information and Industry Association, submission 13, page 2, says:

Unfortunately the 1994 report has largely been a wasted opportunity as the procurement practices by Commonwealth entities have not progressed in a manner that has assisted industry, particularly SMEs.

Fourthly, from the New South Wales ISO submission, No. 34, page 5:

In respect of the third principle, viz national competitiveness in industry development, in broad terms it is our opinion that government purchasing has not helped local industry to become internationally competitive.

Fifthly, from ISONET, submission 36, page 5:

There remain six core principles and policies, but without adequate guidance, purchasers may detect conflict between policies such as value for money and industry development, and opt for the simplest way out.

Sixthly, from ISONET, submission 36, page 5:

Unless purchasing competency training and accreditation levels are given status in Departments requiring adequate training for specific posts, and providing remuneration incentives to those responsible for purchasing, the use of purchasing power as a facilitator of industry development can diminish significantly.

A key objective of the committee will be to test these and other claims and examine whether Commonwealth agencies have improved the management of the purchasing function and helped maximise the commercial opportunities for Australian suppliers. In addition to investigating, evaluating and making recommendations on these issues, the committee will also consider the use and uptake of electronic commerce, common use agreements and endorsed supply arrangements, the views and experience of the business community, the adequacy of purchasing statistics and possible initiatives that could further enhance Commonwealth procurement.

Today the JCPAA will take evidence from the Textile, Clothing and Footwear Union of Australia, the Australian Owned Companies Association, the Institute of Mercantile Agents, the New South Wales Industrial Supplies Office, the Office Equipment Industry Association, the Business Technology Association, Employment National and the Commercial Furniture Industry Association of Australia. Before swearing in the witnesses, I refer members of the media who may be present at this hearing to the committee statement about the broadcasting of proceedings. In particular, I draw the media's attention to the need to fairly and accurately report the proceedings of the committee. Copies of the statement are available from the secretariat staff present at this hearing.

[9.51 a.m.]

WALLACE, Mr Harry Lachlan, Former President, Australian Companies Institute, formerly Australian Owned Companies Association

CHAIR—Thank you for your submission and for coming today. Would you like to make a brief opening statement?

Mr Wallace—In order to cover the heart of the matter which we think is important, I have summarised a number of points here—you should have a copy. If I go through those quickly, that will summarise our position and I am sure there will be plenty of time for questions.

CHAIR—Go for it.

Mr Wallace—A lot of these points are self-explanatory but they highlight the point that we as a companies organisation keep stressing, that is, like a company, Australia Incorporated has to look after its finances, and no country, as with no company, can be prosperous unless it has a positive bottom line result. That is the essence of our approach. It was in 1973 that Australia last had a current account surplus, which is really a profit in our trading with the rest of the world. This year the government has budgeted for \$31 billion which would be the worst ever. The first three months was 8.5, although I see that yesterday the trade deficit was only half. That is still going to mean that the deficit will be up in the order of \$30 billion.

In most years, for Australia the big problem is not our goods and services—most years we are close; it is in fact the very high level of what the Bureau of Statistics calls ‘income’, which, for Australia is expense, which we have to pay out on the very high level of foreign investment in Australia. If you turn to the last sheet of the pages which are stapled together, you will see that since 1990, which is not a long time ago, for the nine years to last financial year—last June—Australia as a nation lost effectively \$177 billion. Out of that \$177 billion, \$150 was the net amount—net amount being the difference between what we receive and what we pay out.

So in most years, somewhere around 80 to 90 per cent of the current account deficit is due to interest and dividends. In other words, we almost buy as much as we sell in goods and services, but the big hole for us, with the very high level of foreign investment, is the drain that that takes. This year, with another \$31 billion, that has to be serviced next year and has to be serviced for ever. Those figures are taken from the Bureau of Statistics.

With regard to point 3, the 1997 year was the first one where it looked good—in goods and services we were in the black—but in fact that was only because of the lumpy sale from the Reserve Bank. Otherwise it would have been a break even situation. Last year we spent \$4.2 billion more on goods and services than we sold.

The thing that should be of concern to all Australians, as I say there, is that at least 50 per cent of our income comes from non-renewable sources, some of which, like coal, are a bit suspect these days for environmental reasons. The reality is that, as a nation, we cannot

service our debt from our income. The losses, as in any business or personally, can only be funded in two ways: you either sell off an asset if you have it or you mortgage it. Of course, Australia has been doing this.

Now, because of our income, what we earn from selling our goods and services is more than what is spent in buying goods and services back. We do not have any income to service our debt. We are now like a person who takes out a second mortgage to get the money to pay the interest on the first mortgage. This year we will have to mortgage something of the order of \$30 billion in assets to be able to pay for the past bad management of the economy.

Not all of the current account deficits come from cash, but in the last financial year the actual cash that we had to get in from the rest of the world was \$19 billion. If you relate that to some of the amounts that the IMF has had to bail Brazil, Russia and other countries out of trouble, then you will see that it is an enormous amount that we are into the rest of the world for. If that should dry up, we will have a real problem.

On the foreign investment side—just to clarify this point, because I think parliament as a whole has this view that the answer for us is in foreign investment—the reality is that, from the early 1980s, 86 per cent of foreign investment in Australia has been for buying existing businesses, resources and real estate. In this time, only one per cent of foreign investment has been for new manufacturing, which is the area that we and I suppose most other countries in the world want.

Point 6 just covers how debt has exploded. As you will see, in the last financial year alone it was up from \$288 billion to \$326 billion for the June quarter, then up from \$326 billion to \$335 billion. How are we doing so well? It is because the western world is awash with funds and so it is very easy for us to borrow. But as with the Alan Bonds or others, you know that if borrowing is easy you will eventually end up with a day of reckoning.

Point 8 makes the obvious point about unemployment. While I am delighted to see what Peter Costello has said, I suspect that the easiest way to get five per cent unemployment is just to redefine ‘unemployment’. The present course is I think unlikely to do anything about that. When we produced a report some time ago—there is a copy in the folder you have but it needs updating—we said that the effective rebate for the Australian government, if it bought Australian made, was 12½ per cent of sales and, if it bought from an Australian owned company, it was a 17½ per cent rebate.

Aside from us having been very unsuccessful with our AusBuy campaign in getting any of the government, or the bureaucracy for that matter, to pay much attention to it, I suppose the thing that AusBuy has always had in its favour is a very high level of public response. Two weeks ago yesterday Mike Munro and *A Current Affair* did a segment, and Jo-Anne Sanday, who will appear shortly, was on that. As Mike Munro said the following night, their switchboard went into meltdown from the number of people who wanted to get one of these AusBuy guides—as did ours. In the first three days we have had something like 4,000 people respond, and we know there are a lot more because they could not get through on the switchboard.

The concept of buying Australian owned, Australian made amongst ordinary people I think is very strong. What we have not been successful at doing from the top—and we believe this is because of the Australian psyche; they want leadership—is getting people who are full of good intentions to put that into practice when they are in the supermarket. In most supermarket trolleys now, 85 per cent of the items are going to be foreign owned and/or foreign made.

To come back to the concept of why it is important that there should be priority, in the letter I sent to your chairman I said that the first core principle should be along the lines of maximising the bottom line benefit for Australia in financial and social aspects. For those of us in business—my business interests are scaled down, but I still have 300 people employed overseas and a couple of hundred employed in Australia—the bottom line is always the final test. When some of my staff keep telling me they have done things to the top line but it has not done anything to the bottom line, you say, ‘Why?’ When they have done things to the top line and it has had an adverse effect on the bottom line, you ask the question even more stridently. That is why we are saying that for Australia to have a prosperous future it has to see that it balances the books and certainly does not run at a loss.

Concerning some of the rebates from buying Australian owned, Australian made—I have not tried to summarise all the points which are covered in that report. I think company tax is unfair. I think a lot of people think it is unfair, but the Australian Taxation Office collects from me, and from other Australians, tax at the effective maximum rate 48.5 per cent, whereas the maximum any foreign investor—who does not do any tax planning—will pay is 36 per cent. So the Australian shareholder pays one-third more than the foreign shareholder. There are some timing differences and some exceptions, and I would hate anyone to take those exceptions to disprove this general point.

Company interest: if a foreign investor has structured his investment in Australia, as he can now do with thin capitalisation, at one for one or two for one, the maximum rate that the Australian Taxation Office collects on interest from foreign investors is 10 per cent; the maximum rate from Australian investors is 48½ per cent. Then of course, there are a variety of indirect taxes which go into Australian factory inputs which a foreign company does not put in.

Payroll tax—and we are talking at the federal level here—is obviously not a direct benefit to the federal government, but indirectly it obviously is and it is certainly of benefit to the whole of Australia, particularly to state governments. It is hard to estimate it, but in areas where the government is likely to be purchasing, which is more likely to be at the top end of goods and services, then we think there would be no question that effectively the Australian input will have also contributed five per cent of that as payroll tax.

Wages: here I am trying to communicate this general concept—I have been notably unsuccessful in conveying this concept before. If the government is going to buy something for \$1 million from an overseas supplier, or \$1 million for something that has been made here, then it would seem to be so obvious that, if it has been made here, within one month or two months, the government has collected from the wages paid—I have taken this from the Australian Taxation Office figures, and it varies a little bit from year to year—22 to 23 per cent. When I was supplying Rupert Murdoch’s presses with news ink, they always used

to come at us for a rebate and when they did the final assessment, we always had to allow for the rebate in it, as they did on their purchasing side.

Effectively, if you are going to buy something which is Australian made and you know that you are going to get 20 or 23 per cent rebate, with the multiplier effect which always comes in—some people would say a multiplier effect is one to one, so allowing even a very modest multiplier effect is valid—you would have to say that in income tax, because the government normally is not dealing with individual farmers or single proprietary businesses, the tax will be paid. If the purchase is for \$1 million and the Australian content is \$650,000—to qualify as Australian made, it now has to be over 51 per cent—then with that 30 per cent directly collected income tax the government is getting an immediate rebate back. So just as a company's bottom line results are all important, so are Australia's if we want a long-term prosperous future.

You only have to look at what happened to Korea. It did not have a high public debt, it had a high private debt. It used to be one of the shining stars. It is in trouble because it did not have the right borrowing structure. So, unless we start looking at the bottom line impact of purchasing in the whole community, unless we all stop maximising our own individual position at the expense of Australia, we are always going to have this problem.

I believe that it is absolutely essential the government starts setting the example, by saying, 'We are going to look at the bottom line impact,' and have that flow through that way. That is why I am saying that the first core principle should be to maximise the bottom line benefit for Australia in financial and social aspects and, in many ways, employment. Those two tie together. The other thing is that we think it should be very simple: just take some affirmative action and say that the government purchasing officers should explain why they have not bought goods that are made here by an Australian-owned company. That could be done in a way which would not raise any problems with world trade obligations.

Every now and then people throw up the question: how do you know that it is the product of Australia or Australian owned? Really, these days there are no problems with that. New labelling laws are a small step in the right direction. We would have liked to see it go further, but at least that has clarified what qualifies. Government offices should have no problem with that. Similarly, with the ownership side. There are very simple rules to establish what is Australian owned. For us, that has to be the overview. It has to be that the majority of the benefits, the majority of the control, are in Australian hands. We believe that this is clear. We believe that that would then answer the problems.

In my letter I referred to an article from the Qantas magazine which just happened to come before I wrote to your Chairman. It was by a very successful businessman, David Merson, who has a company in Queensland called Mincom. His words were:

While I think politicians can see the economic benefit of buying local products, the bureaucrats are charged with making the safest, lowest-cost decisions for their departments, not for the benefit of the country.

I think it would be the view of many business people that everyone is full of good intentions, but while ever it is structured the way it is, the same problems will continue.

CHAIR—Thank you very much, Mr Wallace. In your submission you talked about many members of your organisation. Could you tell us what your membership is?

Mr Wallace—Yes. There are usually about 200 corporate members, and we have about 3,500 what we call ‘Friends of AusBuy’.

Mr GRIFFIN—Are they actually businesses themselves or are they individuals?

Mr Wallace—There is a variety of people. For a lot of businesses money is a problem—even the fairly modest amounts that we charge, so we do not question that too much. They get the information. What has happened is that we have lost a lot of our good members, like Ampol, which was a great supporter. Ampol used to distribute our guides through their service stations, now it is foreign owned. We have certainly seen a dwindling of bigger companies which are Australian owned, and also smaller ones. FAI, another Australian company which had indirectly supported us, is now foreign owned. That is always a problem.

Senator HOGG—Where would the concentration of your membership be? In the service industries?

Mr Wallace—Right across the board. It varies in manufacturing and service industry. As you can see in your AusBuy kit, a funeral guide has been included. We have members from the funeral industry because they are up against the two big American ‘death care’ companies, as they call them. On the food side, there are companies like Sanitarium. Telstra, was up until recently, but now I think because of concern about ownership, or whatever, Telstra has not renewed its membership.

Senator HOGG—Are many of those members major corporations or are they small businesses?

Mr Wallace—It is mainly in the medium to small because in the big companies now there are very few that really qualify as being Australian owned.

Senator HOGG—What do you believe a small to medium enterprise is, by definition?

Mr Wallace—We work on the basis of medium being under \$200 million turnover and then small coming back to under \$50 million.

Mr GRIFFIN—Mr Wallace, you have taken up some very wide-ranging issues about what should be the real rationale behind government purchasing policy. It is an interesting question. From a practical point of view, we are looking more at the question of the operation of the current policy and how we can improve it, but within fairly strict confines. That is my feeling at the moment on what we are actually doing. What you are putting forward here are some very good reasons about why the overall issue needs to be confronted by government in the context of the real underlying problems—the current account, and so on. You are right; there is great difficulty in getting those views accepted at the very high echelons of government and bureaucracy.

I note your comment about Treasury. I have never been able to convince a Treasury official of anything that they did not learn at university. There are some very interesting statistics in here and some very interesting conclusions from those statistics. Do you have more background information about where those statistics have come from and the conclusions you have reached? If some of these points can be pointed out in greater detail, that may be of assistance to us.

Mr Wallace—The statistics in this, as were the ones at the back page about the current account deficit, come from Bureau of Statistics reports.

Mr GRIFFIN—Sure, but for example on the question of the multiplier effect on what actually occurs around the issues of the rebates around Australian investment, some of the facts around the question of taxation rates and the real effective impact over time, some of that sort of stuff. I understand the basic statistics there are ABS statistics, but you have drawn some conclusions which my gut tells me are correct. I know from experience in years gone by that in trying to convince Treasury about the question of multiplier effects—on the issue of labour market programs, for example; a different issue but a similar conclusion reach—in their econometric modelling it just does not come out that way. If you have more background figures on the methodology and the detail, that would be quite handy for us.

Mr Wallace—I am not sure I will be able to cover very much on that.

Mr GRIFFIN—I am not asking you to do it today. If you have that information elsewhere and you are able to send it on to us in the next few weeks, that would be very handy.

Mr Wallace—Let me have a look at that. I have a cattle farm halfway between Gloucester and Wingham and certainly, with my involvement on the rural side, you can see the multiplier effect in the country very specifically, as you can see the adverse one when you lose something in the country. It is easy to see in some of the calculations I have done that it was at a higher level in some industries than in others, which was a problem. I would have thought that most economists—and over the years I have employed quite a few economists who never ever solved the problems they were employed for, such as telling me which way interest rates were going to go, and so I no longer employ economists—

Mr GRIFFIN—Maybe that could be a policy for government.

Mr Wallace—Most economists would accept that there is a multiplier effect, certainly the concept that if I employ another person in one of my factories or on the farm—

Mr GRIFFIN—The concept, yes, but the actual question of real impact.

Mr Wallace—Let me see what I can find on the matter. I think it is harder to get something which would be other than in general terms. But let me see what we can do.

Mr GRIFFIN—Okay. What we are also effectively doing here is reviewing what has happened since the Bevis report came out and looking at the question of the recommendations that were made at that time: have they been implemented, have they

worked and so on and so forth. Have you noticed any change, from your members' point of view, in terms of government purchasing policy over the last four or so years since that report came down?

Mr Wallace—It is always hard to quantify it, and also one of the problems we have had in trying to get the people who would come with specific things is that they want ongoing relationships with government departments or other organisations and are therefore very reluctant. We have had a few with defence forces to whom I have said, 'Well, give it to me. It doesn't have to be an affidavit, but set out all the details.' They said, 'If we do that and it leaks from you back, that is a problem.'

Mr GRIFFIN—So there is a real concern about whistleblowing in that sort of situation.

Mr Wallace—Yes. That is one of the reasons that we cannot get it, and that is one of the reasons that I am quoting David Merson, who has come out publicly with the comment, and I think a variety of others. We had a very good person who was with the New South Wales Hospitals Commission and he got all enthused about AusBuy and we started working with them on that. What they found was that, if there was someone there being specific to say, 'Look, these are Australian, those are foreign. Do you accept that there is some benefit from buying Australian?', at the grassroots level we really have no problem convincing people of that. It just seems automatic; why wouldn't you support your own? So that New South Wales hospital, and this was Concord Repat, started getting some good changes. They suddenly found that in the move from Kellogg's cornflakes to Sanitarium not only were they getting something that was cheaper but they were getting something that the dietitians found was actually a better product for it. So there are a lot of things that can be done.

Hugh Mackay, whom I have great respect for in his opinions as a social commentator, says that the problem with us as Australians is that we want leadership and unless someone is setting the example to give leadership nothing will happen. The answer, which I suppose is a waffly answer, is to say, yes, we have a variety of people who complained to us, but I certainly do not have the specific hard evidence I would like.

Mr GRIFFIN—To use that example of the hospital, though, if you added some examples of areas of government where the view from your membership is that they actually do do the right thing or are a long way advanced compared to most parts of government, whether that be a departmental component or an enterprise component within government, examples like that will also be very useful for us. We may have the potential to have a bit of a look at what they do that is different compared with elsewhere. So it would be putting the positive spin on it rather than the negative spin.

Mr Wallace—I will see what I can find. The complaints have been various. For example, an electrical contractor said that he put in a quotation for one of the state government organisations—

CHAIR—Hang on, that is state. We are Commonwealth.

Mr Wallace—Yes, but I am just getting told the problem is that the overseas people were able to get product in here which did not meet the Australian specifications whereas the

Australian manufacturer was required to go to a lot of trouble to meet the specifications. I accept that is a state matter, but I think that is likely to occur at the federal level too.

CHAIR—You essentially make one recommendation, and that is that government purchasing officers have to prepare a report explaining why they have not bought goods and services produced in Australia by an Australian owned company. Others have made the same recommendation without the proviso of an Australian owned company but that officers be required to produce a report saying why they have not bought Australian at what dollar value.

Mr Wallace—I would have thought that this would vary from area to area. The whole purpose of this is to develop the culture, and the strategy for that would be to start off at a higher level and when that was established progressively bring the level down.

CHAIR—If someone has authorised a purchase—a box of HB pencils—and has an Australian government credit card, you would not expect them to produce a report to explain why, if they bought them from someone else, they did not buy Australian, would you?

Mr Wallace—No, but I would have thought that in most cases there would have been an overriding contractual arrangement. No, of course not on the small things. In a businesslike way we are looking to knock off the big problems first, and then when we have knocked the big ones off to work down the list.

CHAIR—What is the figure—\$2,000? \$10 million?

Mr Wallace—Once you have the culture in place it is all right. Let me relate an experience in Japan. We used to be up and down very regularly to Japan. My wife is a language teacher; she learnt Japanese so we would do better. We were dealing with part of the Sumitomo Keiritsu, as they call it—the group of families. We were buying product from them. We had product which was unique in Australia, high technology and better quality than they had in Japan and we could sell it even cheaper. I was buying product from them. Because of the good personal relations we had with these Japanese executives I said to them, ‘How about some reciprocal business?’ This particular executive said, ‘Give it to me; I will take it and run with it.’ We thought, ‘That is fantastic; there is someone here who is going to be the white knight charging for us.’ I gave him all the samples and all the details. There was no question about it—it was better in quality, 20 per cent to 30 per cent better in price and safer. Because the Japanese unions are very mild, their products are not as safe as ours.

After four months of chasing him up and asking, ‘Where is the first order?’ he came back and said, ‘I am not prepared to jeopardise my own career to help you.’ I know what would happen in Australia if someone came in and said, ‘I have something that is cheaper, safer and better’—they would be killed in the rush to try to sell it here. He said, ‘You do not understand Japanese culture. We know that if we buy a foreign product in place of the Japanese one, Japanese employees are going to be hurt, which will hurt a Japanese company and that is going to hurt Japan. I am being seen as someone who is promoting foreign products over Japanese ones. I am being regarded as unJapanese and that is going to affect my career.’

CHAIR—On the cultural issue, Mr Griffin asked you if you knew of any examples. We have been told by other organisations and individual companies in submissions and evidence that since 1994-95 Defence has been doing a particularly good job and that the culture in Defence, which was not too bad before, has demonstrably improved to the point that there is an overt attempt by personnel in Defence—from the top down—to try to support Australian industry development and to buy Australian goods and services. Have you heard that?

Mr Wallace—I have talked to people from the Defence side at conferences, and at individual levels they were rather good. However, about 12 months ago we ran a story about the Defence Force. They had moved a basic item like their crockery from the Western Australian manufacturer, which is the only one in Australia, to a foreign company. That was not good. Something like that is always going to get publicity. It significantly hurt a Western Australian company which did not have a big market. I would hope that what you have said is right—that the culture is there—but certainly someone is not looking after the PR side. Something like that does a lot of harm.

CHAIR—I recall that that purchasing decision also came with a report on why the overseas goods were purchased—in other words, a justification for not buying Australian. That is what you have asked for in your submission.

On the second part of this recommendation, buy from an Australian owned company, what per cent is Australian owned? How do individual line purchasing offices—and remember there are thousands of them—know?

Mr BROUGH—Mr Chairman, that leads to a question I was going to ask, which is a little bit bigger. Can I please throw that in? I agree with most of what you have said today. Do you have a purchasing policy for your companies which, perhaps, you think the government should be following—something in writing that you dictate to your purchasing officers which includes things that the chairman has just mentioned on the reporting, et cetera, when they cannot buy Australian made?

Mr Wallace—We take it in different categories. If you generalise, you can end up with a problem. After all, we are looking at management for management decisions, and that will have some bearing on the total aspect. But one of the things that we would always look at is to say, ‘If we pay a premium now can we work with you so that that premium over the foreign product can be reduced?’ There are other cases where we accept the Australian product because of the quality. In many cases the quality is high. Of course, there are some products which are not produced in Australia or they are produced by a company which is not Australian owned. I drive a car. Other than a few very small specialised ones, there is no Australian owned car company. Our policy then is that we try to buy something which has the highest Australian content. Having had, before I started AusBuy, a Jaguar, I now drive a Holden Commodore.

Mr BROUGH—But the point is this: do you actually have written guidelines which you can pass on or is this just something that has evolved because of your leadership?

Mr Wallace—I can let you have some general purchasing policies for the universities—to try to get the universities onside. We were unsuccessful in that. We have set out on a one-

page sheet some general things about what we think companies should have as their general purchasing policies. I can certainly let you have a copy of that.

Mr BROUGH—I was actually referring to your own organisation. I am not asking for what you have if you do not want to give it. But obviously someone who is so passionate about this has probably done a lot of the leg work. You have a rather large organisation—some 300 employees in Australia. Whilst this is obviously much bigger again, if we could gain some sort of insight into how you are successfully achieving that, then we can improve what we are doing here. That would go a long way towards achieving what you have suggested in the submission.

Mr Wallace—Certainly, in one product range we started paying a premium and then worked with that supplier to see whether they—given the surety of our business—could improve the price. In other cases we have been happy to live with paying the premium. It varies obviously from place to place and other factors come into it.

Mr GRIFFIN—I think what Mal is actually saying is that if I were a purchasing officer in your company, down the line, what written guidelines would I have from your personnel administrative area to guide me on purchasing decisions I might make? Do you have a template or a bible, if you like, to operate from that is specific to your company? I think we would like copies of the general stuff from AusBuy that you mentioned earlier, but the specific question is: do purchasing officers in your organisation actually have a set of guidelines which allows them to interpret and develop your stated approach on the question of Australian owned, or is it more a question of a general principle that has evolved over time and has developed culturally in the organisation? That is the specific question.

Mr Wallace—In my organisation, they know of my involvement, so we would always want to buy Australian owned and Australian made products.

Mr GRIFFIN—So they do not have a checklist to work from, or a set of guidelines helping them to define these issues. It is more a general cultural thing.

Mr Wallace—In a lot of cases it comes in fairly simply. As we have said in the guides and the segment that was done in the *A Current Affair* program, I certainly would not be wanting to portray the view here that if it is Australian it has a higher price and is of a poorer quality because in many areas—particularly in food supplies—that is just not true. That is what we have seen in the surveys and in that program.

Mr GRIFFIN—The general stuff out of AusBuy would be good, but if you have any written documentation specific to your company that may assist, that would be handy.

Mr Wallace—Let me see.

Mr BROUGH—You can see how important it is for an organisation such as Centrelink, which has 800 credit cards right around Australia. It is very decentralised. Obviously it is very hard to build a culture in a short period of time and, therefore, if you are going to achieve this, you need to have things which are set in concrete for people at the lowest level to follow.

We were talking about \$2,000 purchases, which is the most they can do on a card at any one time, but that represented something like 85 per cent of the total expenditure out of that department—so we are talking about multimillions of dollars. Therefore, it is just as important as the one-off purchase of \$20 million or \$50 million to the overall system.

Mr Wallace—The other answer that we had covered in separate presentations to other committees was that the labelling laws should be tightened up. We were very keen to get our series of logos with a series of ticks accepted or endorsed by the government. It is in one of the brochures. We were looking for a simple way to say that, if a product has three ticks, they should get preference over two ticks, and two ticks should get preference over one tick. I believe that it is possible to develop simple ways of doing that. With some involvement from the government, it would be very easy to have a list on the Internet, where people could quickly go through to see—whether it be pens, pencils or planes—what is Australian owned and what is made in Australia.

Senator HOGG—I want to ask you about the *Commonwealth Procurement Guidelines*. I do not know if you are familiar with them, but the first point is value for money. This has been an issue of major contention—that value for money by many is interpreted as being the lowest price, because that is the simplest way. Today you have alluded to that as being an issue. How do you qualify value for money, given that, say, a pencil is going to be purchased by the Commonwealth agency and, if they buy an Australian made one, it is going to be \$1, and if they buy the overseas one it is going to be 90c. How do you get to the basis of determining value for money?

Mr Wallace—To some extent, it depends on whether you define value as only financial or in broader terms. I think I could live with that definition if that was expanded, with value being defined as bottom line social and financial benefits. But, because most people would take that as meaning the number of dollars, we have suggested that the first core principle should be to maximise the bottom line benefit for Australia in financial and social terms.

Senator HOGG—That is fine, but I am the purchasing officer who is faced with this pencil. I am buying 100,000 of them at either \$1 from the Australian company or 90c from the overseas company. How do I justify not buying the 90c one?

Mr Wallace—In the report that we did, which Mal is looking at now—it needs updating because there have been lots of changes in that—we have answered that very question: 17½ per cent if it is owned and 12½ per cent if it is made, which is 30 per cent in total.

Senator HOGG—So you are saying there needs to be a weighting factor? Rather than make it subjective, it has to be very objective?

Mr Wallace—Preferably, in industries or in product groupings, you would have a weighting: say, ‘made in’ for this category would be only 10 per cent and in that category, 15 per cent; and ‘owned’ in this category you might say is 15 per cent, 10 per cent, 20 per cent.

I think that could be done very simply. As we say in the guide, if we could just get every Australian to redirect \$50 a week from ‘wholly foreign’ to ‘wholly Australian’, if you

take government purchasing—private purchasing is not a lot—that would be \$20 billion a year off our bottom line, but also would be creating many thousands, and perhaps hundreds of thousands, of jobs here. So we are looking for a big stake, and, with reduction of the current account deficit and unemployment as the outcome or the target, I do not think it is going to be very hard to set a few guidelines to get the culture in place. The culture is the critical thing.

CHAIR—Mr Wallace, we will have to bring this to an end or our next correspondent will not be able to have a go. Thank you very much for your submission, for the excellent information you brought to us today and for coming to talk to us. We will certainly send you a copy of the report when it is tabled.

Mr Wallace—I would be delighted to think that our qualification was there as a recommendation so that the next time this committee looks at it you have got different principles.

CHAIR—Thank you.

[10.35 a.m.]

KERRIGAN, Mr Shaun, National Industrial Officer, Textile Clothing and Footwear Union of Australia

CHAIR—I now welcome the representative of the Textile Clothing and Footwear Union of Australia to today's hearing. Thank you for coming and for your submission. Would you like to make a brief opening statement before we start to ask you questions?

Mr Kerrigan—Yes, I would. The interest of the Textile, Clothing and Footwear Union is primarily in job retention and maintenance of the TCF industries within Australia. In advancing the interests of the TCFUA to the committee, we would be submitting that the government should, at all times, ensure that suppliers of TCF products are manufacturing under conditions which are both lawful and equitable to workers employed in the TCF industries, whether working from home or within a registered factory.

The TCFUA accepts the broad principle that it is no longer appropriate for Australian manufacturers to sit back and wait for government contracts to come to them and that manufacturers should be customer focused and oriented. In submitting this, we also say that government purchasers should look beyond price in determining what constitutes value for money. In determining what is best value, it is critical that purchasers look beyond price and examine the impact of non-price factors such as lead times, costs of holding stock, risk factors, design, quality, after sales service and flexibility in delivery and in production.

It is the submission of the TCFUA that the government should adopt an ethical purchasing policy. The TCFUA strongly believes that an Australian government should, wherever possible, purchase Australian made, clean products through a policy which is transparent and equitable.

During the TCFUA's investigations into the exploitation of outworkers, we have found examples of government contracts being manufactured by outworkers for wages and conditions below the legal minimum set by the appropriate awards. This practice should clearly be unacceptable to the government. It is a submission of the TCFUA that the best way to address these sorts of problems and prevent them from occurring in the future is to enter into codes of conduct when purchases are made by the government. In our correspondence to the committee on 8 September, we enclosed, as attachments A and C, examples of codes of conduct.

The TCFUA has a number of agreements with the private sector which involve codes of conduct. We also have one public sector code of conduct in place which is with Australia Post. The TCFUA have successfully negotiated a code of practice with the New South Wales government which is being legislated to ensure that suppliers are responsible for the wages and working conditions of workers engaged in filling government contracts. The union is also currently involved in negotiating a similar code of practice with the Queensland government.

The Senate Economics References Committee inquiry into outwork in the garment industry has also recommended that the federal government enter into a code of practice or conduct along the lines of the New South Wales government. It is a submission of the TCFUA that adopting a code of conduct for the purchasing of TCF products is consistent with establishing a model of best practice purchasing. It is the submission of the union that the code of practice, combined with an adoption of a broader definition of value for money, is a positive step in helping maintain Australian TCF businesses and jobs.

Finally, it is submitted that the government is in a position to promote Australian made goods by establishing a transparent purchasing policy that includes a code of conduct and which will ultimately benefit the government, the suppliers and the workers who actually make the products that the government purchases.

CHAIR—Thank you, Mr Kerrigan. You talk about the exploitation of outworkers and about the government purchasing clothing or footwear from companies that have allowed that practice to continue. Can you give us any real life examples?

Mr Kerrigan—Australia Post entered into—

CHAIR—No, I do not mean a code of conduct; I mean where you found examples of abuses.

Mr Kerrigan—Australia Post in relation to uniforms is one. They entered into the code of conduct simply because we found that their uniforms were being made by outworkers for a substantial reduction in what would be the award rate for the work that they were doing. That is just one example. We have also found other defence type uniforms being made by outworkers in homes. It is not the norm for that to be the case with defence uniforms, because of the standards that are required in them, but we have found it. And, to the best of my knowledge, we have found other uniforms, especially after the Australian Defence Corporation, which was making uniforms, went from being a public entity to a private entity. They certainly used outworkers.

Senator HOGG—Could I just follow this through? The outworkers were the subject of a principal contract or tender that was let to a principal agent of some sort; is that correct?

Mr Kerrigan—Yes, that would be correct. The chain is really what you are asking about, is it, Senator Hogg?

Senator HOGG—Yes. I am interested in the chain and how the government purchaser would be able to follow the chain to find out what has happened. I can see where you are coming from, because that is my background. I understand how you would catch on to it. How, though, would the government purchasing officer become aware of it when the contract has been let out to A, A has subsequently subcontracted out to B, C and D, and the chain becomes more removed?

Mr Kerrigan—The code that is currently in place for New South Wales leaves the responsibility with the purchaser, but, when the first contract is given out, there are certain undertakings that the contractor gives to the government purchaser. One of those

undertakings is that they will show them the chain so that, if there is going to be any further subcontracting or sub-subcontracting of the work, that person has given guarantees about that in the code of conduct that they have entered into as a part of the contract.

Senator HOGG—But, in the absence of a code of conduct, there is nothing, for accountability's sake?

Mr Kerrigan—No.

CHAIR—Mr Kerrigan, we talked to Customs last week. If I remember right, they told us that they had placed a major contract last year for re-uniforming all of Customs and that they actually overtly set out purely and simply to buy Australian. It would have been a huge contract, considering the number of Customs officers they have around the country. Are you aware of whether or not they used such guidelines?

Mr Kerrigan—No. I am not aware but I can say with a reasonable amount of confidence that my not being aware of it is probably a good indicator that they did not use guidelines such as those.

Mr GRIFFIN—It would be worth having a look at.

Mr Kerrigan—It certainly would.

CHAIR—We can certainly check up on that. You mentioned Defence. A number of submissions and responders to the inquiry have told us that, in the past four or five years, Defence's attitude to purchasing has changed substantially. That is to say, the culture within Defence, now driven from the top, is to support Australian industry development and to support Australian companies, products and services. Has your union got any evidence that that is true or not true? I would be interested in your observations.

Mr Kerrigan—I could make some observations about it because I have recently spent some time in some factories in Victoria where defence uniforms are made. Certainly, from our perspective, that is probably true. But I think you could also say that the standards that are required in some of the Defence Force's uniforms, especially in dress uniforms for officers, are so high that it would be virtually impossible for the purchaser to go outside Australia. That comes back to what we were saying about value for money: if you are making uniforms to the standard that is required—and I think the standard, at the moment, for defence uniforms is an ISO 9002—it would be virtually impossible to go offshore. It is good rhetoric, but the truth of the matter is that some aspects of the defence forces could not go offshore. It would just be impossible. So, to answer your question, they are supporting Australian industry.

CHAIR—The British defence establishment or the German defence establishment or the United States defence establishment would have lower standards?

Mr Kerrigan—I could not answer that question with any accuracy.

Mr GRIFFIN—No, but the principal area, where you are talking about competition on TCF stuff, is actually the Asian region, isn't it?

Mr Kerrigan—Yes, it certainly is. The Americans manage to have their bounties still in place while we have to suffer the lead of the WTO rules.

Mr GRIFFIN—You mention in your letter, Shaun—or Tony's letter, rather—that attempts are being made or that a letter has been sent to Defence to seek a code of conduct.

Mr Kerrigan—Yes.

Mr GRIFFIN—How long ago was the letter sent and have you had a response yet?

Mr Kerrigan—We have had no response and it is an ongoing program. We have sent a number of letters to the Department of Defence—

Mr GRIFFIN—You have had no response to any of your letters?

Mr Kerrigan—No—we have done that over the last 18 months.

Mr GRIFFIN—You have been writing to Defence for 18 months and you have not had a response on the issue—not even an acknowledgment?

Mr Kerrigan—No, no response whatever.

Mr GRIFFIN—Can you possibly give us copies of that correspondence?

Mr Kerrigan—Yes, we can provide that for the committee.

Mr GRIFFIN—That would be good.

Ms PLIBERSEK—Have you had much of a response from government departments to your Fair Wear campaign?

Mr Kerrigan—Not a great response at all, no.

Ms PLIBERSEK—Have you had any correspondence with any of the people that you have asked to enter into codes of conduct about that campaign, explaining it or anything?

Mr Kerrigan—No; it has been a separate issue. The Fair Wear campaign runs as a public campaign; the union is certainly involved in it but the driving force behind Fair Wear is really community groups, mostly churches.

Ms PLIBERSEK—Can you tell us what numbers of jobs we are talking about in the textile, clothing and footwear areas and what your views are on the implications for numbers of jobs according to the take-up of these codes of conduct?

Mr Kerrigan—At the moment, there are 100,000 jobs within the formalised TCF sector. We estimate that there would be about 329,000 outwork positions. They would not be full-time outwork positions but positions where outworkers work in such a way that they might be working one, two or three days this week, they might have two or three weeks off, then they might get another one, two or three days. That is partly to do with the skill of the outworker because if a maker, somebody who is having clothes made, has a contract to make shirts today, they will look to the outworker who can make those shirts for them—and the skills in making a shirt are clearly different from the skills in making trousers.

As far as looking at what the impact of a code of conduct would be on employment numbers, it is our view that a code of conduct would increase employment in the registered sector, within factories. That is simply based on the government entering into it and the process becoming more transparent. If the process is more transparent, clearly there then needs to be a legitimising of the industry; it becomes legitimate, whereas, at the moment, if you let out a contract it goes to a subcontractor who then gives it to a person who is a middleman who drives a little van around the suburbs in both Sydney and Melbourne and in other states of Australia. That person then could enter into other contracts with people or directly employ outworkers, and at that stage it is not legitimised. The industry just becomes illegitimate because of the way that those people have operated, or can operate.

Ms PLIBERSEK—So you think there would be an increase in full-time, regular employment but you have not quantified that.

Mr Kerrigan—No. It would be difficult to quantify because it is difficult to say what sort of purchasing the government would be entering into. It would require us to know exactly what departments were going to make—what orders, over what period of time—to be able to come back to you with an estimate of how many jobs that could create.

CHAIR—Is the situation better today than it was five years ago?

Mr Kerrigan—No; the situation today is worse. It is becoming easier for people to enter into the illegitimate sectors of the industry because they have boomed over the last five years.

Mr GRIFFIN—It is an issue of government policy in some respects but, in terms of what we are looking at on the question of purchasing, it is a bit separate to that. It is not a situation where purchasing policies by government have or have not improved in the circumstances of buying ‘Australian made’, it is an issue because of the fact that your industry is having massive problems with increased deregulation, moving towards outworkers, et cetera, which is actually bugging the industry up.

Mr Kerrigan—That is true. It is not an issue of purchasing policy as such.

Mr GRIFFIN—Yes. If it is an issue in relation to government policy, it is more workplace relations than anything else.

Mr Kerrigan—That is right.

CHAIR—When we are talking about numbers, is it more of a problem simply because there are more outworkers—there are more outworkers and there is more or less victimisation of the outworkers?

Mr Kerrigan—There are more outworkers and more victimisation. It becomes a lot easier to victimise somebody when they are from a marginal community within the broader community. Outworkers, in our experience, have always been the most recent migrant arrivals. They come into the community on the fringe. In more recent times because of other government policy, in particular in immigration, it has become the case that those people who have come in at the margin have stayed at the margin because there has been no wave of new migrant arrivals.

In the fifties and sixties there were the Italian and the Greek people who went into the industry. They were replaced by later arrivals and so on and the chain has got to the point where, without another major increase in migration, we have stopped. It has become a vortex and people are closed into the problem of being marginalised and they cannot get out of the problem.

CHAIR—I thought I had read in some papers that your campaign had actually been rather effective. I have listened to some talkback radio that also indicated that an increasing percentage of companies in Australia have agreed with you and have outlawed the sub-contract practice or the backyarders that are being paid inadequately.

Mr Kerrigan—That is true and that has happened at the legitimate end of the industry. It is now for us to take on the harder end of the industry.

CHAIR—You are saying that the harder end of the industry has boomed and that it is now a worse problem than it was five years ago. I had thought from what I had read and heard that we had actually made headway, that we had made progress.

Mr Kerrigan—We have certainly made progress. Perhaps the answer to the question, more accurately, would have been—to go back a couple of questions—to say that there are now more outworkers as well. That makes the problem worse as well; it becomes a bidding system.

Mr GRIFFIN—Fixing aspects of the problem, but the problem has been increasing at the same time.

CHAIR—You could have more outworkers but have the problem decreasing because more companies are paying them fairly.

Mr Kerrigan—That could be the case but, in our experience, we are yet to come across very many companies which will pay outworkers fairly, and sometimes it is not the company's fault.

In the Australian Industrial Relations Commission, currently we are before a full bench to have the issue of outwork dealt with in the award, and one of the people who gave evidence in that was an employer. She was paid by the company above her the correct rate

to pay award wages. She in turn had to contract some of that work out further because she did not have the capacity to do it in-house. She also paid the correct wages. It was when she gave that work out to the next person, who was then engaging outworkers, that that person skimmed the profits and underpaid.

CHAIR—That makes it a bit tough for you, doesn't it?

Mr Kerrigan—It makes it very difficult.

Senator HOGG—I just want to hit the value for money issue again. I raised it with the previous witness, and you would have heard that. You brought into contention non-price factors, and you listed a number of non-price factors. How does a purchasing officer give some value to those non-price factors in making the judgment, because obviously it may well mean the difference between buying the Australian product—which is produced by members of your organisation—as opposed to buying something that is imported from overseas? How do you see that being applied?

Mr Kerrigan—The people who are purchasing TCF products should clearly have an idea as to what the goods are going to be used for. What I mean by that is, if you are buying uniforms for people, whether there needs to be after-sales service on those uniforms or whether those uniforms are things that are stock-standard things which are going to not change very much at all. From that perspective you should be able to say that the clothes are either a one-off or not a one-off. If they are things that are continuing—

Senator HOGG—But how does the purchasing officer factor this in? The purchasing officer has been told—as I gave in the last example—to purchase a hundred thousand of these. How does the purchasing officer then factor in these non-price factors? The purchasing officer will be under pressure from above to say, 'There is your budget. We are about efficiency and effectiveness.' At the end of the day the purchasing officer will be swayed—in my view, and by the evidence before us—mostly by the lowest price. Whilst the non-price factors may mean a lot to people like you and me and others, at the end of the day the purchasing officer, charged with purchasing the item, goes with the cheapest price. How do you work the non-price factors into the equation? How do you change the culture?

Mr Kerrigan—No, the code of conduct does not address those issues. In regard to the point that you are making, Senator, how I would see it being done is that you would have to say to them, 'If there is any requirement for this particular garment to have any sort of after-sales service, then it automatically becomes an issue of looking at that after-sales service.' Ultimately there is going to be a bigger cost in having any repairs or replacement or any alteration to a garment done overseas, if you have bought it overseas, than there would be if you manufactured it here in Australia. It becomes a price issue straightaway for them. I think it is probably an unfortunate example, but it comes back to price and the price that it would cost for any alterations to be done.

In our submission we are looking at a broader spectrum. To answer your bigger question, it comes also to lead times. Using the example before of buying something for customs officials, if you are buying today a new uniform for every customs official, there needs to be a lead time in that but, because there might be some customs officials who do not need the

uniform today, the advantage for the government to get the uniforms just in time as they require them has got to be able to be quantified.

It is unfortunate that we have to keep coming back to price, but these factors, while they are not in the initial purchase price, come up as price factors later on. There are other things like those things. Design is an issue which should be taken into account. We would also say that holding stock—if the government was in the business of holding things—should be taken into account, because it is obviously a cost for you to hold stock, and that would not need to be done if you were to use a local manufacturer who could meet just-in-time requirements.

CHAIR—Mr Kerrigan, thank you very much for coming. We appreciate your submission and your words this morning, and we look forward to receiving the further information and when we table the report we will certainly send you a copy.

Proceedings suspended from 11.00 a.m. to 11.18 a.m.

CAINS, Mr David, National Vice-President, Institute of Mercantile Agents

CHAIR—I now welcome the representative from the Institute of Mercantile Agents to today's hearing. Thank you very much, Mr Cains, for your submission. Would you like to make a brief opening statement before we ask you questions?

Mr Cains—I have written a few notes that expand a bit on the submission, which would allow further questions to be asked by the committee. Specifications of tenders can be far in excess of that required. It appears that those preparing the tenders look to include many terms and conditions for a multinational or multimillion dollar tender, even to the lowest tender where there may be only a few thousand dollars worth of goods or services being supplied, and it makes it very onerous for a number of people who may have the expertise to do it properly but who do not bother to put the tender in. We feel that comes in quite a lot.

We have a current Centrelink tender for investigations or surveillance which is over 130 pages long. Our solicitors have read it three or four times. Even they are not sure of what it says because different sections counteract themselves, which makes it very hard to tender.

On the point of proposed work flows from successful tenders, tender specifics, which means the purchase of equipment and employment of staff by successful tenderers, have caused a number of troubles when the work flow has become 30 per cent of that estimated. This has meant that they have overcapitalised and overstaffed which has caused staffing problems for some agencies.

Lately we have seen tenders that are not really tenders for work—only selection criteria for possible approved contractors. It is quite a difficult process to go through: you are on a panel and you have got to go and find the person in the government department because the name has not been provided to you. And, when you do put a tender in, you have to go through the whole process again.

In many places, this is reinventing the wheel. You have already proved your ability to do a tender, you are successful in that, and then you have to go and prove to the department again. This should be looked at.

Senator HOGG—Is this a whole of government approach or is it specifically narrowed down to a number of departments?

Mr Cains—It seems to be a whole of government approach. It has been mentioned that about 20 government departments might be using the services. It is something that has come out over the last couple of years. The other thing is that it is income for the government because you are supposed to pay a percentage of what you get back to the government for being the successful tenderer.

Mr BROUGH—Say that again. What are you are supposed to do?

Mr Cains—You are an approved contractor. You go back to the government departments to get a tender with them. Two per cent of that, we are advised, goes back to the government.

CHAIR—Not any more.

Mr Cains—Not any more? Well, that's good.

CHAIR—That has stopped.

Mr Cains—I was asked to bring this up. Where tenders are awarded but work is not forthcoming is a double or a triple problem for us. The successful tenderer is not receiving the promised work because local areas of government departments still use their preferred supplier. That might be good or might be bad.

Many tenders are awarded on price and size. Because of this, successful tenderers cannot do the work in the locality because of the cost of providing the service. The local government department does not get the level of service or individual case by case service that an experienced local agent can provide. As this local government department is monitored on its performance, it may look to using the better performing local agent to maintain its assessment level. We have seen that quite often. You have got your budgets in your local government department and they have got to meet the budgets. But, if they use the preferred tenderer, they will not meet those requirements. They are not taking the head office preferred tenderer, they are just using the local area.

Then we get the other problem where the local government department may continue to use the local agent. 'He has been my mate for years; we don't want to deal with someone outside the area; we both belong to the local golf club; we don't like pressure from head office.' These are just some of the excuses we get when we are not getting the work when we are successful tenderers.

We have recently done a one-on debt collection. This tender was won by the five largest agents in the country. Many non-winning tenderers are now out of business because they supplied specialised service and local expertise. They had many years of successful relationships and had tailored their business to their clients' need. They were instantly cut off, which saw a loss of staff. There have been many problems, both in the local government department and the local area. Adjustments were made. There was no consideration from head office of what local area adjustments had to be made in the way the work was used and given away. We have seen many problems in this.

An interesting one was back in 1992 with Telstra, which went to four agents. In New South Wales, one business was set up especially to do Telstra commercial work. They had the best results the department had ever had in its history. Once they were gone, the collections plummeted and the Telstra staff involved requested transfers because they could not meet their budgets given by head office. That was when Telstra was a fully government department. Five staff at the collection agency were terminated.

As to tenders that are given on size and not on price, my business grows on giving the level of service needed to perform on every individual matter referred to an agency. We still work for a number of state government departments because of the level of service given. We no longer tender for government contracts because government rationalism is that they

wish to only deal with national organisations, notwithstanding their ability to work and perform in regional areas—for example, the Hunter or the ACT—or in specialised areas.

Regarding price, we constantly see tenders, both state and federal, awarded on price. It still seems to be the concern of government officers to get the lowest price, in case they are seen to be favouring: the lowest tender combined with size must be the best.

The tender specifications are usually generalised. They should be more specific, or done in conjunction with maybe industry leaders or people that can help them do tenders, so that we can see what is actually needed. Quite constantly we see tenders coming out and you know what work is involved and what needs to be done but the tender just does not match what really needs to be done in that area. We find quite often with some of the tenders coming out that the expertise of the person doing the tender is not up with the latest technology, the latest work practices or work methods, whereas, if they had had a bit of liaison before they put the tender documents out, it might have been a little bit easier for them.

Interestingly, I see tenders given by national organisations at 70 per cent of my direct cost. We are in only three states so we are not a national organisation. My direct costs are far less than theirs. I have been in this industry for 25 years and been general manager of our third largest collection agency from 1990 to 1994. To perform at costs tendered, one must go back over 12 months, find something in the tender that has not happened, and look for price increases. We see people coming back for that. You look at your tender documents when you are 12 months down the track, and see something has not happened in the tender that was supposed to have happened, and there is a trigger to go back and ask for a price increase—and there you have got it on the smaller price. Or you skim the accounts: you have to treat them as a group, and not as individual accounts, and use the sausage grinder effort.

Mr BROUGH—What do you have to do to skim the accounts?

Mr Cains—Well, the easiest ones are collected; the hardest ones are not even looked at. We know that happens because it has to happen. Everyone that puts a tender in for government work or anything else is in there to make money. They have direct costs, they have got to meet them, and quite often it is a thing that is forced on them by the tender; the way the tender is written it does not have any specific performance. You have got to do this though. That is how you do it. You get your costs down. You get it as low as you can. You know you are going to get in with the lowest, and you know you are not going to do the work as seen.

At a national level the results may please a large government department; they also see dealing with their offices out in the states as a burden too. If they do not have to deal with them, they can take this nice big thing through head office and not worry about it. Unfortunately, at a regional level the performances required to meet individual budgets can stress out the government employees who have got to meet them. We see that all the time; we have people on the phone; we get instances where people ring us up and say, ‘Can you do this specialised thing because I cannot get it done through my tender, because I know it

will not happen, and head office wants it.' It just leads to stress within the departments themselves.

Instead of tendering to five big national agencies, if you spread your contracts further with the many small businesses in Australia that can do as good or better a job, you are going to increase employment because those marginal accounts that the major ones will not look at get worked, and money is made out of them.

One of the contentious issues that I have been asked to bring up is privacy. Our industry went through a grinding ordeal during 1988-89 to 1992 with the ICAC in New South Wales and the federal Privacy Act. If our Olympic bidders in Sydney enjoy the same level of scrutiny, the outcome may be very interesting. The current position of our industry to privacy in dealings with government departments and employees is one that would now withstand any scrutiny. Our institute's dealings with the federal privacy matters and ACCC section 60 matters have shown near total compliance. We have ongoing education liaison with all parties involved, and now we do the training for ACCC and help compliance there. However, many tenderers still refer to the New South Wales ICAC inquiry, and, though this was in New South Wales, not national, it precludes many businesses or persons from tendering, though no action was taken against them.

Now, seven years later, as we have no further evidence of problems, this tender provision should be reviewed, as it discriminates against some New South Wales businesses even though businesses in other states may have used the same methods at the time. In the last seven years there has been a totally different relationship between governments and our industry. For once in our lives, we are very happy to go to government committees and government inquiries. We are seeing a different method, both federal and state, in the way the public servant parts of the government deal with us, and we get many requests from them all the time. We are really now married, or like one unit, with all our services.

CHAIR—Thank you, Mr Cains. In your submission, you were talking about problems. You said:

. . . whilst successful tenderers were regarded as "approved contractors" . . .

I assume you mean 'endorsed suppliers'.

Mr Cains—I think the words were 'approved contractor' in the tender.

CHAIR—The endorsed supplier concept is relatively new. Our understanding is that the government has now moved away from across-the-board, common use contracts—which probably would not have applied to you, but applied to pencils and paper, computer supplies and so on—and moved to an endorsed supplier concept where the supplier is endorsed for all government departments.

Mr Cains—As far as I am aware, for the endorsed supplier, we only had five people that were endorsed in the whole country.

Ms PLIBERSEK—Out of how many members?

Mr Cains—We have got 600 members but possibly only would have had 40 or 50. And there are other organisations that are not members of our organisation but members of other ones, who are just as common but did not get anywhere.

CHAIR—You talked about tender specs not matching the work to be done. Could you give us a couple of real life examples?

Mr Cains—Because we do so many different types of work for you, it would be better for me to come back with examples from people who do it. In debt collection, we see requests to handle accounts. In the past, the method of handling them was all legal action, which puts great burdens on the people involved, who have already got problems paying their accounts. But we are supposed to do that still. And it is not a method that has been used for many years, except for collection agencies, which have got that sort of method down in their books. Where we go back to tender and say, ‘This is the way it should be; this is the new modern way of doing it; this is less burden and less cost to the government; this is less time,’ we are saying, ‘No. We want it done the old way.’

Mr BROUGH—You would be dictated to by those who do not understand the latest practices. It is not up to you how much money you actually bring in or how much of your service you deliver, it is also how you will deliver that service.

Mr Cains—Yes.

CHAIR—Is that different depending on which department you are tendering to?

Mr Cains—It can be.

CHAIR—Can you tell us, without compromising your business, who is good and who is bad?

Mr Cains—It is not my business; it is members’ businesses. I would rather get the specifics and come back to give them to you.

Mr BROUGH—You said earlier that you might win a tender, but someone else delivers the service or part of the service.

Mr Cains—Yes, that happens quite often.

Mr BROUGH—I do not understand how that could happen so perhaps you can enlighten us. Who authorises the non-tender winner? What is the point of doing a tender? Having done it and won it, surely you have a legal recourse, if you wish, to say that you were not given the business.

Mr Cains—When you come back and you speak to the head office of the government department, they say, ‘Well, it is too hard. Our local area people are still using them. We try; we write to them; we give them directions.’ But you are not given the work; so the tender is not policed.

Mr BROUGH—I can understand that from what we have heard so far. So they get given a directive: you are to use X, Y and Z.

Mr Cains—Yes.

Mr BROUGH—They decide to use A,B,C—that is a bit of bad luck.

Mr Cains—It could be. In some cases that might be good for the government department because they might get a better service; in other cases, it is not.

Mr BROUGH—But where does that leave the companies who have tendered and won and put staff on, et cetera?

Mr Cains—Very upset.

Mr BROUGH—More than a little bit upset, I would have thought.

Mr Cains—Some out of pocket; some dismissing staff; some buying capital equipment that is not being used.

Mr BROUGH—Do they then go back to the departments and discuss it with them?

Mr Cains—You try. But if you make waves you usually get more problems.

Mr BROUGH—How long are these tenders for?

Mr Cains—Usually two to three years. You do not have too many one-year ones.

Mr BROUGH—Are the problems manifesting themselves fairly early on?

Mr Cains—Yes, they are.

Mr BROUGH—Do things generally improve or does it just remain and you muddle through the two or three years and that company knows that it has been bitten and does not bother again?

Mr Cains—Both. Some you can. If you keep working at it and working at it and working at it, you can get a bit of a change. Some of the people just do not bother because they do not see the results of their request for the work they are supposed to get. And, because you are not supplying pens—you are supplying an intangible service—it is quite easy to swap around from supplier to supplier.

Mr BROUGH—This is very widespread? This is not just—

Mr Cains—It seems to be something that is happening, over the last five or six years, in the tenders in our industry, and I think it is something to do with going to these national tenders, big tenders, where you are trying to get four or five companies doing all of

Australia. We have had some in New South Wales where the regional areas of government departments still use the regional people.

Mr BROUGH—So you are saying that the contracts are too big in the first place and they would be far better off, and SMEs would be more inclined to win some of the business, if contracts were broken up in the regions?

Mr Cains—Absolutely.

Mr BROUGH—By region—is that the way to go in your industry, or by area specific, industry specific or whatever else you have in mind?

Mr Cains—It can be industry specific, type of product required, service required, or by area. If you are doing investigations for Centrelink or people like that, the person in the local area, on the ground, usually knows everything that is happening in the local area and has all the expertise for it, whereas someone who is, say, in Melbourne and has got to do a job in Newcastle does not get the same results.

Mr BROUGH—You also alluded to cosy relationships.

Mr Cain—I think that has always been there. I must admit I have a couple myself—but they are state government ones.

Mr BROUGH—That is fine. Can you give us a bit of background, on how these cosy relationships benefit you—in the third sense?

Mr Cain—In the third sense, I see regional area ones: the local people have got to work with the local people. They know everyone. If they have been friends and grew up together and went to school together, been through the local education—one has gone into business and one has gone into a government department—quite often it does not matter what comes down from head office. It is what is used, because you are using an intangible service.

Is that good or bad? It is bad for the person who won the tender; it might be good for the local area. But I know we have work from one particular state government and we keep getting it and doing it because we have specialised in it for four or five years. Our results would be at least 50 to 100 per cent against anyone who won the tender, only because we have decided to specifically look at that sort of work and put the people on with the expertise to do it.

I saw a classic example of that back when the Privacy Act was first introduced and many companies had to get out of the type of work they were doing because the cost involved meant that collecting small accounts was just not cost effective. We were the biggest medical collectors in Australia and we had all the expertise doing it. Then we got every competitor in the business coming in, undercutting us, and then performance just disappeared. You can use people who have gone into a particular area and specialised in it. But, if you get national tenders where you have got a whole ambit of everything in that tender, you do not get any specifics; you just get chucked in a pile.

Mr BROUGH—Your association has never been approached to assist with general information regarding production of tenders for anybody within the government departments?

Mr Cains—I am sure we have in some cases. I think we did with the taxation office. I went to Canberra—I think Norman Owens was the national president in those days—and went right through it with the taxation office, what they should need and should do, and they have test data out with the same five majors again. But I have not seen any results of the outcome and we have never had any feedback.

Senator HOGG—When you say five majors, what size companies are we looking at—in turnover or number of employees?

Mr Cains—In our industry we have probably five companies that have more than, say, 100 employees, and they may have up to 200 or 250. So we do not have any great big companies. Most of our industry has 30, 50 or 60 employees because that seems to be the size that is best managed to give the best service. It is something that has just happened, although we having rationalisations at present where larger businesses are buying out businesses. We are especially all opening up in every state for the reason of getting government tenders. Big multinational companies were going the same way. Our biggest client is American Express. They had a request two or three years ago to have an office in every state because the government wanted it—everyone seemed to want it. So they went that way and we had no work for two years. It did not work and now we are back as their best agent again, for the last six months. They went that way and found out it did not work. Being private enterprise—even though it is a big company—they quickly saw the error that was happening and then changed their requirements. Hopefully we will see government do that again. Everything seems to be cyclical. They used to have requirements, eight to 10 years ago, where it was all broken up into local areas and you used the best person that could do the job. We have been going up into this spiral of using the biggest must be best and must be the cheapest. It will go the other way, hopefully, in the end.

Senator HOGG—Is there a reluctance, therefore, on the part of government departments, to admit that they have chosen the wrong path? Is this because the bureaucracy from up top dictates what is happening and the people down below have little or no input into what is happening?

Mr Cains—You see stress levels. What you tend to do is work out any work you have got, and you are dealing with the local area or even state managers of the departments and you can see the problems they are already facing. They do not want to complain. Complaints upwards usually cause problems.

Senator HOGG—Is there room, therefore, in the procurement of services from government departments, for a complaints organisation which can sort out the difficulties that you perceive, or that your organisation perceives?

Mr Cains—Something like an ombudsman might be good because it is outside. I know that anytime that you have made a complaint or you have challenged something, you do not come up the best. We had different instances in the late eighties where we had state government tenders and the tender requirements were, I could say, crazy, I suppose. We go

back and we could complain to the contracts board; we were not getting anywhere, and if you are known to do that you did not even seem to get an invitation to the next one. But, by 1991, the contracts board was being staffed by people with greater expertise who would call you in and look at a contract before you went to the government department, to get an overview of it. They would question your pricing, question your ability, question the methods of doing it. It seemed to come out with better results. Whether you had the same sort of thing—it all depends on the staffing of those review boards.

Mr BROUGH—Are all your members Australian players? Are there no international players in Australia?

Mr Cains—We may have a few overseas: Dun and Bradstreet is one which is overseas. But it is a rare occurrence. We do not have any real overseas players, except for Dun and Bradstreet. We are having a lot of feeling from them now, as we are getting into the global economy. We are getting requests, especially from big American companies wanting to set up agencies in Australia. You can, if you want, do a joint venture with them or become part of their organisation. I think it is something that is going to happen. In government work, if, say, the taxation department decided to outsource a lot of their work, you would suddenly see the volume of dollars and income to be made in private enterprise going up and you would see overseas people becoming very attracted to it quickly.

CHAIR—I am not totally comfortable that I understand all that you are talking about, particularly in this signing a national contract and then finding that local areas use somebody else. What kind of department would that be applicable to?

Mr Cains—I suppose it could happen to any department. We work for the taxation department and we work for what is now Centrelink.

CHAIR—What about Customs?

Mr Cains—I am not sure about the work done for Customs. It is more in the investigations. I would have to get our national president, who is in investigations, to come and look at those sorts of things. I really specialised in debt collection, and it is something that is just starting to happen. In every state, state governments are now outsourcing many things and it is starting to spread up.

CHAIR—Forget the states; we are Commonwealth. We are not going to do anything about the states; we are not even going to attempt that. What we need to understand is, for instance, in your area of debt collection, what sorts of debts is Centrelink looking to recover?

Mr Cains—Centrelink's problems are more in investigations and surveillances.

CHAIR—Then give us a department where there is debt collection, outside of Taxation.

Mr Cains—I would have to go and check with members on that. I would have to go back and check with members to come right into effort, because most of our problems might be with investigation, surveillance and process serving, which is the federal court. Centrelink is the new name, isn't it?

Ms PLIBERSEK—Would you occasionally have to recover overpayments, for example?

Mr Cains—I am led to believe that that is being outsourced now and there are trials of that happening. I do not think any of our members have got it. I think members of the Australian Collectors Association might have it, which I could find out about if you wanted.

Senator HOGG—You seem to refer to outsourcing. What is your concept of outsourcing?

Mr Cains—Using private enterprise to perform a service. With overpayments for Social Security, they are looking to send them out, I am advised, to private Australian collection companies.

Senator HOGG—Aren't those the organisations that you represent? This is the difficulty I am having. When you talk about outsourcing, it is something that is outside your organisation or your membership?

Mr Cains—In debt collection, three of the major ones are not members. In investigations, process serving and surveillances, they would all be members.

Senator BROWN—You are saying that there is another peak body, too.

Mr Cains—I am a member of that, too.

Senator BROWN—What is that called?

Mr Cains—Australian Collectors Association. David Ellis is the president. I have been the secretary at different times.

Senator HOGG—So, when there is outsourcing, you are referring to organisations or companies outside of your organisation?

Mr Cains—Both.

Ms PLIBERSEK—Anyone who is not the government department that used to do the work—that is what you mean, isn't it?

Mr Cains—Yes.

CHAIR—Who do you do debt collecting for?

Mr Cains—Our organisation or our members?

CHAIR—Which departments?

Mr Cains—It used to be Social Security, all the different branches of that; the taxation department; and I think they do it for Customs. I am trying to differentiate between state

ones and federal ones, to remember which is which, because we have worked for so many of them. Then there are overpayments of government grants—

Mr BROUGH—Family payments, as in—

Mr Cains—Family payments, all those—

Mr BROUGH—Not social security but, I mean, child support payments, that sort of thing?

Mr Cains—That is being outsourced at present, I am led to believe. But I do not think I would like to do too much of that.

Senator HOGG—Would you be able to give us, within the next week or so, a break-up of which government departments you do business with and who are the major players with the contracts with the major departments?

Mr Cains—Yes, I can do that.

Mr BROUGH—And what type of business, too; it obviously varies quite a lot.

CHAIR—You can understand our problem?

Mr Cains—Yes.

CHAIR—There is a great multiplicity of both departments and agencies within departments?

Mr Cains—Yes.

CHAIR—You make, quite frankly, some broad sweeping statements as if it applies to all of the bureaucracy, the whole of government. If in fact we are talking about a very limited range of departments or agencies, that is a different matter entirely.

Mr BROUGH—Things like Telstra and Australia Post—they are both agencies of the government.

Mr Cains—Yes, with Telstra there have certainly been problems with tenders. The government still owns more than 50 per cent, doesn't it—

CHAIR—Telstra is still a government business enterprise.

Mr Cains—Yes.

Senator HOGG—Is growing red tape from government departments the problem that you are confronted with in the tender process, or do you find red tape has been cut?

Mr Cains—I think red tape has been reduced and government departments are more accessible.

Senator HOGG—So it is not the red tape but the construction of the tender documents themselves—

Mr BROUGH—And the enforcing of those tender documents?

Senator HOGG—and the enforcement of those documents which is basically your problem?

Mr Cains—I think with a lot of the tender documents these days they are trying to write them to encompass everything that can happen. You do still see provisions in the tender documents that would have nothing to do with the services the tender is talking about. They may be left in for a specific reason but it also means you have got to spend more time with your legal advisers, going through it and crossing out the bits that do not mean anything.

Senator HOGG—So the tendering process is becoming a more costly exercise for your members.

Mr Cains—By far. The tender documents, instead of being maybe 20 pages thick, are now up over 100. This may be because of problems they have had with tenders nationally, over every organisation in the past. I know we still get sections of tenders that would apply only if you were supplying pens, but they are still part of our tender documents. Those types of sections are getting larger.

Senator HOGG—Right. The other thing that is happening with government tenders, or government purchases, is that they are being devolved—in other words, being pushed further down the chain of command within the bureaucracy. Is this a problem for you? In other words, whereas previously you may well have dealt with someone more senior, you are now dealing with someone further down the chain.

Mr Cains—In the tenders that I have been involved with over the last four or five years, we have had the opposite problem. We are getting away from the people down there that we should be dealing with, and higher up, to people with various goods to deal with without coming down to our specifics. You do not get the time; you do not get the ability to really discuss with them—you are there to ask questions and quite often they cannot answer them.

Mr BROUGH—I have one quick question. You said in your opening statement basically that becoming a preferred contractor, preferred tenderer, or whatever else was a waste of time.

Mr Cains—That was what we found—now I am told that this is changing—from the tenders we put in probably two years ago.

Mr BROUGH—Could we just get some feedback from your members as to what they think currently—whether it is worth their while becoming a preferred tenderer or endorsed supplier and what sort of time and money it takes them to actually reach that and get that—

Mr Cains—We had quite a discussion of this in November, and people are just not bothering, which we found—

Mr BROUGH—It does not disadvantage them at all, because they just go to the open market each time anyway.

Mr Cains—It does disadvantage, because we see the opening of Commonwealth government—we have had the opening of state governments now for seven or eight years—as one of the biggest markets we can get into. If the taxation department decided to outsource their bad debts, there is more work there than every debt collector in Australia could handle. We would all be employed for life if they did that.

Mr BROUGH—That is not really the point. I accept that.

Mr Cains—But that is what we see as a growing market, and we are not able to get into it.

Mr BROUGH—But we heard that preferred tenderers, preferred suppliers or whatever were being overlooked in other industries. So they were spending—and those figures were quoted—six-figure sums and a lot of time for no real benefit. So your members are saying they are not disadvantaged or advantaged by having the tag of being a preferred contractor, preferred supplier or whatever term they are using.

Mr Cains—They feel disadvantaged but they feel there is nothing they can do about it.

Mr BROUGH—They feel disadvantaged if they are not?

Mr Cains—About why they are not a preferred tenderer, why they were not accepted in this process that we went through about two years ago.

Mr BROUGH—Let's say they are—they have been accepted as a preferred tenderer: does that give them any advantage? What you said in the earlier statement gave me the clear impression that it made no difference.

Mr Cains—To the smaller companies it makes no difference. Probably for 10 or 12 of our members, to be a preferred or endorsed supplier would give them the advantage to apply to government departments for tenders that they may win. But at present there are only five or six that have been endorsed, and the only difference between them I can see is that they have an office or a sales representative in every state.

CHAIR—Mr Cains, thank you very much for your submission and for coming to talk to us today. If you could answer those questions you have promised to follow up on, we would be appreciative. When we bring down our report, we will certainly send you a copy.

[11.59 a.m.]

BURNS, Mr Paul, Hunter Region Manager, New South Wales Industrial Supplies Office Ltd

KEELEY, Mr Robert Henry, Executive Director, New South Wales Industrial Supplies Office Ltd

WEBSTER, Mr Peter Raymond, Senior Consultant/Economist, New South Wales Industrial Office Supplies Ltd

CHAIR—Welcome, gentlemen. Thank you for your submission. Would you have a brief opening statement before we ask you penetrating questions on what you have had to say?

Mr Keeley—I have a brief introduction. We have introduced the ISO basically as we understand it and as we see it affects this hearing. We would like to concentrate on the fourth item in the sense of positive, constructive things that we believe are being done in various areas. We hope that that will help your committee pursue that activity further. There are a number of good results we have seen come through, and we will address those in the questions you ask. If you do not ask those questions, we would still like to expand them a little bit as we go along.

I would like to mention the recently launched New South Wales government purchasing policy. If you have not seen that, we think it is something that is built on other things—for example, from defence. I think there are some good points in that that are worth considering. We talk all the time about business opportunities for Australian manufacturers and service providers. We are not pushing government assistance in the sense of grants and money and that sort of thing; we are looking at the opportunity side. We will talk about the SAMP program, the Supplier Access to Major Projects program, which is being funded by the Department of Industry, Science and Resources. We think that is a pretty good concept. So they are the sorts of things we would like to concentrate on—the positive outcomes of what we have been achieving. We are happy to answer whatever questions we can.

CHAIR—Thank you. Last week in Canberra we talked to ISONET, and we or other committees have talked to you on numerous occasions. Certainly Industry, Science and Technology talked to you in 1994 and subsequently. In your submission you said:

Since the establishment of the ISOs, in excess of \$2 billion worth of work has been won by local companies that otherwise would have been imported.

Is that New South Wales or national?

Mr Keeley—That is national.

CHAIR—I will ask you what I asked ISONET last week. Have you got your accounting in order now? I will describe to you an anecdotal experience. I visited an ISO office in Queensland—I cannot tell you which one—with the employment, education and training

committee, and the responsible person brought up a purchasing item to show us what a wonderful job they had done of convincing government to buy Australian. In fact, it was a contract for supply of army boots. For the company that won the tender that ISO claimed credit for, 95 per cent of their business was making boots for the Commonwealth government, for the Army. I would have thought that if that was common practice the statistics were rather corrupted.

Mr Keeley—I do not know that particular example. I have heard the question independently, but we would be happy to follow that through if you can give us any further information.

CHAIR—I cannot do that. I would simply like to know whether you are confident that your data in New South Wales is now not corrupted, that it is consistent, that in fact the dollar's worth of work that you claim for Australian industry is work that would have been lost.

Mr Keeley—As for the way we do that in New South Wales, we have been operating for approximately 14 years—we started as a pilot program—and about every two years we are reviewed by somebody reporting to the New South Wales government. Every time they check our figures, they actually go and talk to the purchasers and they talk to the manufacturers and they do an audit check. Every time they have done that, about every two years, it has been said, 'They're doing a great job. Give them some more resources.' It has been a terrific response and a terrific report. Nationally, they do something similar but I cannot answer that particular query.

CHAIR—I would not want to leave you with the wrong impression. I am a great supporter of right, not a knocker, but I think the committee needs to know your bona fides.

Mr GRIFFIN—Is the report that goes to the state government done by an auditor of some sort?

Mr Keeley—Every time it has been done by somebody different. The first one was done by a public accounts committee from the New South Wales government—three separate people—and another one was done at one stage by Ernst and Young. Different groups have done it.

Mr GRIFFIN—Is it an actual report to parliament? Is it publicly released?

Mr Keeley—It is a report to the Department of State and Regional Development or its predecessor and it has been accepted, in the most recent case, by the New South Wales Treasurer.

Mr GRIFFIN—Is it publicly released?

Mr Keeley—I cannot answer that—whether it would be available—but I would be happy enough to pursue that.

Mr Webster—I do not believe it has been publicly released. We have been checked by independent reviewers, but it is not available for public release. I believe one of the reasons is that a lot of our inquiries are for private companies. One of the conditions under which we operate is that we guarantee to ensure the confidentiality of our clients' business, therefore we cannot be putting details of specific inquiries into a document which becomes public.

CHAIR—Item 2.2 of your submission, in talking about national competitiveness and industry development, said:

. . . it is our opinion that government purchasing has not helped local industry to become internationally competitive.

You go on to say that view was also reached following the Bevis report. Is that still true or are you talking about history?

Mr Keeley—I am talking history to a certain extent. It has definitely improved since some of these things were written, and we can talk about some of those positive things.

CHAIR—Would you please?

Mr Keeley—Yes. I will ask Peter Webster to talk about the local industry development plan that we have been working with people on, how that affects the marketing of companies and their products and how that has been developed out of work we have done with government.

CHAIR—Would you try to restrict your comments to the federal government? It is not that we are not interested in what the states do; it is just that this is a Commonwealth inquiry and we are the Commonwealth government, and we cannot tell the states what to do.

Mr GRIFFIN—If you could have examples of where the state is doing something which is good, which could in fact be utilised by us.

CHAIR—That would be fine but remember that one of the things we are trying to come to grips with is essentially whether, since the 1994 report of DIST, government has got better. Are we doing a better job? We know we can do better yet—we suspect so. Is government doing a better job? Is the bureaucracy helping in this to a greater extent and, if so, by how much?

Mr Webster—I do not have an answer which covers all of government. What I can do is relate instances and relate the manner in which we work and interact with government purchasing and procurement and how that actually impacts on industry in providing opportunities to them and a flow-on of industry picking up those opportunities.

The main method of achieving our goals in relation to government purchasing, as in all major projects, is to assist our clients to develop and expedite local industry participation plans. These are plans that we have put in place with a number of projects such as the Olympics, for example. With federal government purchasing, we have put in plans in partnership for major project components in, for example, defence. ADI is the contractor for the minehunter in Newcastle. We worked with them to develop a local industry participation

plan at the time they were bidding for tender. That plan was considered by Defence and then we helped ADI to expedite that plan.

The thing about a local industry participation plan is that it is not a prescriptive item as, for example, in offsets. In offsets you are saying, 'You're getting a contract. You will therefore spend 30 per cent, 60 per cent or whatever on local content.' It is very prescriptive and it has been criticised in the past as governments picking winners, and the results at times have been quite dubious. We are not prescribing anything when we do a local industry participation plan with someone.

As a side issue, this can apply not only to government purchasing but also to private purchasing and private projects, particularly when a government project is outsourced. Devolving the responsibility for procurement to another organisation does not mean that you have to lose sight of the goal of using that purchase, where possible, as an industry development tool.

We will sit down with the project proponent, and it may be at the time before the tender or it may be post tender, and have a look at the particular items and the contracts that are going to come up under that major project. On that level we will identify where the imports are—where imported work is being done—and offer local alternatives, which may be given an opportunity to bid against those imports. Then on each tier of contracting down for that major project we work with the subcontractor, looking at what their intended purchases are and their intended contracts—identifying the imports and using our expertise in identifying Australian capability—and putting them in touch with local companies that have the capability to put in an alternative bid.

As I say, it is not picking winners because we are simply putting the opportunity for local companies to bid. When they are given that opportunity to bid, some do not win. Many, though, do win and when they have won that bid they have picked up that government business. They have picked up that government business because they are good enough to pick it up, not because someone has been promised an offset. In that instance it is very much market led and it is not us trying to pick winners and saying, 'That's an item that we must produce in Australia.' We are not saying that about any item. We are saying, 'These are the items that it looks like we are going to import. Let's give the opportunity to the local manufacturer.'

I keep mentioning 'capability'. That is what I really mean. I do not mean 'products'. We do not just look at products. It is not a matter of us just throwing product lists at project proponents—they can look in any number of directories—and you do not really get industry development from that. We are able to look at their actual requirements and work out what you need to do to be able to fulfil those requirements and find the companies that have that expertise. In doing so, you often have a company that is not in that market but has expertise. They may need to supplement that expertise. They may need to slightly restructure themselves to be able to win that business. But, once they do so, they are in a new market. So, in essence, by using a local industry participation plan on major projects you can put opportunities in front of local manufacturers that may have enough critical mass in them so as to allow that to encourage that manufacturer to approach that opportunity, win that opportunity, and then find themselves in a new market.

This has happened, for example, on the minehunter project in which we have companies such as Cowan Manufacturing of Warners Bay. Cowan are well known for their work in producing portable recompression chambers. They are the major supplier to, for example, the US Navy. But Cowan do more than that. They have a very good capability in stainless steel fabrication, including a lot of pressure vessels that are required on these boats. Originally, these sorts of vessels were earmarked to come in from Italy. Our person working with ADI—our consultant, Ken Ford—was able to identify a small company in the Hunter, Cowan, who had this expertise. They were able to pick up business on the minehunters in Newcastle.

While we were doing that, we were also talking to Intermarine, the Italian company that designed the minehunters. They are subsequently building minehunters for the Thai navy. We were able to introduce Cowan's capability to them in Italy and the end result is that Cowan have been able to beat the Italians' traditional suppliers in supplying that export market for the Thai navy. So, from an Australian government purchase using a LIPP, we have been able to identify a capability, introduce it into the project, find that a local company is now in a new market and extend that to exports.

CHAIR—In your recommendation you said:

That Government bodies be required to use the services of the ISO Group to assist in sourcing ANZ manufacturers and enter into Memoranda of Understanding where applicable.

ISONET told us last week at a public hearing in Canberra that since 1998, I think, ISO had not received any significant inquiry from any government department other than Defence.

Senator HOGG—It was since June 1997.

Mr BROUGH—They said they had lots of memoranda of understanding?

CHAIR—Yes, and many departments kept telling us—because we spent two days talking to government departments—about their great memorandum of understanding with ISO but that nobody had actioned it. They had an MOU but they had not used it. Can you tell us your experience, being Commonwealth not state?

Mr Keeley—Yes. There is a number of memoranda of understanding signed between ISONET and various federal government departments. My guess, and I will ask Peter to confirm this in a moment, is that we have not had many direct inquiries from federal government departments directly. Even the ones we have talked about with Defence have come through their major contractors and their major suppliers. Defence have been pushing those people because of Minister Bishop's announcement in June last year to change the Defence purchasing policy. They are making strong moves to get their major contractors to talk to ISO, and that is happening. But, as for other departments, I would say we have not had very many inquiries in recent times.

Mr Webster—I would agree with that. They have not been knocking our door down.

CHAIR—Can you think of any?

Senator HOGG—Some good examples?

Mr Keeley—I cannot think of any.

Senator HOGG—Have a guess.

Mr Keeley—My guess would be almost none.

Mr Webster—A couple of minor ones; nothing that I would consider significant.

Senator HOGG—Why is that? What is stopping them coming to you?

Mr Keeley—I honestly cannot answer that except to say that, when those original MOUs were signed some years back, there was a program that had been implemented by DIST at that time called SASP, supplier assistance support program. The aim was to actually fund some ISO consultants to work in very closely and have a report function that would allow the departments to say, ‘This is what we have done. This is how we have done it.’ But that sort of information would best be handled and discussed with ISONET to get the real facts and figures on that program. Even though they ran it, we supplied the consultant to get some of that work done.

Then we were getting regular inquiries, for example, for furniture. That was scattered around Australia because different departments through DAS, as the centralised purchasing group at the time, allocated to their regional offices which office would look after which particular major purchase, so furniture might have been Sydney, paper might have been Perth—and I am using those only as a couple of simple examples.

CHAIR—I will ask one last one and then let my colleagues have a go. I just had what I thought were important questions to ask you. You said in 2.4:

It is important that Government buyers be required to provide adequate justification for the purchase of imported products and services in preference to available items of ANZ origin.

That recommendation has been made by a number of respondents to this inquiry. Can you tell us what you think the dollar value ought to be? Surely you are not talking about an order for a box of A4 pencils.

Mr Keeley—No, I think the defence requirement is \$5 million to use the ISO system.

CHAIR—We are not talking about that either. You said justification for not buying ANZ.

Mr Keeley—I was using that figure of \$5 million dollars in that case. Maybe it is \$5 million dollars. The New South Wales government are saying \$1 million. They want to get into that sort of concept. It is somewhere between those two: \$1 million and \$5 million. In some cases when you buy furniture those contracts are long term. It is not just the one order that might be \$2 or \$5,000, it is over a period of time when they are common use contracts or long-term contracts.

CHAIR—It seems to me that each individual purchasing officer having to supply such justification ought to help change the culture of purchasing in that organisation. Am I wrong?

Mr Keeley—I would hope it would.

CHAIR—Has it worked for Defence?

Mr Keeley—I believe it is working. It is slow. We are gaining something with Defence every time we do a job. They see the benefits of it and they see the value that has been added. When they do the whole of life costing, this is where they are seeing the benefits of going down the track they are going down. That is the reason they are doing it—to save money.

Senator HOGG—That is because it is being driven from the top, though. That is one thing that we have seen that makes a real difference in this whole program. If it is driven from the top, then you get the result; if it is not driven, then it just lies out there, with people wondering what is really happening. Is that a fair assessment?

Mr Keeley—That would be a true statement. The same thing used to happen with quality assurance programs. If the top person does not drive it through, it never happens.

Mr BROUGH—Could I ask for a bit more detail on your actual function? You referred in some detail there to projects and the minehunter, et cetera. You put together programs which people can then look at further as far as involvement is concerned. What about just direct purchasing? We have heard that very few federal agencies are coming to you, and even at the state level or whatever. Do you get anyone coming and saying, ‘We are looking at buying something off the shelf.’ Is there any way that you might then identify other potential lines of purchase that they could take up?

Mr Webster—Every day. That is our primary role. When I am describing us to people, I often say to them that we are an industrial marriage agency without shotguns. We simply introduce people and let them get on with it. We can work at all levels, from major inquiries to simply having people ring me up on the phone and say, ‘I am going to bore you.’ I will give you an example.

I had a company ring me up and say, ‘This is a private company and we make inflatable signs. To work these inflatable signs we have permanent air blowers attached to them. I am importing these air blowers from the United States. Every time the dollar goes down I am paying more, and this is making me think about my long supply line and how much stock I need. Is there anywhere in Australia where I would be able to buy these fans?’ We gave him details on companies that were capable of fulfilling his need.

In the end, they came back to us and said, ‘We looked at those companies and we found out that we were actually buying fans from one of them. It’s just that they happen to be made in Milperra, packed off to the US with the associated shipping and compliance costs and reconfigured to work on the US power grid. Then the margin is put onto them over in the US, they are flipped back into the box and sent back to Australia with all the associated

shipping and compliance costs. We pull them out of the box, reconfigure them back to the Australian current and off we go.'

After giving them that information, I found we had a friend. This is a valuable point for purchasing because it is not buying Australian made for Australian made's sake. That company's purchase on those blowers was reduced by over 60 per cent and they end up with hundreds of thousands of dollars left in their pockets every year that is now profit.

Mr Keeley—I would like to add a little bit more to that. We are a small office. We have about 19 consultants and administrative staff scattered around New South Wales—and I have indicated where the offices are—but we do not go looking for the smaller end of the inquiry. The reason we do not is that it takes as long to do a \$5,000 inquiry as it does to do a \$5 million inquiry. So we are looking for the biggest returns. Because we have a contract with the New South Wales government—a return on investment—we have to generate employment. That is what it all gets back to in that sense. Therefore, we are looking for the bigger projects, not the smaller ones. But we get numerous phone calls every day from smaller people saying, 'Can you help us?' What Peter just gave was the result of someone ringing up, out of the blue, because they had heard about us or been referred to us by an industry association or something. The ones we are targeting and pursuing are the bigger major projects.

Mr BROUGH—The \$2 billion you spoke of: can you put a break on that between government purchases and private sector purchases—a ballpark figure?

Mr Webster—No idea. If prompted, I would say that the bulk of our work comes from the private sector—the bulk of our inquiries.

Mr BROUGH—So what sort of growth is there in the government sector? You are talking about \$2 billion over four years. My quick mathematical equation is that it is about \$142 million a year which, in the big picture, is not a lot of money. I am not in any way putting down what you are achieving—I think you are working against some pretty big obstacles, from what we have heard—but I would like to know what you think can be achieved. What is realistic?

Mr Keeley—Let me partly answer that. When we started as a pilot program there were four consultants, an executive director and one administrative assistant. As I said, as we have been evaluated we have worked our way through from that to where we are now. Peter might like to add a little bit to that as far as where we are going in that sense.

Mr Webster—We could probably look at government purchasing figures and try to put percentages on what we are going to achieve. I think we are going back to the prescriptive offset sort of thing.

Mr BROUGH—We are not looking at that at all. We are saying that if these departments are not using your service we are missing a lot of opportunities. I think it would be very useful for the committee to have some sort of ballpark figure as to the lost opportunity—not going down the path, as you said—of subsidising subscription, et cetera.

Mr Webster—I understand what you are saying. If I were to give you a figure I would be making it up at this stage.

Senator HOGG—That is part of the problem: there are no statistics available for this committee on which to base its assessments.

Mr Keeley—That is exactly true. That point was made in the Bevis report, it has been made by the National Procurement Board over the years and it has been made by the people in the New South Wales area. Nobody knows—nobody has got the figures.

Senator HOGG—Otherwise we are really going with a feel-good concept—something that is good for Sir Humphrey to tell the politicians and for the politicians, the media and so on to use out there. What we really need are some cold, hard facts which support the concept that is being pushed. I am not against the concept at all, that is, involvement of Australian and New Zealand industry and Australian and New Zealand goods and services.

Mr Keeley—Again, we have no idea what those figures might be. We gently nudge the system to go down that track, and we are here today telling you the good results we have achieved. Just taking that a step further, as I mentioned earlier we have this SAMP program—supplier access to major projects. We are, as we said, currently working with Defence. We are negotiating with ANSTO at the moment to get some funding to work on the replacement reactor project. That is a \$300 million project. We will probably be in that for the next five years. I was down in Canberra yesterday talking to the Australian National Museum people—a \$150 million project. The same concept. We will be in there as of the next couple of months. We are currently working with Austrade to come up with a proposal on oil and gas projects overseas. We expect to be working very closely with them over the next 18 months. Again, we will be introducing local Australian companies into their system so they can pick up work overseas. With some of those companies, organisations, we have taken a long time to get where we are. It has been slow, slow, slow. They see what the results are and they say, 'It's working, so let's take it another step further.'

Mr BROUGH—One of the departments gave evidence that they buy 97 per cent of all of their purchases from Australian based companies. It turned out that they did not know whether they were Australian owned or whether what they were purchasing was Australian. How difficult is it for you to determine whether the products and services you are offering are Australian made and to determine the ownership of the companies?

Mr Webster—We do not take any issue with the ownership of the companies. That is something that we simply do not consider. We are all about Australian manufacturing and production done in Australia. The way we know is that we simply go out and check. We do not issue people with a definition of Australian made. We are not looking at the concept of what is Australian made and what is not. We are out there to maximise the Australian content in a project or on any issue. When we nominate a company we will go out and verify that that company is a local manufacturer. Sometimes you have to verify it on the phone and just accept what people tell you.

We have major projects and when it is of interest there is no problem getting in the car and going out to see what companies do. In fact, we spend a lot of time out there seeing

what companies do because that is how we get an idea of their capability. Rather than looking at product lists and databases, we walk around the company with the MD and have them tell us how they do things, what they are particularly good at and what sorts of markets they want to get into. That is how we get to know what they are good at and that is how we get a good understanding of their capability. We can then be sure that when we are offering up local capability it is locally based.

CHAIR—Is your staff predominantly engineers?

Mr Keeley—Peter is not; he is an economist.

CHAIR—I saw that. That worries me!

Mr Keeley—He is an economist out of industry and he has been in and around industry for a long time—he looks a lot younger than is. Basically, most of our people are technical, operations type people. We have to be to understand what is required. Around Australia there are other people with pharmaceutical degrees, and we have chemical and electrical engineers—a whole range of different types of experiences. Every time we pick up someone new for a particular job we try to expand that knowledge and experience in one way or another. It is very important to us.

Senator HOGG—I just want to run past you the ISONET submission. Have you seen it? At point 4 they say that the tenets expressed in the core policies and principles of the *Commonwealth Procurement Guidelines* are suitable. They then say that the difference lies in the monitoring mechanism, and they refer to the fact that, without a suitable independent body evaluating whether expected outcomes are being experienced, there is no way of knowing whether existing policy implementation is good, bad or indifferent. They also talk about the devolution of purchasing. What is your view in terms of the monitoring of the purchasing policies of the Commonwealth departments and agencies? Should it be rigorous? How should it be done? When should it be done? And by whom?

Mr Keeley—Firstly, it should not be done by the ISO or the ISONET because our role is not as a policeman. We are not there to play that role.

Senator HOGG—I accept that.

Mr Keeley—I believe it should be done. I believe it was being done partially by the National Procurement Board, which does not exist anymore. It was also partially being done by the Department of Administrative Services, which also does not exist anymore. I believe it needs to be done by a very senior department within the government because, if it is a very low-key department it will not really have any impact. I would not like to say that it should be the Prime Minister's department or Finance but it does need to be reviewed and the statistics need to be checked to make sure that they are being implemented.

Mr GRIFFIN—Would you like to comment on the question of the abolition of the National Procurement Board and the other body you mentioned and make any other comments about the question of how important that role is?

Mr Keeley—Again, I was not very close to the National Procurement Board, but, as I understand it, it was set up to do certain things. Part of the problem was that it did become a very large organisation and was given a number of things to do. It became so broad that it may have lost its target and its real purpose as such. Maybe it was not allowed to develop long enough to come up with the responses that it needed to come up with. Was it concerned in the sense of rocking the boat? Again, I cannot answer whether that was one of their concerns. To my mind, there does need to be someone at the top that looks over policy to see that it has been implemented.

Mr GRIFFIN—And that is not happening now?

Mr Keeley—I do not believe so.

CHAIR—Others have made that comment.

Ms PLIBERSEK—Mr Burns, could you tell us a little more specifically about what you are doing in the Hunter region and also how that is fitting into other regional development plans?

Mr Burns—To answer the question by Mal, last quarter I had about \$40 million worth of inquiries. There were 92 inquiries, and 95 per cent of them were from companies. I had two major projects which I did not include in those figures and that pushes the figure up to about \$528 million. One of the big initiatives that took place was LIPPs. You have to look at what drives them and what motivates people to want to have a LIPP.

CHAIR—What is a LIPP?

Mr Burns—It is a local industry participation plan. In other words, what makes people come across from America, on a project worth, say, \$2 billion, and even bother to look at what Australian industry there is that can help them? The AEWAC project, the airborne early warning and control project, which is another example of a defence project, is currently being tendered. There are three consortiums in that. I am on the Defence committee with the Newcastle and Hunter Business Chamber with a lot of business people. One of the things the region did when they involved the ISO was to get the AEWAC consortium to come out and provide three seminars in our region. That was good. We met the AII managers of the companies, who are tasked with trying to maximise the Australian content on those bids. It is Defence that is driving that through their contract documents.

To answer your question, one of the issues in my mind is that a lot of government departments do not even consider the Australian content as an evaluation criterion. That is not to say that it should be the major criterion—it may not be a factor that is important in that procurement—but if you do not ask people to consider it, then it never gets considered and opportunities go begging.

In the Hunter we have had the AEWAC. On the FA18 aircraft, which is Defence Department upgrade of up to about \$250 million, we are talking to the AII manager, who is in Arizona at the moment. So we are trying to get inquiries. To answer your question, the reason why we may not get inquiries from government departments is that the work we do is

like any other business—you have to form a relationship with people. They have to be able to trust you, and they have to be able to trust the advice that we give them. It takes time to build credibility with them. So government departments are no different from any other company in that way in that we have to get in the door, we have to meet the person, we have to talk to them, we have to build credibility and there has to be desire on both sides for something to happen.

You asked whether we get inquiries. I get retail business inquiries direct from the tactical logistics maintenance squadron at RAAF Base Williamtown. I had one the other day for some machined components. I gave them the names of three or four companies. We can make them in the Hunter—there is no question about it—but for them to put those on an aircraft, there is a lot of qualification that has to take place, so they are doing that at the moment. They have been out and visited the companies. They have done technical evaluations of the products, and they are working towards putting those on the aircraft.

Just to give you a bit of story a bit along the lines that Peter did, there is an injection moulding company in Newcastle which is run by a very disorganised bloke, to whom I refer all sorts of people. He is quite a brilliant man. He makes all his own equipment. He makes all the signage for McDonalds, he does the car washers for Carlovers and he makes components that go in the afterburners of the FA18 aircraft. That is what Peter was saying—that you can have across different industry groups.

In the Hunter, I think we are doing well. We could do a lot better. I would like to see a lot more pressure put on us to try to identify Australian industry capability, certainly the bigger jobs. The only way we will get that to happen is if governments, in their procurement, and also companies right through to SMEs really have a desire to maximise and really believe in Australian capability.

Mr Webster—Governments are always talking about access for small and medium enterprises and about access for regional producers. Under the concept of local industry participation plans, because you are looking at every tier of the contracting pyramid, you are looking at levels where SMEs and regional people are involved and that net can then bring them into that purchase. Those companies never win business knocking on the door of the major tenderer, but if they can identify the people at the right level to talk to, they win business. By using that concept and looking at every tier of that pyramid, you do bring them into the net.

Mr BROUGH—A lot of people made the point that SMEs do not have a chance, particularly in IT type purchases, because it is all too big. Do you have a comment to make on that? Because you are dealing, as you said, predominantly with big projects, is there a way in which government can break down contracts to make it easier for SMEs to access some of that contract?

Mr Webster—I do not know that you break the contract itself down, but if you apply that participation plan to it and you have commitment from your major contractor that this plan that they have shown you in their bid will be expedited—and in instances we have had government support to have ISO people working with major tenderers to ensure that they are properly expedited by expediting it down through those different levels in the contract—

those SMEs can be brought in at the right level. By trying to break up the contract, the government department will say, 'Hang on, we only want to issue one contract. We do not want to be managing all these different contracts, hoping that they will work together. We want that responsibility to be with the prime contract.'

Mr Burns—You have to look at your contracting mechanism, whether you are going for a performance contract. I am a proponent of the performance contract where you place responsibility on one party to actually control the performance. What we are doing in the Hunter on that is that our biggest IT contract is BHP Engineering, about 150 people. Our second biggest contract is CSA which now has about 62. CSA is doing a lot of export work into America. One of the initiatives involved some funding through the Hunter Advantage Fund given to HURDO to establish industry clusters. That seems to be going reasonably well.

The IT cluster is going very well. They are putting all their companies onto the Internet and advertising. We also have an Internet site for our defence industry task force and our industry capability in the Hunter for defence. A spin-off is we are going with this Internet site that is going to have all the capability of the actual small IT providers. The idea again is the same thing. In business you have to get out and sell yourself. Most small business people are that tied up doing the work in their own business that they do not get out to market themselves. Again, that is where I think the ISO is very good. We offer a referral of business opportunities to them on their capabilities, so we are in fact marketing their business. Any way you can market their business, get them in front of the people—as you say, the first, second, third and fourth tier subcontractors on a big contracts—then they will pick up opportunities. It is just hard work and you have to keep working at it.

Mr Keeley—An example of what we have just been saying there is on the minehunter project—we keep repeating stories around some of these things, but they are relevant. About 1,100 subcontracts have been issued by ADI on that project. The majority of them—and I cannot give you the figures off the top of my head—are within the Hunter region. Then they spread out from there. There may be 700 in the Hunter, 200 on top of that in New South Wales and then the rest are around Australia.

As both Paul and Peter were saying, once the initial arrangement is made and at the contract negotiation stage—when the client is saying, 'How are you going to develop local industry? What are you going to do for local industry?'—that is when you can get all sorts of things from major players tendering on work. You will not do it for every \$5 job but if you talk about something worth about \$1.2 billion or \$1.4 billion, it is well worthwhile.

From that, on the lead-in fighter project for the RAAF, which is being done by British Aerospace in Newcastle, the same sort of concept has been developing. It is not at that stage because it is early days, but some of the people off the minehunter project will be involved in that because the project director from British Aerospace has seen what is being done on the minehunter project and has said, 'Your gear in this minehunter is more advanced technically than what we are using in the lead-in fighter.' So there is an immediate growth of industry out of one area into another area. Some of it is already into export and some of this will develop further into export.

CHAIR—Mr Keeley, that is all positive stuff but, realistically, ADI has always had a culture of Australian industry involvement, with respect.

Mr Keeley—That is true, but it has developed further in the last few years. They have taken it down a few steps more.

There are another couple of points I would like to make and they are perhaps a little different. We have proved to private industry, as private industry for private industry jobs, that we can do something worthwhile. They are paying us to do that. We think that is good because it shows to government that ISO is doing something worthwhile and private industry is prepared to pay.

The other thing I wanted to raise in that regard is that at the launch of the New South Wales policy in December both Phil Holt, the chief executive of Australian Business, and Heather Ridaut, the New South Wales Director of the Australian Industry Group, stood up and made glowing comments about the ISO. They were also very positive towards what is being done in New South Wales and the concept of how it will flow.

I do not know whether you want them or not but I have brought in some additional copies of that document. I have also brought in some publicity material from the ISO if you would like it. I did issue the ISO economic multiplier as part of the package and I have brought another copy of that as well if you would like it.

CHAIR—Is that last document, under your item 2.3, on the benefits of every additional million dollars worth of successful new or retained work? Where did those stats come from?

Mr Keeley—I will let our resident economist answer that one.

Mr Webster—They were developed for us by Australian Economic Consultants and they were built on the national input-output tables.

CHAIR—We did notice last week that the Office of Small Business has now picked up those stats and is using them to try to justify changes in purchasing policy to buy small and buy Australian, which I thought was pretty positive.

Mr Burns—Yes, it's great.

Mr Keeley—Government departments, private industry, organisations and so on have picked up on those figures. We try to promote it as the ISO facts and figures because we paid for it. It is our research, even though we did not do the research. We wanted it done by an independent group so that it would have some credibility. People pick up on it as something that someone else has done.

CHAIR—We had one bureaucrat from one government department—I do not remember who it was—say that they were sitting there waiting for their turn to come in the hearings and they heard this stuff. They said, 'If I had known that I would have bought one hell of a lot more Australian in the last five years.'

Mr Keeley—To be honest, that is the reason the government supports what we do—because of those figures.

CHAIR—Thank you very much for both your submission and your honest answers. I think there were a couple of things you were going to try to get back to us on, and if you would do that we would be most appreciative. As is our normal practice, when we table our report in both houses of parliament you will certainly receive a copy.

Proceedings suspended from 12.49 p.m. to 1.48 p.m.

[1.48 p.m.]

HEARD, Mr Greg, Vice President, Office Equipment Industry Association

SMITH, Mr Stephen, Executive Director, Office Equipment Industry Association

CHAIR—Welcome. Thank you for your submission and for coming to talk to us today. Do you have a brief opening statement that you would like to make before we ask questions about what you have written to us?

Mr Heard—Thank you for giving us the opportunity to make a submission. We also appreciate the time you have taken to meet with us today. The Office Equipment Industry Association represents a range of companies within the office equipment industry, including all major suppliers in the analog and digital photocopiers and facsimile product areas. We would like to reinforce our support for this government's initiative, which has initially seen some positive steps—one being the removal of a commission that was levied against sales made under government contracts. This has resulted in a corresponding benefit to both the government and the industry in lower prices.

We have raised a number of other concerns in our written submission of August. The main issues include, firstly, overpayment terms. Some government organisations are taking up to three or four months to settle their accounts. That obviously has a detrimental effect on the cash flow of our members. Another area is the requirement to include toner in tenders. In many cases this places a significant cost burden on the suppliers within our industry, with some government departments using up to 10 times the normal amount of toner. The third area is the ongoing uncertainty with the current program following the abolition of the BG99 common use contract. We raised specific areas of concern in our original submission in August.

We look forward to answering any questions that you may have for us.

CHAIR—In your brief submission you say that the suppliers need the right to appeal to the Commonwealth when they believe the proposed purchasing guidelines have not been adhered to by government entities. Can you expand on that? Who do you think might do it? In the submission you say:

To ensure such fairness is maintained, suppliers need the right to appeal to the Commonwealth if they believe that the proposed purchasing guidelines have not been adhered to by Government entities.

Mr Heard—With the central authority there was a body that we or our members could go to if there was concern over a purchasing decision or a tender submission. At the moment, because it is fragmented, there is no area apart from the individual organisations for any of their members to go to if they are concerned over the tender process or the decision process.

CHAIR—Where would you see such an appeal mechanism being located?

Mr Heard—To be honest, at this stage I have no idea. I suppose what we would like is an opportunity as an industry body to have greater input into some of these areas and have dialogue, which we had started with the central purchasing authority. Because it is fragmented now, there is no opportunity for the government as an entity to have discussions with the industry body as an entity.

CHAIR—Tell me something about your members. Are they Australian manufacturers or overseas manufacturers?

Mr Heard—They are primarily overseas companies with subsidiaries or branches and operations in Australia. They are primarily Japanese manufacturers. There are very few, if any, Australian manufacturing companies within the organisation. We are primarily importers.

Mr BROUGH—Are these Japanese companies operating here under licence or is it all being imported?

Mr Heard—The vast majority, if not all of it, is being imported.

CHAIR—We used to make photocopiers, didn't we? Xerox.

Mr Heard—Many, many years ago, yes. We have not done it for a long time. Some of our members have a re-manufacturing facility where they trade in machines and put them through a refurbishment program. The industry has worked to try and standardise the definition of those products, and we are continuing to do so, so that there is a consistent policy and definition in that area.

CHAIR—Any Australian government purchasing policy that tries to maximise Australian and New Zealand content would not be concerned with your product.

Mr Heard—With respect to our products, no.

CHAIR—But not your services?

Mr Heard—Not the services. There is a significant labour content involved in the servicing of the product, and obviously a significant investment in staff and infrastructure.

CHAIR—Sure. I am interested in your comment about the toner and how some government departments seem to use 10 times the amount of toner that should be used for

the number of copies that are made. What happens to the toner? What other uses are there for toner?

Mr Heard—It depends on what the image on the page is. If people are doing a lot of reproducing photographs or a lot of heavy text then the toner usage goes up significantly.

Mr GRIFFIN—If people are photocopying instead of printing, for example.

Mr Heard—It is six of one and half a dozen of the other. Toner yield would be impacted on your laser printer.

Mr GRIFFIN—When I say printing, you might have a job which probably should go outside.

Mr Heard—Outside printing?

Mr GRIFFIN—Yes. You get a bit of that in government departments sometimes.

Mr BROUGH—When you say a 10 to one ration, are you saying 10 to one on the number of copies or are you saying ten to one on this machine would normally do half a million copies?

Mr Heard—No, 10 times the amount of toner that would normally be expected to be used on one page. Because they are using a lot of black image, then they would use up to 10 times the toner to reproduce that image than would normally be expected. There is another area where, because the toner is included within the copy cost, there is not a huge concern with users as to the security of toner cartridges or the whereabouts of those cartridges. It is far easier for them just to ring up and ask for another dozen bottles.

Mr BROUGH—That is pretty polite.

Mr Heard—Yes.

CHAIR—What would you use it for if you took it home?

Mr Heard—A lot of it ends up being thrown out once the equipment is upgraded, because you utilise a different toner for a different machine invariably. Once the equipment is upgraded, there is no use for the toner and it usually gets thrown out. So there is a significant cost in that.

CHAIR—That costs you money but not government?

Mr Heard—Yes. Invariably it costs government because it has to be reflected in the pricing somewhere.

CHAIR—So the prices are higher.

Mr BROUGH—Is there any advantage in government by doing it that way, with the toner coming free of charge?

Mr Heard—Yes there is. It does not matter what the usage patterns are or what the wastage of the toner is because the government, on a cost per copy basis, is not being impacted.

Mr BROUGH—They are not, but you are impacting them up front. Let us say, for argument's sake, on this one line item that the different departments instigated a pretty reasonable usage procedure and they paid for it. Therefore you are going to reduce the up-front cost of your purchase and part of our purchasing policy would be tightened up so they will use nominated areas which are over users. Things might actually get returned.

Mr Heard—Yes.

Mr BROUGH—I returned toner from my own office when we changed machines but you are saying that that generally does not happen.

Mr Heard—Invariably that does not happen.

Mr BROUGH—And if it is returned, it might get dumped further down the line anyway.

Mr GRIFFIN—When you are tendering for business, all of your potential tenderers would know that the likely toner costs are significant compared with others. So they would factor that into their contract price, would they know?

Mr Heard—There is an element of that, but also, given the competitive nature within this industry, it is very hard to put a fudge factor in there because everyone is trying to get their costing down as low as possible. There would be some benefit to our industry but there would also be some benefit to government. It would primarily be on the other side.

Mr BROUGH—Have you experienced any problems with endorsed suppliers, people who have gained their accreditation and whatever else, and then contracts going to non-endorsed suppliers?

Mr Heard—There have been instances of that. As you would know, to obtain an endorsed supplier status there is a quite significant investment.

Mr BROUGH—Did you put a figure on that?

Mr Heard—We have not, no.

Mr BROUGH—Would you like to put a rough figure on what it would cost a company to gain that status?

Mr Heard—It is actually dependent on the amount of anticipated sales to government. It is quite an onerous program. If you expect to sell \$2 million, then your requirement is to invest X number of dollars. If it goes above that, then the level of the investment also

increases. I do not have the numbers here; I can get them back to you. I know that a number of our members are concerned about the cost and the mechanism for measuring that and the doubtful return in government.

Mr BROUGH—The federal government’s Commonwealth procurement guidelines state that it is mandatory in office equipment and IT that only endorsed suppliers win tenders. You are saying that you know of examples where that has not occurred.

Mr Heard—Yes, there have been.

Mr BROUGH—Can you give us any examples of that? Not now, but you can you get back to us?

Mr Heard—We can certainly get back to you. The other thing that appears to have happened—and it comes down to general confusion over the purchasing guidelines in place now—is confusion over what is an endorsed supplier and the requirement for endorsed suppliers to be invited for tender.

Mr BROUGH—What is the confusion? Why does that arise?

Mr Heard—Through some purchasing officers not necessarily being fully aware of or trained in the requirement for inviting companies that are endorsed to supply us to tender and inviting companies that have not been endorsed to supply us to tender. In some cases, there has been some confusion over the process now for becoming an endorsed supplier or indeed the requirement for it.

Mr BROUGH—So it is not clear cut? There is no procedure you follow where you end up with a certificate at the other end which says, ‘You are a recognised, endorsed supplier to the federal government’?

Mr Heard—At this stage there appears to be quite a lot of confusion out there. I know a number of the companies within the industry that have gone for endorsed supplier and some that have not or have not received it that are still being invited to tender.

Mr BROUGH—And they are successful?

Mr Heard—They are successful.

CHAIR—You talked about the cost of this endorsed supplier registration process. What do you have to do? We do not really know.

Mr Heard—It used to involve going through a fixed term arrangement—an FTA—where you would show to the government that you either had a significant investment in developing industry within Australia or you were committed to doing that over a period of time. There is a significant cost in just the preparation of that submission and then following through with the commitments. It could be in areas such as software development or in other areas like that. There is a whole range.

Mr BROUGH—Do you have any comments on clustering: the one product across the whole spectrum of agencies or breaking it down into more devolved groups and making it regionalised? Do you have any comments on whether that is good, bad or indifferent?

Mr Heard—How do you mean?

Mr BROUGH—For argument's sake, Centrelink, whilst it has a purchasing capacity of up to \$2,000 via a card in all its regions, may well have one contract for all of its photocopying machines. They might not have a supplier of that equipment on the Sunshine Coast in Queensland and therefore there are long distances in terms of support and mechanism. Do you have any comment in relation to the effectiveness or otherwise of the two methods—of having it done locally or done centrally?

Mr Heard—Again, it is horses for courses. In the example you gave, where there may not be a supplier within a location or close within a location, then it sometimes makes sense to look at individual suppliers for individual regions. It would be either that or, in the initial decision for a central contract, looking for a supplier who would service all of those areas and do it properly. That should be one of the purchasing criteria in that case.

Mr BROUGH—Do SMEs—small or medium enterprises—get a fair go at purchasing?

Mr Heard—Given that all of our members are primarily fairly large suppliers, it really does not have an impact in our area. All of us invariably have dealers who look after the country areas and, in some cases, the capital city areas. They would invariably be part of the tendering process through the original supplier. Some of the dealers have such a strong relationship with some of the government departments within their town that the government department will deal directly with them.

Mr GRIFFIN—I have a range of questions on your submission of 17 August. On the second page, regarding the question of the discontinuation of the BG99 photocopy common use contract, I want to run through the current state of play given that it was several months ago. For instance, it was supposed to have finished by 28 September, and so on.

Mr Heard—In essence there has not been a lot of feedback in those areas. In each of those areas there is still a fair degree of confusion within the industry and I think within the government itself.

Mr GRIFFIN—So that contract has been discontinued now. Are there any being negotiated at the moment?

Mr Heard—There are a number being negotiated on an ongoing basis directly with departments.

Mr GRIFFIN—But there is no platform for them to work off in terms of that?

Mr Heard—No, there is not.

CHAIR—You say evaluation guidelines should be set out for purchasing officers and circulated to all suppliers for their information. What do you mean by evaluation guidelines?

Mr Heard—On how they would determine the success or otherwise of the—

CHAIR—There is an Australian government procurement policy and purchasing guidelines.

Mr Heard—Again, it does not appear to be widely known by the people within our association but also within the various government departments. It is not widely published or adhered to in a lot of cases.

Mr BROUGH—Are you referring more to technical data though? Are you referring to the capability of the machines et cetera or what?

Mr Heard—I think it is on what basis the purchasing decision would be made. In a lot of cases it is made on the lowest cost solution, not necessarily the best solution for that department.

Mr BROUGH—What brings you to that conclusion?

Mr Heard—Knowing what prices some of the equipment and contracts have been let at.

Mr BROUGH—That is only part of the equation though. Just because it was the lowest price does not mean it represented less value. So what makes you conclude—and I sense by your body language that you are pretty confident in this—that the lowest price was not the best value?

Mr Heard—It comes from an understanding of the industry and of the various products available and the suppliers available.

Mr BROUGH—So what doesn't the purchasing officer have at his disposal so that they make the wrong decision?

Mr Heard—It may even come back to almost a lack of training within some of those purchasing areas where they are looking at various criteria that may not necessarily result in the best solution for that environment.

Mr BROUGH—So if you were doing government purchasing, how would you overcome it?

Mr Heard—I would get a better understanding of all players within the industry. I would also get a better understanding of cost analysis, as in whole of life, not necessarily the cheapest purchase or service price.

Mr GRIFFIN—What size contracts are we talking about? What sort of level and what value? They vary obviously.

Mr Heard—Anything from one or two or three machines up to multimillion dollar contracts.

CHAIR—Are service contracts let at the same time generally by government departments?

Mr Heard—Generally they are linked. Most of the equipment is sold under a maintenance agreement at the time of sale, so invariably it is a purchase and service agreement—or service contract.

CHAIR—You are talking about price winding up being the largest determining factor in purchase decision but that includes service?

Mr Heard—It is not always taken into account in the analysis but also it may be the lowest service, which may not be the most efficient service. I believe you have members of the Business Technology Association meeting with you this afternoon, and I am sure that they will reinforce that—that there is a finite cost in servicing the equipment and, if the supplier and the dealer are not receiving that fair cost, then the level of service, the ability to maintain those machines at the standard they should be will diminish. That results in a lot of inefficiency for the customer or within the government department.

CHAIR—One would think that the government department would be screaming their heads off if they got a piece of equipment that was constantly down and not being attended to?

Mr Heard—That invariably happens.

CHAIR—It does.

Mr BROUGH—Are you saying there is not a big a link between what happens at the coalface and the purchasers, so when they go back into the field five years later to build new contracts they do not take these things into account?

Mr Heard—It is very hard to generalise. In a number of instances that may not happen. In some instances the purchasing people are very close and very aware of what is happening in the field—and take that into account when they make their decisions. There appear to be a number of purchasing people being relocated or moved around, so someone may let a tender within one organisation and then be transferred or relocate and not be around for the ongoing maintenance of that contract.

Senator HOGG—Is there anyone who reviews the tenders or the contracts, as time goes on, to pick up the deficiencies that you have described?

Mr Heard—It is an area that comes down to the individual supplier and the individual department on how they structure the ongoing relationship. I would believe that in the majority of cases there should be or there is an ongoing review between the department or the customer and the supplier.

CHAIR—I would have thought that the final user of the machine, if they were not very happy, would be screaming their heads off to whoever is responsible for purchasing it.

Mr Heard—They would invariably do that but, in some cases, they may not have a significant voice within the department.

Mr BROUGH—Or would not know who they were, I guess, on many occasions.

Mr GRIFFIN—‘Too late, she cried, as she waved the wooden leg.’ The company contract has been done.

Mr Heard—Or they are a small component in the total contract and may not have a significant voice at that level.

CHAIR—It is possible but not likely. If you are the purchasing officer and you get a significant number of telephone calls from people who are using the machinery that you have bought for them and they are not happy, you get sick of getting the phone calls and, the next time around, you probably do not buy that equipment.

Mr GRIFFIN—If you are still there.

Senator HOGG—The problem is it is probably not the purchasing officer who is responsible for the upkeep of the equipment.

Mr BROUGH—They are not the ones getting the phone calls.

Senator HOGG—That is right. They are not the ones getting the phone calls.

Mr GRIFFIN—And if they are, they have moved on to another section by then.

Mr BROUGH—Several steps removed.

Mr Heard—In a real world that would happen and would be taken into account. There are a number of different reasons why it may not be. In a lot of cases it is but in some cases it is not.

I suppose the main issue we wanted to get across was trying to find a mechanism for clarification of the total tendering process for the future—ensuring that we have all the guidelines that are very clear and concise, that people know exactly what the selection and ongoing criteria would be. **Mr BROUGH**—We touched on that a moment ago and I am still no clearer. So you get a tender document; surely the tender document says, ‘We want to keep the thing maintained and we want it to have these capabilities.’ What is it that it is not in there, that it is not clear?

Mr Heard—It goes back to the status of endorsed supplier and the involvement in that. If you are an endorsed supplier, does that give you a seat at the table to offer a tender?

Mr BROUGH—It should only be endorsed suppliers, so that is just an oversight by the departments. So if you take that issue out of it, what else is wrong with the tender documents?

Mr Heard—Currently it comes down to a relationship between an individual purchasing manager and an individual salesperson within one organisation or two or three organisations. The opportunity for open tender across all endorsed suppliers or all members of the association seems to have diminished somewhat.

Mr BROUGH—So it is only being offered to a few?

Mr Heard—In some cases, yes.

Mr BROUGH—It is not being put on Transigo or via the Internet?

Mr Heard—Not in all cases.

Mr BROUGH—So this is only for small purchases? Do you have examples of this?

Mr Heard—Not with me.

Mr BROUGH—No, but can you do that?

Mr Heard—We can probably get those.

Mr BROUGH—Are you talking about substantial ones?

Mr Heard—In some cases they may be substantial.

Mr BROUGH—What do you put that down to? Cosy relationships that have developed between salespeople and purchasing officers?

Mr Heard—In some cases it may be a confidence that they have a working relationship with a couple of organisations that they feel very comfortable with.

Mr BROUGH—They return to a line of supply and personnel that have always looked after the business well?

Mr Heard—Yes.

CHAIR—Are you implying payment for services?

Mr Heard—No, I am not implying that at this stage—sorry, I am not implying that.

CHAIR—Let's be careful of our language, Mr Heard.

Mr BROUGH—What you are saying is that when you are in sales you build up a close relationship with someone, they feel comfortable doing business with you, they keep doing

business with you, but where they are getting it wrong is that they are doing that with public money and they are not putting it out to proper tender?

Mr Heard—Yes.

Mr BROUGH—And that is an improper practice, whether it be done for whatever motives?

Mr Heard—Yes. In some cases the number of machines involved does not justify going to a full open tender. But our members believe it should be more open in some cases than it currently has been.

Mr BROUGH—So you think there should be set guidelines that state that once it gets over a certain value it should be an open tender—and up to there it should do this or—

Mr Heard—I believe so.

CHAIR—Let me ask you the important question. One of the objectives of this inquiry is to find out whether government purchasing policy is enhancing Australian industry development and whether or not it is encouraging departments to buy from small and medium size enterprises. How do we get more Australian-New Zealand content in office machines?

Mr Heard—Given the nature of the industry and the players within the industry, it is extremely difficult.

CHAIR—Are you saying it is impossible?

Mr Heard—I would say it is very close to impossible.

CHAIR—Because nobody is going to manufacture photocopiers in Australia?

Mr Heard—It is highly unlikely.

Mr BROUGH—What about the ancillaries such as the toner and whatever other consumables are in there? Is there any possibility?

Mr Heard—There is. Companies at various times look at doing software development locally, which is then exported, through the Japanese manufacturer, around the world. Some others do product development and technical development within Australia, so there are benefits there but, with manufacturing—the physical size and cost of setting up a photocopier manufacturing plant—I would say it would be impossible at this stage.

CHAIR—How much?

Mr Heard—I do not have figures but, having walked through them, it is huge. I would not even hazard a guess.

CHAIR—But you are confident we will not do it?

Mr Heard—We cannot do it at this stage, given everything that is happening—given the climate and everything else.

CHAIR—Here we make very sophisticated mass spectrometers that are exported all over the world.

Mr Heard—If you look at the laser printer industry, I think the majority of laser printers are imported as well. There is some local manufacturing, which is primarily assembly, and some other work done here but because of the volume of the business and the physical geography of Australia in relation to the rest of the world, it is done in other areas.

CHAIR—Gentlemen, thank you very much for coming to talk to us. When we table our report, we will send you a copy.

[2.22 p.m.]

BRADY, Mr Paul Anthony, Director, Business Technology Association

KYLE, Mr David Richmond, Executive Director, Business Technology Association

O'HARA, Mr Michael Robert, Director, Business Technology Association

REEKS, Mr Owen Keith, Chairman, Business Technology Association

CHAIR—Welcome. Thank you for appearing today and for your submission. Would you like to make a brief opening statement?

Mr Kyle—Do all members have a copy of our submission?

CHAIR—Yes.

Mr Kyle—Our association is a non-profit body that has been in Australia for some 30 years, representing the interests of small business resellers of office equipment—office equipment dealers. The thing they all have in common is that they have electronic service departments and they do outbound service, which delineates them severely from people who sell boxes of stuff over the counter. When we get into the distribution of IT throughout government, this is a vital area for the backup of whole of life usage and real value as opposed to initial price.

Our associated body in the USA, on the international side, has been operating for 70 years and many of the issues we are talking about today have come up, certainly in Australia, a number of times. As Greg Heard, who appeared earlier, explained to you, in the main in Australia the manufacturer suppliers sell and service in most of the capital cities, with a few exceptions. So the bulk of the business done in capital cities is sold and serviced by those suppliers. Therefore, the bulk of our membership tends to be small business operators, predominantly family businesses in rural and regional areas, employing young people and ongoing technicians for the sales and service.

Overall in Australia there are some 5,000 businesses reselling office equipment and computers, employing an estimated 50,000 to 60,000 people in sales, service and administration. Business technology dealers sell and maintain products such as photocopiers, computer printers, facsimile machines, telephone systems and cash registers. The common denominator is that they have a business base in a rural and regional area or in a metropolitan area. In terms of technology, over the years we have seen those people move out of products like typewriters and move into the higher technology areas. Now, with the huge wave of digital technology and the interconnectivity of computers to most other office devices, suddenly they are required to do a whole lot more than when they were operating in the electromechanical area of what they call 'stand alone office machines' that do not connect with or talk to anything else.

In these rural communities the office equipment dealers are often the only source of potential employment for young people in the high technology type of areas. As I said, each one has a dedicated electronic service workshop and an outgoing field service team to visit the customer. BTA works with TAFE in developing national courses and distance learning for the state of the art instruction of these people in that hi-technology field. The economic viability of office equipment dealers—and our members providing the necessary ongoing support for government IT equipment—is obviously vital to government to successfully decentralise and stem the tide of jobs disappearing in rural areas.

The purchasing practices of successive governments over recent years have significantly reduced the profitability of these small family operations in country areas to the extent that we get a lot of phone calls from dealers who have been invited to conjoin with their manufacturers in government contracts. They have looked at the pricing that has had to be required to fulfil the contract and have put their hand up and said, 'We know our own costing well enough. We can't do this at a loss. We can't subsidise government business, but we need the turnover.' That is a dilemma.

They were talking about having been asked, required or pressured to do business at rates significantly lower than commercial rates. If you have had an opportunity to read the report, you will have seen some of the examples. I do not think that it is particularly anyone's fault but the ferocious competition amongst international manufacturers of this type of equipment creates a situation unique to Australia in that the cost of copying here is, we believe, lower than anywhere in the world. Copying costs are practically double that in most other commercial countries, and a lot of purchasing officers are far more interested in the whole of life cost of how it will go and what is the end result system than in how much the initial purchase price of the hardware is or the shaved down price of the copy cost.

You have heard the description of the pressure on the servicing of government equipment, and that is no exaggeration. When a small family business that is fighting to survive in the country gets 10 calls in for service, they are going to go for the one where there is enough money to be made out of it and, sadly, the government one often comes last on the list. You spoke about people complaining about that. They do not complain to the person who set the contract in Canberra; they complain to somebody locally, and it all gets lost in the system.

So the viability of these small businesses is under attack to the extent that some of them are opting to go into different areas. They say, 'We can't afford to sell photocopiers anymore. There's no money in it. So we'll go into telephones, burglar alarms or something else. We'll go into whatever's needed in the community that we work in.' Indeed, some of them are moving into areas outside of the industry that we represent.

In the last 18 months BTA has made the two submissions that you have seen, one to DAS—and that happened very quickly for reasons you might surmise. With the demise of DAS and the expertise that was within government but is now gone, the broader purchasing policies mean that the issues that we are talking about in specifics are really not included anymore in the broad-brush thing of outsourcing or the broad-brush thing of whole department usage. It is without the expertise, and that is exacerbating the problem that you see outlined in that report.

Our members throughout Australia are looking to some practical outcomes from this inquiry to address the issues that you see listed here to try and make the costs of the business done more akin to the normal commercial costs that they would do for anybody else in a competitive situation. They should not be dragged down into the kind of costs that are loss making to the degree that they have turned out to be. That is our lead-in.

CHAIR—Thank you very much. On page 2 of your submission to us you talk about participating in last November's review of Commonwealth procurement. You said:

Subsequent meetings between BTA and the Department of Finance were unable to address or resolve any specific issues and it was quickly realised that DOFA had 'washed their hands' of any overall influence of Federal Purchasing Practices.

That is a pretty strong statement.

Mr Kyle—This is essentially what I have been told in a specific meeting with DOFA people, and I was told the same thing at the outgoing part of DAS. They said they had lost the power to dictate to the departments what purchasing practices would be. The philosophy within the departments was to run them as individual operations and to make their own decisions about purchasing, and there would be no real requirements from the centre.

Paul and I have had a meeting as recently as last December to specifically try and address some of these issues and at least get on to ones like the inclusion of unlimited toner, which is just a giveaway for the dealer and was not negotiated by them in the beginning. That raises the question of what are the ethics involved in negotiating when a third party is not present.

Mr GRIFFIN—Can you explain that to me? The reason that happens is that you have a contract with a supplier to service their machines if they sell them? Is that right?

Mr Kyle—The contract was given out via a supplier to provide a national service. In the areas where the supplier provides both the service and the sales, those costs are totally within their own control. In the areas where there is a third party servicing, having been conjoined with that situation, then the third party, namely the dealer, is going to deliver whatever got negotiated.

Mr GRIFFIN—But I am saying the reason they have to do that is that they have an agreement or a contract of some sort with the actual supplier in the first place.

Mr Brady—Not necessarily a contract arrangement; it is normally a compromise business environment. You have a situation where a dealer in a small town is the distributor for a product, has built up a service base of business and has invested deeply in that, and compromising the relationship with the supplier could basically put him out of business. If a supplier changed brands, for instance, in that town or changed distributors in that town, things like ongoing training, ongoing parts supply et cetera would be taken from the business.

Mr GRIFFIN—That is what I'm getting at. If, in effect, you are being screwed, you are being screwed by the supplier. You can argue that you are being screwed by the government, but certainly the supplier is screwing you as well.

Mr Brady—The way the environment of government purchasing has been structured has allowed a situation to develop where the supplier is also compromised. The suppliers are not necessarily the bad guys in this. You have a situation where you have two parties, being a government, a body with its own interests and agendas—that is, efficient purchasing power et cetera, which is fair enough—and a manufacturer who is predominantly dependent on market share—don't forget it is an offshore manufacturer, so it is dependent on market share—negotiating their own interests. One wants a good price. One wants market share, so he has to have a good price. The difficulty arises only when a third party is involved—that is, a dealer out in a regional centre who had no part of that negotiation—and where the on-costs after the sale are passed on to that third party.

So what happens is that a manufacturer agrees to sell a box to the government body—which is fine; that is a free environment—but as soon as the ongoing service, consumables, parts, et cetera are not provided by that manufacturer directly, the on-costs get passed on to the dealer. The dealer is working off two parameters different from those of the manufacturer: one, his landed cost is different because there is an extra margin in it and, secondly, in capital cities and major areas the manufacturer has volume business. All the numbers—the large machines, the high volume users—get placed in capital cities. So the dealer has the low volume users and the low ticket items and so he does not have the numbers to make it viable. But the costs get passed on to the dealer. In many instances there is a loss situation and he cannot withdraw from that arrangement because his whole business, which he has built around that brand awareness and that relationship with the manufacturer, becomes compromised. So he gets pushed to the wall.

Mr GRIFFIN—I understand that and I think it is a real problem. But to clarify, when you talk about the question of the supplier and the government, what is happening there is that a number of suppliers, in order, basically, to maintain market share or whatever, tender and argue with government over the question of what they actually charge. From what the previous witnesses were saying, they are screwing each other to a degree in order to get that price. In the process of that, you guys are also getting done over as well. That is basically the position.

Mr Brady—If a manufacturer took a more responsible approach, which some have tried to do, and upped the price—

Mr GRIFFIN—They will lose because someone else will not.

Mr Brady—They will lose market share. Therefore, they lose their market presence and the ramifications for them are astronomical. We have attempted over a couple of years to address it in relationships with manufacturers—through negotiation with their trade associations and the dealers' association. We have attempted to do it with government and with dealers. At the end of the day, the environment of the negotiation is the problem. One manufacturer cannot put his hand up and be responsible if he loses his whole business. The government guidelines are the only things which can control that.

CHAIR—Hang on. If I buy a Holden from my dealer in Ferntree Gully, I can take it anywhere in Australia to an authorised Holden dealer to have warranty work done and they would be reimbursed by Holden for the work.

Mr Brady—This environment is different. The analogy of that is you buying that Holden motor car and Holden Direct agreeing with you on a price which is very attractive— attractive enough to make you buy the car—and which gives you unlimited petrol, oil, service, tyres and parts for the life of that product and passing all the costs of that support on to the third party. That is what we have in our industry.

CHAIR—The fact that you are a third party without recourse to recover your costs is, I would have thought, your problem—not the government’s problem. Why can’t you negotiate with the manufacturers so that when the machine goes out to a regional area and one of your members—being a small family business—has to service the machine, some arrangement can be made? A little Holden dealer in a little town on the Murray could go all the way back to the parent and say, ‘I had to do warranty work on this vehicle. Regardless of what you sold it for or what the dealer sold it for, I get recompense for doing the warranty work.’

Mr Brady—The manufacturer says, ‘No, you have costs per copy, which are one cent per copy or 1½ cents per copy.’

CHAIR—If you really represent the majority of the people in this business, I would have thought that all of you together—combined market power—could tell the manufacturers what kind of contract they would sign—or the manufacturers would find that they had nobody to service their machines, with respect.

Mr Brady—We are not a dealer union. We are here for the improvement of the industry.

Mr GRIFFIN—You are all separate. You have no purchasing power.

CHAIR—But, with respect, you are trying to pass the buck on to government. You are trying to say that this problem that you have is a government problem. I am saying to you that I am not like Alan—I am not sympathetic. That does not mean my colleagues are not.

Mr Brady—I am saying to you that your purchasing policy is the issue. With due respect, you do not allow General Motors Holden to negotiate a contract with all those free things for the life of the product.

CHAIR—The government does. Of course it does. Absolutely.

Mr Brady—How do you allow two parties with a vested interest and agenda, both with their own issues to manage for their own survival, to negotiate when there is something in the environment which can automatically compromise another party without involving that other party in the negotiation? How do you allow that?

Mr GRIFFIN—Let us take that example further. You mentioned the question of cars. Let us tease that one out a bit. Are you saying that it is not the same as doing a fleet negotiation for cars?

Mr Brady—No. You are only talking hardware.

Mr GRIFFIN—Let us take that further. So it is not the same—you may have limited guarantee periods, or if it is a car it is a services contract and not for petrol and stuff like that. Use the example of toner. In terms of your industry in relation to commercial contracts outside government, as I understand it, those contracts are still in the situation where toner and other items are taken into account. Is that right?

Mr Brady—In the main.

Mr GRIFFIN—So the standard for your industry in terms of the nature of contracts is that they actually do include these other items as a standard.

Mr Brady—Essentially, there is not a guarantee of the product—although there is a 90-day one with the new hardware. Everything in a photocopier is a consumable. All the things which control the image on the paper—the toner, drum, developer and all those types of things—are consumables. So what happens is that from day one you are paying for those consumables as you use them, at a centre copier or whatever the arrangement is. The manufacturer's position is that that is there to cover that ongoing labour, parts and consumables. The difficulty is that there is no accountability or no responsibility for the integrity of the information used to calculate the rate that was tendered. They do not have to demonstrate to the dealer that it was profitable.

Mr GRIFFIN—I am trying to make this point: if I am BHP and I am getting a contract done with a number of suppliers and I go through a process of tendering to decide who I get and the nature of the contract I get in terms of what that contract will involve around service, consumables, et cetera, the nature of that contract would be the same as would be negotiated with government. That is what I understand. The same sorts of things would be on the contract.

Mr BROUGH—Is that the rates?

Mr Brady—No, the rates would be much higher.

Mr Reeks—It is the same principle because they are determined by the dealer. They strike a rate for the copy cost on a sale to a commercial body.

Mr GRIFFIN—So the dealer does a separate deal. So I am BHP, I negotiate with one of the major photocopier companies to buy some equipment. But when it comes to the local area, in relation to servicing I negotiate with the dealer. Is that right?

Mr Brady—No. In that sort of instance the manufacturer will have a negotiated rate but the difference is—

Senator HOGG—Excuse me, who will that negotiated rate be with?

Mr O'Hara—With the person who made the agreement.

Mr BROUGH—So it could be between BHP and Toshiba?

Mr Brady—Yes, that is right. The difference is that the level of profitability will be different. In any government business it might be 40 per cent lower than it is commercially.

Mr GRIFFIN—On the question of profitability in relation to the contract, the problem that an earlier witness saw with government usage of copying facilities is that because of the nature of what they copy, et cetera, it is actually a more expensive copy in general than would be the case in the private sector. Is that the issue?

Mr Brady—Not necessarily, no.

Mr Reeks—Copy costs in government are a lot cheaper than what they are in private.

Mr GRIFFIN—Let us say you had a contract with BHP and it was x cents per copy. Is your contract with government x minus or x plus?

Mr Reeks—X minus.

Mr Brady—It is x minus.

CHAIR—Because government users use up to 10 times as much toner as the private user.

Mr Brady—My personal belief is that usage is the same. I do not know whether there is a misunderstanding there. The difficulty with government is about to be exacerbated now because we are going from stand-alone analog technology to computer connected digital technology and that opens up a whole realm of problems that will just exacerbate the situation.

Mr GRIFFIN—On the question of servicing?

Mr Reeks—Toner usage.

Mr Brady—In a digital arena where the product is connected you can manipulate the image—because it is digital—and the toner usage goes through the roof. A manufacturer will quote on a government contract, for instance, a yield for toner of say 20,000 pages but that is based on a six per cent density. The reality is that in a connected environment people are using 12, 15 or 18 per cent density because they are manipulating the image. So therefore the toner yield is only one-third of what is quoted. The on-cost of that comes to the dealer because it is a fixed price in many instances.

Mr BROUGH—If BHP was going to buy 100 machines and the government was going to buy 100 machines, who is going to get the best deal out of this?

Mr Brady—Government would buy much cheaper.

Mr BROUGH—That is what I thought you said. Why is BHP not smart enough to do the same deal and do to you what the government is supposedly doing?

Mr Reeks—BHP's number of sites is a lot more restricted than the number of government sites.

Mr BROUGH—So Toshiba needs this business more for circulation.

Mr GRIFFIN—Commercial company usage of photocopying versus government: what percentage of overall business would that be?

Mr Brady—Government represents approximately one third of the Australian market.

Mr Reeks—And in the country, about 60 per cent.

CHAIR—Are you talking about a combination of federal, state and local governments?

Mr Brady—Yes, over one third of government. In regional areas it is up to 50 and 60 per cent—they monopolise the market. Therefore, if profitability becomes an issue, it is such a large percentage.

Mr GRIFFIN—Why are government contracts so much cheaper than private sector ones?

Mr Brady—That is a good question. We have been asking that for a long time.

Mr GRIFFIN—Is it just the way it has panned out over the years?

Mr O'Hara—Under the old contracts, it used to a one drop type scenario, they would order 100 machines, for example, as the Department of Defence.

Mr GRIFFIN—They would go to Fyshwick, or whatever.

Mr O'Hara—And whatever; they would take them in and that is what they were after. That is how the suppliers control their market share and set up their profit against toner and so forth. That has changed now because of digital. Most government departments only buy what they require for a certain period of time. There is no bulk buying any more, as I understand it.

Mr GRIFFIN—So the price was low initially because of bulk buying and the advantage they would have as suppliers. That has changed but essentially that has been used as a ceiling on the question of prices.

Mr O'Hara—Exactly.

Mr Kyle—Worse yet—and I think this is fairly universal—is that purchasing officers down the line are then saying to front line people, 'Okay, you have the tender price. That is

a starting point. Now I am asking for 14 quotes on this. I want to buy two machines.' The waste in that is huge from where we sit.

Mr Brady—One of the issues is that government contracts in the past were bulk order. I do not know the numbers but a manufacturer on government contract was assured of 10,000, 15,000 or 20,000 unit placements during that year. It was big business. Nowadays it is not quite like that. The other issue is—

CHAIR—You want to go back.

Mr Brady—No.

Mr GRIFFIN—Is part of the issue from your point of view that suppliers having got into a situation where they feel that is the way they have to go, because they will cut each other's throats in order to get there, that you then get caught by that with respect to your position out there? What you are arguing in terms of the government's situation is that that is fundamentally unfair for your members as a third party within the process and you are asking that government address that issue by either separating out the contract in terms of what in fact occurs in the areas that your members cover or alternatively upping the contract price and what they currently pay. That would be the end result.

Mr Reeks—Or exclude toner from it.

Mr GRIFFIN—Yes, but in effect it is the same thing.

Mr BROUGH—Separating maintenance is not feasible. Otherwise, I am XYZ company, I sell the department 5,000 machines and I do not even have a network to supply them. But I got you the lowest price and the machines do all the things that you want. Then the government can start negotiating and find out that there is no-one out there who can service the damn things.

Mr Brady—Most manufacturers of technology nowadays would have a type of product which was able to be endorsed as being from an endorsed manufacturer. There are not many bad apples out there nowadays. If most manufacturers were represented as endorsed suppliers, then in the capital cities where they are supplying the service direct the government contract rate for both the hardware provision and the service could be done by any manufacturer—that is fine. Once you get out of the capital cities into regional areas, shouldn't it then be feasible for that to become a normal commercial environment where, as a government body, you require a machine, so three or four organisations come in to—

Mr GRIFFIN—The rationale for going to a normal commercial environment is to actually get a cheaper price. To put it bluntly, what you are suggesting is that government ought to go into a normal commercial environment in order to spend more money. There is a bit of a contradiction in terms with what the rationale of this is normally.

Mr Kyle—Looking at what we addressed earlier about the servicing, the ongoing use of the equipment and the optimum cost of doing that at the best buy for the government, let us suppose a dozen manufacturers were on the contract and they all put a slightly different price

in. You were out 200 miles away from Brisbane and somebody says, 'I'm the local guy. I need some service. The price from this brand is X amount and that one is a tiny bit dearer. But 50 yards down the street, there are three technicians in a workshop and I know I can get service and whistle it up in no time at all. So I will negotiate a service thing with them and I will take a couple of points more on the hardware, or I have an office full of that one and everyone likes it anyway. So we'll have one service bloke come and look after us all instead of having three brands here.'

Mr GRIFFIN—Is the issue really the number of services required and the amount of time it has taken to actually do that, or is it a question of the consumables, toner et cetera?

Mr O'Hara—Both.

Mr Brady—If you look at the cost per copy, let us call it one cent per copy, in that cent the components that the dealer buys from the manufacturers, the consumables to support that might be half a per cent. The profit might be point one or point two, for instance, and the labour cost might be point three. So that is the total of the cent. Let us say if the calculation submitted was based around a perception that you will have to visit this machine only every 20,000 prints for a breakdown, but that the technician actually had to visit that machine every 5,000 prints, then the labour cost has quadrupled. Therefore, profitability goes out the window.

Mr GRIFFIN—Okay, but taking that point, estimations on the question of how often you need to service machinery is normally, as I understand it, done on the question of experience as to how a machine works and how often it would need to be serviced. That will vary according to whether you get a dud machine, something like that. It could vary to a degree in how a machine is used.

Mr Brady—Or it could vary in the degree to which there was an irresponsible approach to the figure submitted to start with, or a lack of responsibility in that approach.

Mr GRIFFIN—On that suggestion, by going through the tender process what is happening is that suppliers are doing the screwing. You get back to the situation of government saying, 'That's too low. You can't possibly do it for that without screwing people. Therefore we are going to have to pay you more.'

Mr Brady—You can say that and that is a reasonable position to take from a government's point of view, but what you are really saying is, 'I have no responsibility.' Is that a reasonable position to take?

Mr GRIFFIN—But what you are saying, too, is that it is not only a question of evaluating what you are getting as a government in terms of what your are tendering for; it is also making a whole range of judgments around the question of the actual operation of the supplier who is tendering. It can get pretty messy.

Mr Brady—All you are really looking for is an environment where there is a level playing field for every manufacturer and every dealer to compete on a level playing field with a fair set of guidelines. That is all the industry association is asking for.

Mr GRIFFIN—Taking that point up, each supplier is in a situation where they have the equipment that they produce, a network that they supply and service partly provided by their own people, partly provided by members of your organisation, and then a price that they establish around the question of what they do.

Mr Brady—Yes.

Mr GRIFFIN—What is the unevenness of that playing field? From what you say, it is not a question of the unevenness of the playing field itself; it is the fact that the playing field is lower than what it should be.

Mr Brady—Too low, yes.

Mr GRIFFIN—But I do not understand where it is uneven for the suppliers.

Mr Kyle—Government has responded to this kind of discussion in the past where there was a question mark when a manufacturer came forward and said, ‘I have 100 dealers all over the place who will look after this,’ and the government said, ‘Are you sure they will look after it at that price?’ A similar discussion occurred with federal government a couple of years ago and the response from government was to say, ‘Hang on, we are being told by a third party that all these other 100 people can join to do this work at this price.’ We want to call for these people to give an acknowledgment. We want 100 acknowledgments in with the purchasing to concur that they really do.

Mr BROUGH—That is not going to eliminate—

Mr Kyle—The dilemma here is, a dealer might sell two grand. His supplier is hardly going to whisper, ‘Hey, we’re going to put in a price of so and so to the federal government. What do you think of that? Would you go along with that?’ So it locks the manufacturer into this competitive thing where he has to say, ‘I reckon it will be fair deals. I’ll put that price in.’ These guys say—and it has been said to them—‘You do want to keep the brand, don’t you, mate?’

Mr Brady—The other situation was that we did try to raise that with the dealer in a relationship between the manufacturer and the dealer which you suggested. The difficulty with that is that the manufacturer was very sensitive to providing information on how they arrived at the calculations to tender that price. They are not going to tell us, ‘Okay, we calculated your 0.5 per cent profitability because you’re going to get this many copies and that much toner,’ because once it goes out in the field they do not necessarily have a great control over that either. They do not want to expose themselves to the oncost, the government body does not want to expose itself to the oncosts, so it all falls on the dealer.

Mr BROUGH—At the end of the day, what you are really looking at here is a position of a sort of reverse form of industry assistance given the way the pricing structure has gone over time. What you are basically saying is that, because of the nature of the way the prices have developed in the industry for this sort of equipment and the service requirements around, it is dramatically affecting the viability of your industry. In effect, on an assistance basis what you are asking for is a major adjustment to the types of contracts that are done

which will have increased costs for government or a major adjustment to the price paid by government for those contracts in the first place. That is really what you are looking at in the circumstances.

Mr Brady—Yes.

Mr BROUGH—I am not saying that is not something that should not be argued for, but that really is what it gets down to.

Mr Brady—It does, yes. What we are really looking for is a restriction in what you are contracting. For instance, if a manufacturer tenders price for service that he supplies direct, there is nothing wrong with that. There is nothing wrong with the manufacturer tendering to give you a machine for nothing and his dealer putting it in for nothing. We are only talking about the ongoing harm and exposure that causes a dealer thereafter.

Mr GRIFFIN—Have you guys thought of getting together a union?

Mr Kyle—Another underlying thing that is very realistic is that because the profitability of these dealers has been eroded to the extent that it has, they are all up to their shoulders in debt to their own supplier. They are not as free agents as you suggested to be able to rush forward and say, ‘We demand this’ or ‘do that.’ In sympathy with the suppliers, they are in a more ferocious competitive environment in Australia than probably anywhere in the world with that kind of pricing. I do not think it is anyone’s fault—it has just grown like topsy. That is what we are facing. The government sensitivity to employment in rural and regional areas and those sorts of things is hopefully one of three things interplaying what we are talking about.

Mr GRIFFIN—I think it is a problem for our inquiry though.

CHAIR—You are blaming the government when it is the manufacturers who are causing you the problems. I just do not understand why your association is going to negotiate with five big multinationals.

Mr Brady—One of the difficulties is the uniqueness of our market. Australia is a very small marketplace for manufacture globally.

CHAIR—The Australian market? There is only the Australian market in Australia.

Mr BROUGH—But your big problem is that if you have got a town the size of Nambour and it has got two suppliers of Canon, then it is quite easy for them to say, ‘If you don’t want it, son, the other fellow will take it.’ He knows that that is going to be the straw that breaks the camel’s back. You are down the tubes and he becomes the only supplier. This is a ‘loss leader’, for want of a better term. So, as much as you might be a huge association, they are all individual members who are prepared to cut each other’s throat because they are in private enterprise.

Mr Reeks—Yes.

Mr GRIFFIN—There could also be occasions where there may be only one supplier and, because they are in hock to the actual suppliers around the question of what they do, they cannot afford to get out.

Mr Brady—There was an instance recently where in one state a manufacturer had a conflict with a dealer and the manufacturer changed the dealer in that town. Part of that manufacturer's action in changing the dealer was to write to the government and say their new representation in this town was now this and that all service inquiries were to be made to the new dealer. The difficulty with that is that a dealer has spent 10 years building a business base and his whole business has now been handed to somebody else. That is bordering on unconscionable. It was a difficult thing but, disregarding that manufacturer, that is the nature of what is allowed to occur.

Mr GRIFFIN—Sure, but part of the problem—I imagine you have checked this out—is that in law essentially the contractual relationship is not between you and the government; it is between the government and the supplier and the supplier and you. There is a moral question, but in terms of legal stuff.

Mr Kyle—There is a question teetering on the edge of that as to whether negotiating away the profitability or otherwise of the third party constitutes unconscionable conduct.

Mr GRIFFIN—If I were you guys, I would test it in a court if I thought I had a chance.

CHAIR—It is the manufacturers that have negotiated it away, not the government. You keep wanting the government to fix it.

Mr Kyle—You keep saying that too, but we are trying to tell you what the situation is. We are not saying it is anyone's fault in particular. This is where we are at.

Mr BROUGH—We do not have to agree whose fault it is, but we recognise the problem. We are not going to find solutions here today, but are you suggesting that government purchasing officers—or heads of departments or whoever—the manufacturers and your organisation are able to come to a workable agreement between the three of you?

Mr Kyle—Yes.

Mr BROUGH—As far as these particular purchases of office equipment are concerned, what does it extend to? Have you been focusing only on copiers?

Mr Brady—On office products.

Mr BROUGH—But are we talking about PABXs?

Mr Reeks—A range of products.

Mr BROUGH—So your organisation, or representatives of the business community, should be involved up-front in the purchasing decisions for all office equipment?

Mr Kyle—That is what we are looking for.

Mr BROUGH—What your negotiations are with them is really neither here nor there to this committee, but your real point here is that, if you can be involved up-front with the negotiations, then you live and die on your own negotiating ability at that point?

Mr Brady—Yes.

Mr BROUGH—And at the moment, you are not.

Mr Reeks—And that the government and the suppliers take into account all the factors that relate to country dealers.

Mr BROUGH—If I am a country dealer in my home town, I need some toner and he sends it to me, who pays him? The government?

Mr Brady—The government body pays the dealer.

Mr BROUGH—The government body pays him. But, hang on, the toner is free.

Mr Reeks—It may be that the toner is incorporated in the copy costs.

Mr BROUGH—Let us say that it was.

Mr Reeks—You would get it for free and it comes out of the cost per copy.

Mr BROUGH—How are you getting paid? Are you getting paid by the government?

Mr Reeks—Yes, by the government.

Mr Brady—The dealer invoices the government department for the copy cost maintenance on a monthly basis in arrears. The manufacturer negotiates the sale price, but the dealer can in some instances. Some manufacturers invoice the government body directly for the hardware and some manufacturers get the dealer to invoice them but, if the service is being provided by the dealer, the ongoing maintenance is invoiced direct to the government body by the dealer.

Mr BROUGH—What about the box itself? Who gets the money for that in the first instance?

Mr Brady—The manufacturer. It depends.

Mr BROUGH—The way I used to work was that the sale might have come through whoever the manufacturer was, but, as a dealer, I did the deal up to the set price, received the money and made small profit at that point. Is that what generally happens?

Mr Brady—Predominantly, yes.

Mr Reeks—It really depends on the arrangement between the supplier and the dealer. Some that supply will invoice directly.

Mr BROUGH—You also have the problem that the supplier wants his money in 30 days and you are getting yours in 60 or 90 days from the government, which is creating a major cash flow problem.

Mr Reeks—It is a fair size problem. It just mounts up, especially when the margin is not terribly great.

Mr BROUGH—And who is picking up the cost of transport to regional and rural areas?

Mr Reeks—The suppliers normally pay that. The piece of equipment is delivered either directly to the dealer or to the government body.

Mr BROUGH—Thank you.

Mr Reeks—The problem with the toner, which was mentioned in our summary, is that it is based on maybe six per cent coverage. With that six per cent coverage, there is a small margin there for the dealer but, especially now with digital equipment, a lot of copies are more than six per cent. Therefore, where the copy cost of one cent per copy may take into account so many bottles of toner over 20,000 copies, the more dense the copy happens to be, the more bottles of toner are used. Therefore, whatever margin is in there may drop down.

One thing that dealers do—and I am a country dealer—is to cut back. If a drum is supposed to last 50,000 copies, you may not replace it until it is actually worn out, which may be 80,000 or 90,000 copies. This means that, in the long term, because the dealer is cutting down on the maintenance aspect, that photocopier or printer or whatever, instead of still being good after five years, may last only 3½ years. It is the same thing with the various parts in there.

Mr GRIFFIN—Let us say the contract is for five years, if that happens, would the cost of providing a new machine be borne by the supplier?

Mr Reeks—Not necessarily. The purchasing officer may decide after four years that this copier's copy cost is not as good and will trade it in and get a new one.

Mr GRIFFIN—So renegotiate the contract, in effect?

Mr Reeks—If there is a new contract out, they might just trade in on a new thing. The other thing with servicing is that, if there is not much margin in there, you do go down the list as far as who you give your best response time to—instead of being four hours, it may be six hours, because you concentrate a little on some of the other.

Mr GRIFFIN—One of the issues for government is that although, on a straight economic up-front position in terms of the cost of the contract, the price to government is good, one of the longer term costs to government is that it can have implications around the usage of machinery service, down time for machines and things like that. So you are saving

here, but you are potentially losing there, and it is very hard to quantify exactly how much that is.

Mr Reeks—Everybody knows how long a component in a photocopier will last and that, if the margin is not sufficient, you may extend it out because you know it lasts 70,000 instead of 50,000.

Mr BROUGH—I want to get back to this point of where you get involved and make some progress for yourselves, should that be a recommendation. Aren't you really saying that the only place that you can have any benefit is to be involved in the drawing up of the tender document and that, if the government really wants the best value-for-money outcome, it has to involve yourselves and the manufacturers in drawing that up—because once it gets beyond that and they start to put in their tenders then it is nothing to do with us because that is commercial-in-confidence. So all you are really asking for is an input into the drawing up of the tender so as to give the best value-for-dollar outcome for the government, and blow everybody else?

Mr Brady—Yes.

Mr Reeks—And that the government understands that, with copy costs, factors like distance and travel are taken into account.

Mr BROUGH—Let us come back to that. You are saying that, if we were able to do that, there would be a value in that to the taxpayer?

Mr Brady—Yes.

Mr BROUGH—Undisputed, that even though there is a dollar value in there now for the product, in your professional opinion the taxpayer is going to benefit if you are brought in at that stage?

Mr O'Hara—At the end of the day, the government would be far better off. They would be getting far better service, and the dealer would be able to support it. At this stage, he cannot.

Mr BROUGH—It is all anecdotal. You cannot qualify it.

Mr Brady—Ongoing maintenance costs may be slightly higher, but what will change is the value. The whole of life cost would be significantly reduced. In my own business—I have a dealership as well—we do a lot of major account business, which is similar to government. We handle very large accounts. The whole of life cost comes down very significantly once you get into taking responsibility for the real performance, the real life of the product and what the end user gets out of it because, all of a sudden, it is in your best interests to keep it going properly.

Mr BROUGH—Would the suppliers disagree with any of this?

Mr Brady—No. The suppliers are negotiating in a compromised environment.

Mr BROUGH—Why would they do it collectively?

Mr O'Hara—Because they are competitors.

Mr BROUGH—So?

Mr O'Hara—They are looking for their own market share.

Mr BROUGH—I understand that, but it means that they are all going to have the same tender document to work to, so how is it going to disadvantage them collectively?

Mr O'Hara—They look at the almighty dollar. The statement from government is quite simple, 'We buy the best price nine times out of 10. It does not matter who puts it in, as long as the product fits the bill.' And that is fair enough, they are there to protect taxpayers' money. We all understand that. But where it gets out of control is that the dealer does not have any input at that stage. It is being done on a city price and transferred to the dealer in the bush, and he cannot operate on the same price as a dealer in this town could. He has much higher costs to service that product.

Mr BROUGH—I understand all that.

Mr O'Hara—So that is where it comes in.

Mr Brady—A manufacturer in a competitive environment cannot afford not to get government market share, because it is one-third of the market. That is the bottom line. They cannot get the distribution numbers in Australia without it, so therefore they have to go at it. Many manufacturers unofficially will talk to you and say, 'Listen, we would love to do something about this, but we just can't lose half our market.' That is the bottom line.

Mr Reeks—I think also that, with the supplier and the dealer being involved in the tender document—if you like to call it that—we want to make sure that when the supplier, every supplier, is determining his price he takes all the factors into account, so that it does not matter whether it is supplier X or supplier Y, they are going to take the same factors into account. Some do, others do not. The suppliers that tender short cut because they want the extra volume cut the price down a little more, just a fraction, because they might not take into account the fact that the toner usage should be fractionally more than six per cent.

Mr BROUGH—But you are also saying that the people within the government who are making the purchases are not adequately skilled to do it.

Mr O'Hara—On that point, I would like to bring up this little one that is creeping in now—that is, the tender price seems to be the starting price for a sale. So we have sales people competing against each other with different products.

Mr BROUGH—What do you mean by 'the tender price is the starting point'?

Mr O'Hara—Let us say that the tender price for a copier is \$3,000 and that Toshiba has that contract. So they go in and the buyer inside that department might say, 'Okay, I have

had Joe Bloggs walk in here from Canon. He is on tender and his tender price is higher than yours, but he has cut that price now to beat you on your tender price, knowing what his tender price is.'

Mr BROUGH—I do not understand that.

Mr Brady—No. A contract should be a contract, but it is not; it is the starting point.

Mr O'Hara—That is the problem that is starting to fester now.

Mr Kyle—It is literally being said. It is not, 'We're going to buy 50 copiers from you.' What is being said is, 'Here is a point that we will start the negotiations from.'

Senator HOGG—I want to clarify this. You get a primary bid and you put up your hand and say, '\$3,000.'

Mr Kyle—And you think you have won.

Mr BROUGH—But that is not for any amount or anything.

Senator HOGG—No, this is for an amount.

Mr Kyle—This is one-off selling.

Mr BROUGH—John, it is not; it is one machine.

Mr Kyle—It can be one machine.

Mr Brady—For example, there is a government contracted rate from a manufacturer to government for model A for \$3,000. At the point of sale, where the end users are government bodies buying a machine, they then start getting into a discount war.

Senator HOGG—This is after the tender has been let; they then try to come out and rebid the tender?

Mr Brady—Yes.

Mr Kyle—The tender is only the entitlement to sell. It does not guarantee that you are going to get 100,000 photocopiers sold.

Mr BROUGH—So there is not a tender at all, because a tender is for particular business.

CHAIR—The terminology, I suspect, is not right.

Mr Brady—It was a common use arrangement before.

Mr BROUGH—But a tender is a tender for a particular project.

Senator HOGG—I understood that a tender was the closure of the bidding process for the sale of a particular item.

Mr O’Hara—That is what we understood it to be. If I walk into a department and say, ‘My tender price is \$3,000,’ and the buyer says, ‘Hang on, I can buy that product cheaper,’ even though I have come to tender from a manufacturer—

Senator HOGG—I want to clarify this. You may well have put in your tender, let us say, 12 months ago, for 5,000 copiers and your price was \$3,000. Along comes another operator six months later for a different project who puts in a different tender—

Mr Kyle—No. It does not happen that way.

Senator HOGG—It doesn’t happen that way? What I am asking is: is it because this person over here sees this tender go at a cheaper price and he then goes to this person and says, ‘Fill in the rest of my tender for the cheaper price’?

Mr Kyle—You do not understand this industry as we run it today. What happens is that every manufacturer is called to tender.

Mr BROUGH—Tender for what? We have to ascertain what he is tendering for?

Mr Brady—A state government contract or a federal government contract for a range of products.

Senator HOGG—Is this a whole of government contract, a department contract or an agency contract?

Mr O’Hara—A whole of government contract.

Mr BROUGH—Has he not just been asked to provide a price? ‘On this range of all of these items, please put a price down there’—end of story.

Mr Brady—They have market segments. They have segments such as category 1 and category 2. All manufacturers will tender to the state government body or the federal body for a product that will suit that application.

Mr BROUGH—Yes, but there are no numbers involved. It is just so that if I, in XYZ department, needed one of those, I would know that Canon is going to supply one for \$2,947. It is not a tender document which then secures me the sale of anything.

Mr Brady—No.

Mr BROUGH—I am only submitting a price list. That is all it is.

Mr Kyle—But it gets accepted.

Mr BROUGH—Yes.

Senator HOGG—But it is not a guarantee of the sale of a number of items?

Mr Kyle—No.

Senator HOGG—That is not a tender.

Mr BROUGH—If the three of us were to submit a tender for three different companies, and for the same line item mine was \$3,000 and the other two were \$2,000 and \$1,000, there is no way in the world they are going to select me each time; they are going to select the tender for \$1000, no doubt. So they have not won a damn thing. All they have done is won the right to put a piece of paper in that is a price list.

Mr Kyle—One of the manufacturers, for instance, in for a state contract here said to me, ‘I won the contract. Isn’t it terrific? Except that there is a clause in it that says I cannot go up or down in the price.’

Mr BROUGH—He is kidding himself.

Ms PLIBERSEK—So the person who has tendered for \$1,000 believes that he has won the contract, but the government then goes back to the person who has tendered for \$3,000 and says, ‘Can you do it for \$900?’

Mr Kyle—Yes. They put out a fax to 11 suppliers that says, ‘We need two copiers for this department; what is your very best price?’

CHAIR—Yes. But, with respect, a contract is a formal document; it is entered into by two parties agreeing to some arrangement for supply and services. A tender, generally speaking, in industry terminology, ought to be against a contract. A quotation would be given for a purchase order. An indicative price for a common use supply agreement that the government used to have and today has very few of, or is moving to have very few of, says that you agree to supply X pieces of equipment and certain services at a price whenever the government decides to push the button.

Mr O’Hara—That is correct.

CHAIR—But the government has no requirement to push the button. So it is not a contract where the government has contracted between the government and you for the supply of goods and/or services. I would have to say that your terminology is quite confusing. I did not know what you were talking about, quite frankly.

Senator HOGG—Can anything be clarified in this whole process, because I am getting more and more confused? What happens in the case that the Chair has just described: there is some sort international crisis—an oil crisis or whatever—and the cost of manufacture and delivery to Australia becomes infinitely dearer?

Mr Brady—The manufacturer has certain criteria to submit for a price increase to that government body, to the contract holder, be it the New South Wales state government or the federal government—whoever is the holder of the initial contract. There are criteria—

exchange rate, et cetera—so that they can apply for a price increase of X per cent, substantiated by that criteria.

Mr BROUGH—Let us come back to that. We are three companies and we all have our prices in—I do not care what you want to call it: a tender, a contract or whatever—how are you saying it is now working? One of the departments now decides it does want to purchase a copier; what actually happens now?

Mr Brady—My government contract price is for \$1,000, another is for \$950 and the other is for \$900. So we all come in to you, and I say, ‘I can give you brand A for \$900.’ Someone else says he can give you brand B for \$950, and the other says he can give you brand B for \$1,000. I say, ‘No, I will do mine for \$875.’

Mr BROUGH—How do you know? Because he comes back to you and plays one against the other until everyone gives up bidding?

CHAIR—Of course.

Mr O’Hara—Which is free enterprise; we have no problems with that.

Mr BROUGH—But that is not a contract and that is not tendering.

Mr O’Hara—No.

Mr BROUGH—It is a Dutch sale.

Mr O’Hara—I believe that the government should be looking at a free market force. We have it in the commercial world; why not have it in the government world? Let every purchase be negotiated at the point of sale. That would solve all of the problems, from the manufacturers right through to us. Then it would become a commercial transaction.

Mr BROUGH—These are not worth the paper they are written on, though.

CHAIR—Because the government is getting pretty good value now.

Mr O’Hara—That is why they do not want to change. We understand that, but it is not a fair playing field.

Mr Kyle—We believe, informally—as you all probably do—that the bulk of the copier companies have not made a profit in this country for about 10 years. They are making their profit in the unit cost of making their factory in Japan, Korea or wherever it is being made; therefore, they can sustain a loss-making operation in Australia to be getting things moving out here. We just happen to be conjoined in that from the circumstances you have heard.

Senator HOGG—I just want to take Mr Brady back to the question about the whole of government approach, and the whole life of approach, and the purchasing of whole of government. It seems to me from what I have listened to in the last three-quarters of an hour that if there are the advantages there for government that you seem to be outlining then why

hasn't government jumped upon that, given that the procurement policies of the government—those there, the guidelines—require that consideration to be taken into account? It is not just the cheapest cost; it is the whole of life of the purchase to get value for money.

Mr Brady—We just have not reached that level of maturity within our industry between ourselves as a dealer, the government buyer and the manufacturer in the way we construct arrangements. In a commercial environment—

Senator HOGG—Yes, but it is not optional for the purchasers, from the government point of view. It is in the procurement guidelines, so what you are trying to tell us is that whether it be on a department basis, an agency basis, or more likely—as I get the view—a whole of government basis, purchasing officers are not abiding by the government procurement guidelines. Is that correct?

Mr Brady—Exactly. They are not.

Senator HOGG—They are not giving the government value for money.

Mr Brady—No. they are looking at invoice cost of the initial hardware item. In a commercial arrangement we may come in there, look at your work flows, look at your people, and say, 'We can put this in and this is how we will integrate it. We add on all these values that give you a better outcome and therefore bring efficiencies and qualities into your operations which you do not get access to under that sort of arrangement.'

Senator HOGG—And you are saying to us that this is being stymied by the relations—

Mr Brady—It is unsustainable.

Senator HOGG—Yes, but it is being stymied by the cosy relationship between the government purchasers and the suppliers?

Mr O'Hara—Yes, sir.

Mr Brady—Yes, the state of the negotiations, yes.

Mr BROUGH—Is anyone doing it well? Are any of the departments doing it well? Do you have any examples of someone doing it well at any level?

Mr Brady—I am sure there are examples. I would not know any.

Mr BROUGH—But nothing comes to mind?

Mr O'Hara—No, we cannot put our hand up and say, 'Yes, such and such a department does it right.'

Senator HOGG—Well, one department has been put forward as fairly much a model for us, and that is Defence.

Mr BROUGH—That was looking for Australian made.

Senator HOGG—I know that but it seems to be a model—

CHAIR—Different criteria.

Senator HOGG—I understand that, Chair.

CHAIR—Gentlemen, I cannot comment for the rest of the committee. It seems to me from our discussions that we could go back to the government and say, ‘We really ought to pay these guys better. If it says net 30 days, it means net 30 days, not 60 or 90.’ That is a problem that we should be addressing. It is my own view that if you and the representative of the Office Equipment Industry Association who was here this afternoon would like to go over and borrow an office across the way and we were to lock you in until you come to an agreement I think we might solve everybody’s problems. Thank you very much for coming. We appreciate your input and we will send you a copy of the report when it is tabled in both Houses of Parliament.

Proceedings suspended from 3.23 p.m. to 3.38 p.m.

[3.38 p.m.]

HALSTEAD, Mr Rodney Dereck, General Manager Corporate Affairs, Employment National Administration Pty Ltd

CHAIR—Welcome. Thank you for coming to talk to us today and for your letter. Would you like to make a brief opening statement to the committee?

Mr Halstead—No, Mr Chairman, I do not have an opening statement.

CHAIR—To what extent do you think that Australian business interests are being served and the national interest is being served with today's procurement guidelines?

Mr Halstead—I can only talk on behalf of our company. We are aware of the procurement guidelines and their operation. We take account of them as a GBE under the CAC Act, so we are conscious of their existence. In terms of talking more generally about Australia's interests, it would be difficult for me to comment beyond my involvement in our own company.

CHAIR—That is really what I am asking you.

Mr Halstead—Certainly our company as an organisation has sourced most of its procurement from Australian New Zealand type companies. Its business, as you would be aware I am sure, is as a mainstream recruitment agency. It is not a capital intensive organisation, nor is the industry. Most of the capital would be fit-out furniture, most of its properties leasehold and most of its software and hardware is on a purchase or lease basis.

CHAIR—And you have no numbers or percentages of either SME involvement in your procurement activities or Australian or New Zealand supplies?

Mr Halstead—I do not have any percentages, Mr Chairman, but I would say the bulk if not the majority of our acquisitions and purchases have been from Australian and New Zealand organisations. I know of a number of cases in point where we have used Australian and New Zealand companies. Most of our consultants and other service suppliers in fact are either Australian personnel in the sense that they give expertise to our organisation, or we buy, as I said, from Australian companies. But I do not have any specific percentage I could give you in relation to our acquisitions.

We have been in operation for eight months now, so we are relatively young. Our main business is a government contract which we secured in a competitive tender some 15 months ago. That was resolved in late February and we started business on 1 May. So you could imagine the time frames available to us to actually get up and running relatively quickly—a matter of a couple of months. It focused us very considerably on acquiring product quickly and locally.

CHAIR—One question I have to ask you because you are a GBE: can you tell us who manufactures your paper?

Mr Halstead—No, I cannot.

CHAIR—Would you?

Mr Halstead—Indeed, I will take that on notice for you but I cannot tell you from whom we buy our paper.

Senator HOGG—It is not a trick question.

Mr Halstead—I imagine that we buy it in the marketplace and I imagine, given the nature of our operations, which is very diversified—we have 200-odd offices around Australia, which are stand-alone contribution and cost centres in their own right and are grouped into profit centre groupings to take account of our business operations—they may well acquire locally.

CHAIR—Acquired locally will not necessarily tell us where it is manufactured.

Mr Halstead—No, indeed.

CHAIR—My colleague is right: it is not a trick question; it is just that we happened to be told by the Australian Paper Producers Association that the majority of government purchasers of paper go to paper which is produced in other countries, and we are finding that difficult to come to grips with.

Mr Halstead—It is certainly not a consideration that we have looked at—not to my knowledge. Indeed, I think it is probably availability and accessibility that we would focus on in acquiring paper. We do not buy it and store it. The nature of our business and the margins we operate in are such that it is a just in time approach where we acquire office equipment and office consumables on an as required basis. It is not a matter of the economics of buying reams and reams and pallets and pallets; it is a matter of buying paper as we need it.

CHAIR—Can you tell us how you have organised your purchasing?

Mr Halstead—All the capital is through our board. Our board decides on all capital items, so any major capital purchase—be it property or fit-out—is approved by them. We go to tender for significant items, significant acquisitions—open tenders—and we go to short lists of known providers for most other consumables. They are short lists of three to five that we know provide certain products and services.

CHAIR—What do you consider to be major capital—a dollar value?

Mr Halstead—Anything over \$10,000 is, in our consideration, a significant item and the board needs to consider it. When I talk ‘major’, I am talking millions in relation to IT, software and property fit out. With property fit out in itself, the individual cost would be much less than that, but collectively—209 officers and rolling out, internal fit out—you are starting to talk in millions of dollars.

CHAIR—In looking at the Commonwealth procurement guidelines, what weight is given to the objective of, firstly, enhancing small and medium size business capability and, secondly, industry development?

Mr Halstead—I would say accessibility and value for money are the two considerations that we would focus on initially, and then we would look at how we source our material. And, as I said earlier, we would be looking very much at availability locally: because of the ‘just in time’ approach of our operations, we would be looking critically at what is available. I do not know that there is a precise or concise focus on Australia or New Zealand. It just happens that, in the process of setting this company up, it has been Australia and New Zealand that we have sourced from. But I am not aware of a check list that actually says ‘Australia-New Zealand is the top weight’. But there is certainly consideration by the board as to where it is being acquired.

In terms of your question as to what weight, I could not give you a percentage weight which says that 40 per cent of the decision is whether it is sourced in Australia or built locally. But certainly number one is looking at value for money and looking at availability and functionality so that it suits our purposes and our business needs. Acquiring it, as appropriately, locally would be our number two consideration.

CHAIR—If your board said to you that on all purchases of \$2,000 or above any purchase officer had to justify a decision to purchase foreign manufactured goods or services, would that cause any great imposition to your organisation?

Mr Halstead—It would probably incur cost in terms of seeking to source availability. It is a hypothetical, really, Mr Chair, so it is hard to respond. I do not envisage my board would say that to me.

CHAIR—Don’t you?

Mr Halstead—No, I don’t.

Mr BROUGH—Why not?

CHAIR—Why not?

Mr Halstead—They would look very much at the significance of acquisitions and value for money from their perspective. I am not sure that they would look at \$2,000 as a significant expenditure. I do not think that level of discussion would necessarily arise in a board.

Mr BROUGH—But what if you upped the limit to \$10,000? I think you said \$10,000 and more went to your board.

Mr Halstead—Yes.

Mr BROUGH—This is the same question the Chair just asked, but you would up the limit to \$10,000. What is your opinion on that? You said it was hypothetical that they would allow you to do it or cause you to do it and that you did not think that would occur.

Mr Halstead—I am not sure that they would get involved to that level. But, yes, you are right. You are asking: if it is \$10,000, \$100,000 or \$1 million, what sort of imposition would that put on the organisation.

Mr BROUGH—Yes.

Mr Halstead—Given we acquire a lot of services in the marketplace and the nature of services is such that they are readily available and, by and large, most of them are locally sourced, the \$2,000 figure or the \$10,000 from a service perspective probably would not be a difficulty because I do not envisage that as an organisation we would go offshore for services, as such. That is not to say that some of the companies that we acquire these services from may not be owned offshore—

Mr BROUGH—No, I was not asking that.

Mr Halstead—because we do not look at their shareholdings in that sense. When you start to get higher numbers, the incidence of purchasing and procurement becomes far less. You only buy, from our perspective, one computer system or one telephony system or one office fit out when you do 209 at once, so the incidence of procurement would not be onerous. But if you are talking about 2,000 and there were thousands of those in a given year, I suppose it would create an additional workload and additional administrative costs in looking at that.

CHAIR—The Industrial Supplies Office has told us—and they commissioned research which brought forward these numbers—that for every additional \$1 million of successful new or retained manufacturing business the following effects flow through the economy: \$328,000 worth of tax revenue is generated, \$1,216,000 worth of value added is generated, \$210,000 worth of welfare benefits is saved and 22 full-time jobs are created. If we told your board that and suggested that purchases above \$2,000 or \$10,000 dollars might well be accompanied by a statement of why Australian goods and services were not purchased if they were available, would that look like a reasonable proposition then?

Mr Halstead—Again, I cannot speak on behalf of my board. If you put that to them, they would probably consider those issues—quite rightly. Being a non-budget-funded company that operates in the marketplace on a fee-for-service basis, they will look at value for money as a driving force in making judgments about how the company positions itself, how it acquires and how it operates in the marketplace. I know anecdotally—I do not have percentages—that the vast bulk of our acquisitions are of Australian and New Zealand companies, but it is not listed as a prerequisite requirement in the board's considerations.

Mr BROUGH—Do you have that? You said you are aware of the Commonwealth procurement guidelines, but does Employment National have any other guidelines to supplement those in relation to procurement which your staff can be judged on, if you like, and on which to make their judgments?

Mr Halstead—We have guidelines and delegations that we give our staff for what they can spend and what they can spend it on. We talk in services, in value for money and in the context of good procurement and good purchasing from the business commercial point of view. But to my knowledge there is no reference in those guidelines at this point to Australia and New Zealand.

Mr BROUGH—What about reporting? Is there any requirement there for them to be able to report upon any of the six points in the Commonwealth guidelines?

Mr Halstead—We are under the CAC Act. Being under the CAC Act we are not under the jurisdiction of Commonwealth procurement and purchasing.

Mr BROUGH—No, but this is just back to your board.

Mr Halstead—Our board is conscious of procurement—where we procure and what we procure—from a commercial perspective.

Mr GRIFFIN—How is that reported to them?

Mr Halstead—At each of their board meetings there is advice to the board in relation to our acquisitions and procurement for big ticket items—software, hardware and the like. Indeed, they would approve the acquisitions and they would be briefed on the roll-out strategy as it is happening in the course of the period and they would get an overview of the services that we buy, not specifics. For example, a lot of the services we buy in the marketplace go to value added services for job seekers that need support to get back into work. That might be counselling, mentoring, occupational psychology, training or vocational development. All of these are sourced locally. They are local small businesses, partnerships and sole traders who operate in the marketplace providing these professional services. There are thousands of those. We have hundreds of thousands of job seekers on our books whom we are helping every day. So the board would get an overview of the nature and level of purchases that would occur, maybe split into range and type of service, whether it was vocational based, counselling, training or mentoring, et cetera.

Senator HOGG—How many purchasing officers do you have?

Mr Halstead—One—one by definition. We have a purchasing officer in the organisation at corporate headquarters.

Senator HOGG—Is that yourself?

Mr Halstead—No.

Senator HOGG—Is that through your office?

Mr Halstead—No. Our corporate structure is such that we have an infrastructure department and that comes under the infrastructure department.

Senator HOGG—So all the purchases that are made for the various 209 offices throughout the—

Mr Halstead—No. I was going to qualify that, Senator. The purchasing officer purchases mainstream corporate items. So we lease fleet—we do not purchase. For travel we do deals with Ansett or Qantas.

Senator HOGG—So that is not purchased at the individual office level?

Mr Halstead—Not that, but at the individual office they buy local services. I would not define them as purchasing, although in the true technical sense of the word they probably are. They certainly buy services locally and at the minimum there would be 209 of those in the sense that there is a manager in each site. There may even be more because the delegations go to a great percentage of our 1,500 staff.

Senator HOGG—So what happens in the case of consultancies? Where are they purchased? Through the head office or through—

Mr Halstead—You probably have to define ‘consultancy’, Senator. But if you are talking professional services like Coopers and Lybrand—

Senator HOGG—Professional psychologists or someone such as that.

Mr Halstead—No, there is likely to be a professional service locally, so you would contract a local psychologist. You would either do a standing—

Senator HOGG—That would be done through the local office though?

Mr Halstead—You would either do a standing order where you would identify a range or a volume of services, you would draw down against that contract that we would sign with that provider, or it would be a casual arrangement—casual in the sense that it is ad hoc. You do not need a lot of these services. The nature and the profile of your clients are such that you might need two or three of those services in a given year.

Senator HOGG—Do you have a set of guidelines for those people who are the purchasing officers at the local branch office level?

Mr Halstead—We have guidelines in relation to how much they can spend, what they can purchase and what their delegations are.

Mr BROUGH—What about things such as, if it’s stationery, that you move your business around as opposed to just continuing to buy from the one supplier because it is reliable—that sort of stuff?

Mr Halstead—As I said earlier, the stationery contract—

Mr BROUGH—I was just using that as an example.

Mr Halstead—to my knowledge is not nationally or corporately procured. I think it is procured locally but I will check that and come back to the committee. Big ticket items—yes, we look at the quality of service, we look at the efficiency of the offerings against our business and the changing nature of our business, so it is not an automatic rollover for an Ansett or a Qantas. It is not automatic for a particular provider of services. We review, together with the contractor, the nature of their contracts, the services, and we would go back to the market as and when appropriate. So there is a review of all of our major contracts on a regular basis.

Mr BROUGH—At a local level, do you have any idea what is spent on the average office on a monthly basis—of course you have not been going for 12 months—or can you say what you anticipate is going to be spent locally?

Mr Halstead—The short answer is no, for the simple reason that it is not predetermined. It depends on the individual. For example, one individual might have barriers to employment that are greater than another; therefore you might need two or three sessions with an occupational psychologist, as opposed to one. So the judgment is left to the individual consultant and his or her team leader to make the judgments about how best to use the available moneys to maximise outcomes for the clients.

Mr BROUGH—You are saying there would be very few consumables?

Mr Halstead—It is all services. It is training services, vocational development services, it might be work experience. There might be some consumables—

Mr BROUGH—You are saying the consumables are a very small component?

Mr Halstead—We pay for licences, for people to get their licences renewed so that can drive their cars. We buy shoes and clothes for people so they can present themselves back into the workplace. A lot of these people have been long-term unemployed for a while, they have lost their discretionary income, and part of this is to bring them back to the marketplace so they can compete in the market. So there is a lot of expenditure but it is very small at the local level. You do not know what you really want until you are actually confronted with the individual and you work out a plan with them as to how best you can help them back to work. There are some common themes—clothing, training—

Mr BROUGH—Is this done on a credit card or something?

Mr Halstead—No, we have arrangements or accounts with various providers, sometimes as simple as with K-Mart, or our business centre manager might set up an account with a particular provider and organisation. Sometimes it is credit cards but it is minimal use. We have corporate cards that our managers operate against. But it is a very small acquisition; it is not major. In the scheme of things it probably adds up, given that you are helping many hundreds of thousands of people.

Mr GRIFFIN—You do not have a ballpark view on what percentage it is in terms of your overall expenditure?

Mr Halstead—Having only gone for eight months, it is a little hard, and there is a lot of discretion there—discretion in the way in which it is utilised. Also there is a bit of commercial-in-confidence in relation to the commerciality of our business with our competitors in the market. You may or may not be aware that this was a competitive market where you had to actually bid and tender on a price competitive basis for services, and then there were some moneys on a fixed price basis given by the government to help certain long-term unemployed back to work. And there is discretionary income within that as to how much you spend and on what. It is bit like the black box: everybody wants to know how you are actually using that to maximise. The ballpark: on average there would be \$200 or \$300 on an individual, some would be thousands and thousands and some would be \$20.

Mr GRIFFIN—That is involving mainly expenditure on services, as such?

Mr Halstead—Yes.

Mr GRIFFIN—I am not fussed about knowing that aspect of it, and I understand your point on the commercial-in-confidence. I understand it is early days, but I am trying to get at the question of our best guess which is that somewhere between 10 and 15 per cent of our expenditure is actually on goods.

Mr Halstead—In 1997-98, we traded for two months and we were setting up for eight.

Mr GRIFFIN—Obviously when you were setting up your actual hardware-software costs would be severe. Have you got any figures on that year, a rough ballpark figure?

Mr Halstead—We would have spent close on \$10 million or \$12 million in setting the organisation up in relation to software and hardware in that short period. We are still expending because there are still enhancements going on, there is still roll-out occurring.

Mr GRIFFIN—They were your base contracts, were they?

Mr Halstead—Yes.

Mr BROUGH—What would that be as part of your overall purchasing budget?

Mr Halstead—In that year?

Mr BROUGH—Yes, just roughly.

Mr Halstead—You are asking me to look at the local stuff. We only had two months of that, so that would be 90 per cent or 95 per cent of overall purchasing.

Mr BROUGH—We heard from one of the departments that 97 per cent of what they purchased came from Australian based companies, and it turned out that they did not have a clue where anything came from. As you said, most of Employment National's purchases have been from Australian companies.

Mr Halstead—Yes.

Mr BROUGH—But if I have a look through your submission, SAP, which is overseas, built your corporate human resources.

Mr Halstead—Yes.

Mr BROUGH—IBM was in conjunction with a New Zealand company, but obviously IBM was the lion's share of it. I do not know who Lucent Technologies are, but obviously—

CHAIR—IBM is Australian.

Mr BROUGH—Ownership of? Hear me out, Mr Chair. There are the photocopiers and everything else. I am not condemning you at all, but the point I want to make is that we come back to what the Chair's point was earlier on: if there were a requirement to determine why we could not buy Australian made, we would find there are a lot of departments or agencies which have made some sort of a play towards Australian made and Australian procurement but, when we scratched below the surface, we would find there was not really any detail there. We may well come to the conclusion that that is something that is vital if we are going to see whether or not we are improving. You obviously feel as though most of the products you have purchased have an Australian or a New Zealand origin, but there is no way of actually quantifying that at the moment.

Mr Halstead—Only to the extent, as I said earlier, that all our local services are procured locally. I take the Chair's point: IBM, from our perspective, is Australian. I also raised the question before about whether we are going into institutional ownership and who holds the share portfolios. I take your point about SAP, but there were two companies that could provide the service that we wanted at the time we wanted it.

Mr BROUGH—Which was the other one?

Mr Halstead—PeopleSoft. In order to build a corporate system in the time frame that we had available—a modularised system that needed to be up and running in two months time—we did not have many options.

Mr BROUGH—That is important, because that then supplies the reasoning why. We have heard that Mincom, which obviously goes against SAP quite a bit, has missed out on other government contracts at other levels where it could compete, but, as you have just pointed out, that is not the case. I think that that can be useful information in being able to support why something has not been produced.

Mr Halstead—And SAP was an open tender, so anybody could bid, but the specifications were pretty tight. We got our contract in February and we were up and running in May, so we went to the market relatively quickly. In anticipation, we went to the market before February, knowing the build time, and it was an open tender. We got a handful of responses. It was not like we were excluding any other local companies from having a go.

Mr BROUGH—Obviously, value for money is something which Employment National has had to take a totally different line on compared with when it was formerly part of a

department, and you spoke a bit about that. Can you quantify what directions you give in regard to value for money? Is there anything in the guidelines of which you spoke which allows the quantification of exactly what value for money represents to Employment National?

Mr Halstead—We draw very heavily on the traditional definitional frameworks which go not only to the purchase price but also to the extent to which they cover these: the functionality and the serviceability of what we are buying; the longer term, whole of life considerations of the product that we are getting; the flexibility; the sort of after-sales service that one would expect from the organisation from which you are buying; and the flexibility if you want to actually adapt the equipment or facilities that you are acquiring. So it is a more broadly based issue than just looking at the cheapest price.

Mr BROUGH—Do you call in outside experts?

Mr Halstead—Yes; we have.

Mr BROUGH—At what stage? When you are drawing up your contracts or tenders?

Mr Halstead—No. Indeed, in the context of the two that I speak of, one was a fit-out property. You made comment about the link with DETYA. Whilst we are an independent, government business enterprise, part of our heritage comes from having been in DETYA, having been part of the Public Service—not this company. In fact, we had to buy some assets. We actually bought assets on a commercial basis to take into the company.

But they also did a lot of the early preparatory work in setting this company up. They were looking at fit-out so they actually went for a contractor, which they went to the market for, to take into account the fact that when the market started Employment National would want to acquire a certain piece of equipment, so we piggybacked some of those arrangements in those early days.

So at that point under the government there was consideration in looking at what expertise we would get, who was available and where we would source from. Subsequently, we looked at it from a commercial point of view. We looked at some of the DETYA strategies and discounted them because they did not have, in our view, the value for money considerations that we looking for. We said, ‘Hold on, we need to think about this from a commercial perspective.’ By that I mean the whole of life issues—you are not budget funded, there is your ability to actually replace, you need to look critically at whole of life cycle and how you actually live in this environment, add to it and adapt in a commercial world, rather than just going back and getting another allocation.

Mr BROUGH—I think that is critical to our whole investigation. Do you have examples of where their methodology ended up being quite different from yours because you felt you were being market driven? Can you supply something on any of those sorts of things?

Mr Halstead—There would be one or two examples. They would not be significant. Certainly the focus is very different; we look at it from a very different perspective.

You made the comment earlier in terms of the time lines that you are confronted with and the sort of lead time in which you have to do what you need to do. That was critical at the first end because contracts were signed and it was to be up and running in two months—part of the contract was that you had the doors open on 1 May. That will not necessarily always be the case because you are now operating as such but, having said that, this contract finishes on 30 November and we do not know what next contract we might or might not win. We have to go to a whole new tender this year, and the outcome of that will be some time in December.

CHAIR—On what sort of equipment or services do you think you achieved a different outcome than if you had been in DETYA?

Mr Halstead—They are mainly in the software or hardware side of our business. I know DETYA because I used to work there. They had a different focus. The different focus was in functionality. The different focus was in what they wanted their systems to do, the nature of linkages and interlinkages between corporate systems, business systems and telephony systems. They came from a different perspective.

Ours was very much: how do we integrate these products? How do we make them work for us? How do we actually use them as a competitive advantage in the market? We were operating commercially, so what we wanted were competitive advantages that we could gain by integrating some of our systems and by designing them to meet our business needs. Those needs are very different. The drivers are very different and the operations are very different to what I certainly saw when I was working in government.

CHAIR—We have just heard that something over 30 per cent, or one third, of Australia's photocopies are made by the three levels of government.

Mr Halstead—Are made by?

Mr BROUGH—Of all purchases.

Mr Halstead—Sorry, I thought you meant manufactured.

CHAIR—No, of all photocopies made, not copiers.

Mr Halstead—Copies, pieces of paper.

CHAIR—Of photocopies made in Australia—because today those machines are sold as copies, not as capital costs—over one third are made by—

Mr BROUGH—We all think it is 'copiers', not 'copies', but we could be wrong.

CHAIR—Copies? They are the number of pieces of paper that go through photocopiers. Over one third are made by the three levels of Australian government—

Mr Halstead—I think that is called accountability.

CHAIR—which I find absolutely fantastic. Would you think you would have found that you had reduced usage compared with that, if you were DETYA?

Mr Halstead—I would say commercially—

Mr BROUGH—What was the question?

Mr Halstead—The question was this: would I consider—and it is often difficult for me, and I will qualify my answer—that Employment National, operating commercially, is using fewer photocopies than it would have if it were in government?

As for the nature of commercial operations, there are different requirements in terms of filing and papers. There is still a requirement in relation to audit trails and there is still a requirement in relation to accountability to the board and to ASIC and various others. Indeed, photocopies are still used extensively. But there is a different approach. There is a commerciality attached to what we do and how we do it.

CHAIR—Do you think you probably use less?

Mr Halstead—I am sure we do but I have no benchmark, I am sorry.

CHAIR—I understand that.

Mr Halstead—I have no benchmark but, intuitively, we do.

CHAIR—I don't want a digital answer; I'm looking only for an analog one.

Senator HOGG—When you were talking about value for money, Mr Halstead, you were talking about a number of criteria which you might not have used in your previous life. Do you actually assign a weight to those criteria in assisting you to determine whether you are getting value for money? For example, price might get a particular weight and whole of life might get a certain factor.

Mr Halstead—Short answer: no.

Senator HOGG—Whilst you might not use a specific number in terms of something that is written down in a book, do you have a gut feeling that you use that says, 'This is 30 per cent, this is 60 per cent and this is 90 per cent?'

Mr Halstead—You are right; it is from a gut feel—the issue of serviceability, flexibility and functionality, the extent to which there is after-sales service. We are very dependent on our infrastructure.

As I said earlier, this is an organisation which, in order to complete in the market place, can only compete on quality of service and price. You are very dependent on your image. Your image is dependent on your success. Your success is dependent on your service levels and their quality and on perceptions of quality. Some of that goes to price, some of that goes to the service that you are providing. They, in fact, come back to the material that we have

got—our systems, our software, even our photocopiers. You cannot afford them to break down. You have to have after-sales service.

Senator HOGG—How do you weight your various criteria? This is one of the things that has been bugging us. When we have to talk about value for money, value for money in the government agencies and departments at large means nothing else other than the lowest price. Along comes you and, while lowest price might be a consideration, you look beyond lowest price.

Mr Halstead—Yes, we do.

Senator HOGG—I want to know how you use these other factors, and how you weight them so that they impact upon your decision.

Mr Halstead—As I said earlier, it is not percentage based. There is no percentage at 40 per cent, 30 per cent or 20 per cent.

Senator HOGG—But you have no magical formula?

Mr Halstead—No. Intuitively though, it is how closely the offering meets our business requirements. So, rather than buying off the shelf, it is the extent to which we can get something that matches our requirements perfectly, and the adaptability and the flexibility of that, because our business needs are changing. The whole market is changing constantly. Where we want to be and what services we want to offer in certain locations are constantly changing, so we need flexibility in our systems. The ability to switch on, switch off, add to or put in a new module are big considerations when looking at acquisitions, as are ongoing service, replacement and ability to respond to our maintenance needs, because we are dependent. If our phone does not ring, nobody can get to us. If the phone does not ring, we do not get a sale. If we do not get a sale, we do not exist. So it is critical. We look beyond the bottom line to the serviceability and functionality of things to make sure they meet our business requirements and we can adapt them and build on them.

Senator HOGG—But if you have two tenders that are pretty similar in price, how do you then weight the varying factors that will differ in the tenders, based on whole of life, serviceability and the other?

Mr BROUGH—Whose judgment is it?

Mr Halstead—It would be the board's judgment.

Mr BROUGH—The purchasing officer obviously makes a recommendation.

Mr Halstead—The purchasing officer would put the facts on the table. Maybe they would lean to something on the basis that this provides, in their view, a better option because of serviceability or because of after-sales service or because warranty periods are longer or something like that, but I have not been confronted with the exact two. Invariably they differ, even if it is only at the margins, in their offerings and their capabilities.

CHAIR—Every board in place is different, though.

Mr Halstead—Indeed. It is unique.

CHAIR—It is a different mentality, John.

Mr Halstead—We are also buying one—

Senator HOGG—I am looking at your bigger purchases, where you are likely to get a number of tenderers with similar prices, and you are looking for a different product than a government department may be. I am trying to tease out the weightages you might apply because, undoubtedly, that is something that is significant. One of the weightages may well be the criteria in a major purchase that the chair read out before and that the NSW ISOs put to us. We have two similar prices. However, in the purchase of \$1 million, we are going to get all these additional benefits because it is from an Australian New Zealand firm, that will give it a heavier weightage than, say, an overseas product which we can buy for the same price. That is probably not a good example.

Mr BROUGH—That is a lost priority at the moment.

Senator HOGG—I know that, but that might not be the only consideration, because your view of whole of life may well be a far better view than any other department might have to take.

CHAIR—It would be fair to say that, as a private sector business owner for a long time, if I were buying paper, I probably could not have cared who manufactured it as long as the paper was of high quality and did not jam my photocopier or stuff up my laser printers or my fax machine, and it was the cheapest price. But when it came to the contract for software or for a new computer system, I wanted somebody local because I wanted to make sure that in two years the same people would fix the bloody thing or update it because my priorities, my needs or my business had changed.

Mr Halstead—I take your point.

CHAIR—So there were two completely different objectives in terms of looking at value for money.

Mr Halstead—I think I will comment on both of those, to the extent that maintenance serviceability, warranty, after-sales service and the dependency that we have as a service organisation on the equipment that we use and its reliability is critical. I have said that right from the outset—locally sourcing is a determinant, like whether it is for professional services in the marketplace so you can actually build relationships.

Again, part of our success is building relationships so that you can get the quality and the attention that you need, and that applies to some of the big stuff as well. We enter into arrangements to build relationships, so we are not going to chop and change our systems on a regular basis. You are investing in a critical mass in the organisation that you hope will sustain you for a long time—one that you can build on and upgrade and update.

CHAIR—For many years, probably for two decades, I had one joinery manufacturer. That is the pointy end of building buildings; that is the one thing that people first see when they walk in—the quality of the joiner. He was generally more expensive than the other joiners I could have used, but we used his price when we tendered and we won. We built with him because that got us more work, yet we were expensive. But that was value for money.

Mr Halstead—Yes. That is a consideration as well. I will not go into the technical details, but there was a comment about photocopiers. When we looked at photocopiers we looked at functionality. We looked at functionality in relation to copying, scanning, use as an ultimate printer—the range of functionality that you could actually get to maximise your business position. If you are in Bourke, you do not want to put in three machines. You do not want to put in a scanner, a photocopier and a printer. A scanner is probably used once in a lifetime; somebody might want to come in and scan in a resume or a document. You might need a backup printer if your mainstream printer goes down. You do not want to have one in the store. All of those considerations play a big part for us in looking from the commerciality of what we are trying to do.

CHAIR—When you leased your photocopiers centrally, so that everybody had the same, what did you do about a service contract?

Mr Halstead—I cannot tell you the specific details. It is part and parcel of the contract we have, but I cannot tell you any other details than that; I am not aware of them.

CHAIR—The reason for the question is that we have heard there is a very great difference between the manufacturers and the dealers, particularly in regions, who are small businesses—like your office in Bourke.

Mr Halstead—That is bad example because we have not got one there, but we have one in Emerald.

CHAIR—You said ‘Bourke’.

Mr Halstead—I did, but only to give you an idea of isolation.

CHAIR—I can only take you at your word. Is the maintenance contract for your photocopier in Emerald still placed centrally with the major multinational that you leased your photocopiers from?

Mr Halstead—No. My understanding is that it is locally sourced. We have response times built into our contracts in terms of when they come to us.

Ms PLIBERSEK—Mr Halstead, some of the evidence we heard earlier this morning from the Industrial Supplies Office network suggested that often companies do not know there are local suppliers right on their doorsteps that could do the work that they have engaged companies from further away, or in fact overseas, to do. What efforts do you make, if any, to investigate local suppliers that are not apparent to you in the first instance?

Mr Halstead—I mentioned earlier that in our corporate structure we have an infrastructure department. The infrastructure department is active in the broader industry to the extent that if you deal with the Gaertner Group, you get a feel for what is happening in leading edge technology through the Gaertner Group. If you deal with industry briefings, you get a feel for what is happening from your affiliations with certain companies, and indeed other companies, that are seeking to access your industry—your goods and services. We keep an eye on things; we go to a lot of industry briefings.

Ms PLIBERSEK—But they would be mainly large companies that have the resources to do that sort of selling, wouldn't they?

Mr Halstead—Yes and no. I think your point is right, but Gaertner, as a group, is not limited to big multinationals. As I said, we have had two big chunks of acquisitions. I do not envisage big chunks for a long time. The two big chunks were open tenders to the market to actually inform people about our offerings in relation to the software, hardware and fit out, and then we moved into local procurement.

With all of our local procurement, particularly in communities—Emerald is a good case in point—you are pretty well aware because you live in the community and you know who is around. In fact, you are probably already dealing with these suppliers, selling your own services to them because of the nature of our business which is employment services. So at the local level you build pretty good networks and pretty good knowledge. At the metropolitan level it is probably more difficult and, other than industry briefings and client briefings, it would be a limited opportunity.

If we want to get a broader catchment, we tend to go open tender, as I said earlier. If we are looking for something specific, we tend to narrow and we seek advice. We are members of industry associations, both Australian business and also employment industry associations. Within those associations, you tend to talk to providers and suppliers about who is doing some good work who would have things available that we would want to acquire.

CHAIR—Thank you very much for coming to talk to us. It has been a most comprehensive discussion. I think it has been most useful to get your advice—we recognise that you are new and understand all that—about how you are approaching the purchasing function differently from if you were still with DEETYA.

Mr Halstead—I will come back to you on that paper issue.

CHAIR—That would be good, thank you.

Mr Halstead—If I can get an example or two, I will let you know.

CHAIR—Several government departments are getting back to us on that one.

Mr Halstead—And I will write to Stephen, if that is acceptable.

CHAIR—When we table our report in both houses, we will certainly send you a copy.

Mr Halstead—Please do.

[4.27 p.m.]

HEARD, Mr Gregory William, Vice President, Office Equipment Industry Association

CHAIR—We welcome you back as a witness to the committee. I believe you have some additional evidence you want to give.

Mr Heard—I want to clarify a couple of issues. The industry itself is a very simple industry which may have been overcomplicated during the discussions this afternoon. The only statistics which the industry has available is that 30 per cent of the copiers sold are sold to government. We do not have statistics on copy usage but inherently you would draw the same conclusion, that commercially and government produce the same. So you are both correct.

I am not here to defend one industry or the association against the dealers or whatever they said. I just want to clarify a couple of issues. You are correct in saying that service and supply arrangements are a commercial arrangement between the individual supplier firm and the dealers and should be treated as such. However, there are a number of issues that could and should be discussed between a government body, the industry association and the dealer association that could resolve a couple of the underlying issues.

There is a significant difference between commercial and government pricing and there are a number of reasons for this. Invariably toner is inclusive in government contracts and exclusive in commercial contracts. There are variations but, because of the way the tenders are written within government, it is a requirement to include toner. That then has a cost burden invariably where there is a greater usage of toner beyond the anticipated or specified yields.

The BTA members were correct in regard to the contract becoming a shopping list where the price was the starting point and prices were negotiated. That was under the control of BG99. With the abolition of BG99 there is no contract, so that does not exist. The old BG99 pricing used to be a starting point and then they were negotiated from there.

CHAIR—Am I correct when I say that what you talking about is common use contracts which are now gone?

Mr Heard—Yes. They do not exist any more. So that issue that they raised is dead. There is obviously a lot of negotiation between different supplier firms and different organisations for the best price and, as you quite rightly said, it comes down to the point where one party either withdraws or an agreement is reached.

Service agreements are invariably included within the purchase contract due to the technical and specific nature of the product. It is nigh on impossible for a technician to be across every single copier with every single supplier, so invariably the two are linked. For instance, I know for a fact that the service agreement with Employment National was built into the supply agreement. That one is actually centrally billed, not billed or negotiated on a local basis. The actual supplier who supplies the equipment also has a service contract with

Employment National, in that instance, and then they negotiate service rates with the individual dealer doing the service.

Mr BROUGH—They being whoever won the contract?

Mr Heard—Yes.

CHAIR—Are you saying that some of the local dealers may have the same complaints that these gentlemen have?

Mr Heard—They certainly may, and that is an issue between that dealer and the supplier who has the master contract. That comes down to a commercial arrangement between the supplier and the dealer. Some of the members within our industry act responsibly, some less so, but again that is a commercial reality. There may be some benefit from the government in that they accept that there is a different cost of servicing equipment within the country areas because of freight, labour and travel times primarily, and sometimes usage patterns. And an acknowledgment of that would help the industry, and would also provide better service to the end users—the government customer, wherever they may be.

There was a comment made about whole of life, where a purchasing manager will look at the whole of life to determine which product or supplier they will go with. Sometimes the cheapest up-front product or service in theory is not the cheapest over the life of the product. Where service is cut back because of the low service costs, where service is not able to be provided or where copying volume exceeds the expectation or the commitment, the economic life of that piece of equipment is invariably shortened, which then involves another capital purchase within that time frame. What I was saying earlier, and what BTA reinforced, was that the cheapest up-front in theory may not be the cheapest in the long run.

They are basically the issues that I wanted to clarify. As I said, I am not here to defend the relationship between the suppliers, the industry associations and the respective dealers.

CHAIR—Thank you. I was wrong about the 30 per cent.

[4.33 p.m.]

POWER, Mrs Genevieve, President, Commercial Furniture Industry Association of Australia

RADDA, Mr Michael James, Chief Executive Officer, Commercial Furniture Industry Association of Australia

CHAIR—Welcome. Thank you very much for your submission and for coming to talk to us today. Would you like to make a brief opening statement?

Mrs Power—Yes, we would. Our industry is in the period of greatest change that has occurred for over 20 years. Under the old arrangements—the Commonwealth government period contract arrangements—the Commonwealth was a significant contributor to industry development in terms of research and development, furniture standards compliance and occupational health and safety issues. In raising the standards and adhering to the standards a lot of the old RSI problems and subsequent occupational health and safety problems disappeared. The change came and is happening.

We embraced that change in conjunction with DOFA—the Department of Finance and Administration—and they began a process of endorsed supplier arrangements. The commercial furniture industry was chosen to be a suitable industry to have an endorsed supplier arrangement. That process has been in place for only a couple of months. It appears to be quite positive. It appears to be a good thing. We have worked very closely with the department on this—as a joint venture, almost. It is too soon yet to say how beneficial it will be, and we do have some concerns about it for the future. But, for the moment, it is a positive reaction.

One very beneficial side effect of the change that is happening now is that the industry got together in a way that it never had before and has written its own code of practice and become far more self-regulating than ever before. That code is a document which members are being asked to take on. It is separate from their membership in the industry association. They can become a signatory to the Buysafe campaign or become a Buysafe member, and that is a code of practice which is again about standards, quality assurance and financial viability—being a good corporate citizen. Again it is a very new code, it has been printed for only a couple of months. The membership is now flowing in. Particularly since Christmas things have been moving along quite nicely. So that has been a very beneficial effect of the change in the industry.

We are concerned that the ESA is not tight enough. In this new world where each department takes responsibility for itself—each chief executive being responsible for the ultimate purchase of the furniture within the departments—we are not quite sure how strongly they will adhere to using ESA companies or Buysafe companies or both—it is a joint venture.

We have concerns about the government's one-stop shop approach. That is a new approach. Part of this change has been that the Commonwealth government has elected to try to be, in its outsourcing, a one-stop shop. While on the surface that appears to be valuable

and to save each department money, there is a short-sightedness about that. Some of the combinations of industries that have been put in one shop under one-stop shopping appear to be too dissimilar. While there is an endeavour to have people come together in joint ventures, Australians generally like to be masters of their own destinies and it has been a nation of small businesses, particularly in the office furniture area, possibly in the printing area and some of the kindred other office service industries. So there is a reluctance for those operators to combine into some sort of conglomerate, and that has allowed some other people to come in. I am not sure that that is a good thing.

I think that the notion of value for money sounds good, but evidence seems to suggest that it does not take into account or incorporate any life cycle costing. There really does seem to be a drive for the lowest price. While it is called value for money, at the end of the day there are not very many examples where the lowest price does not win. The lowest price does not always take into account life cycle costing.

Under the old arrangements, as I said, the Commonwealth government was a major contributor to research and development in the organisation in that every three years the tenderers put forward new product. They knew they had a three-year period to develop that new product, so there was a three-year cycle that drove the industry to raise the standards higher, to have new product.

As the Commonwealth government is the largest purchaser of commercial furniture in Australia, by being under the old Department of Administrative Services, if a new product went before what was previously DAS, even if a particular department did not want it, there was some way of gauging government reaction as to whether that was going to be something worth while—perhaps the best example known to most people is the height-adjustable desk. That was something that went forward about 20 years ago. Somebody showed it to somebody in what was then the Department of Works and they said, ‘What a great idea.’ Over the period we knew that that was going to be something the government would move towards.

There are some concerns that that function of pressing for new developments and looking at new products has gone. There is nowhere you can look for that, and no one department might be big enough in itself to really demand something, or, more importantly, it would seem that even purchasing within departments is now very fragmented. So you might just have sections purchasing, and no one section where somebody wants 30 desks is possibly going to have any impact on research and development where 3,000 to 5,000 might have been required. So there are concerns. We are working closely with DOFA to see where that takes us.

CHAIR—In your submission you said that the commercial furniture industry amounts to approximately \$2.7 billion per year. How much of that is Australia-New Zealand?

Mr Radda—We are an industry under an action agenda, so we are just getting some figures, but they estimate the imports at about 15 per cent to 20 per cent at the moment. That is across both domestic and commercial. We do not have a break-up in the commercial sector. I am assuming that it is about that sort of figure.

Mr BROUGH—The government dealt privately in the old days.

CHAIR—What about 20 years ago?

Mr Radda—In terms of the size or the split-up?

CHAIR—The split-up.

Mrs Power—There have never been any statistics done for the commercial furniture industry, not by ABS, not by anybody. We, as part of our self-regulation, have just started a statistical project which has had only its first three years. Everything else is best guess.

CHAIR—You said in your submission:

ABS information demonstrates that the sector accounts for an annual supply of \$2.7 billion per month.

Mr Radda—We had that figure because we have a certain amount of data that is available. But it is the input-output section of the ABS that can supply that because they look at industry sectors. That is directly from the input-output sector, but you are asking questions on the actual sectors' break-up and contributions. We cannot go down to the next tier. So we have the global.

CHAIR—But Mrs Power said that there was no—

Mrs Power—I beg your pardon; I meant in a micro sense, not in the global sense that Mike meant.

CHAIR—I will accept that.

Mr BROUGH—In your submission you refer to the current government practice, particularly health and family services, which you alluded to. It seems a very odd match to me that stationery and furniture would be put together for a bulk purchase, and I notice that you went through to try to have that changed, or at least to have the conglomerates able to bid for it. Can you give any reason why that is, or how many companies did that limit it to that could actually bid for that rather substantial business?

Mr Radda—My understanding is that, in the end, only two were able to bid. We did try to negotiate directly with the department and basically did not get anywhere.

Mr BROUGH—You are talking about general stationery too, aren't you?

Mr Radda—Yes, biros.

CHAIR—Did they give any reason for that?

Mr Radda—Yes. They had a one-stop shop—mandate might be too strong a word—but the people we were dealing with definitely said, 'We have been given this one-stop shop priority, and that is what we are dealing with.'

Mr BROUGH—In relation to that, were the two companies that were able to tender both Australian companies?

Mr Radda—I think they are Australian in their make-up, but they are more like distribution warehouse people.

Mr BROUGH—A big shake of the head means ‘no’ to me.

Mrs Power—I have not investigated the composition, but rumour has it that they are both of American origin.

Mr BROUGH—We should look into that a bit further.

CHAIR—We will.

Mr BROUGH—You cannot see any good reason though why that should have occurred? Has this been repeated elsewhere on a smaller scale, if not on that scale?

Mrs Power—Yes. It is repeated every single day in Canberra.

CHAIR—By what department?

Mrs Power—By a lot of the departments. That was a very large tender but, on a daily basis now, the government departments can just phone the two companies in question and send an order for a variety of products.

Mr BROUGH—This comes to what I questioned the other day: if you build into your user requirements a particular specification which only one or two companies can fulfil, that immediately cuts everyone else out. It makes your job easier as the purchasing officer, and it makes for a very cosy relationship. Basically, they have achieved a cosy relationship by bundling products which are dissimilar—putting stationery and furniture together. You do not manufacture them both, you simply handle them both. Therefore you are a distributor, you are not a manufacturer. You must count out every SME in Australia because you would not have any SMEs that are doing both stationery and furniture. So it works against our Australian New Zealand criteria, it works against SMEs, and it works in the favour of distributors who could be getting their product from any range of groups. Is that true?

Mrs Power—Yes.

Mr Radda—Absolutely.

Mr BROUGH—You have answered all my questions. I can now get on a plane. Thank you very much. It has been very enlightening.

CHAIR—I want to pursue that avenue further, because either something is wrong here or all of a sudden I am quite concerned.

Senator HOGG—Something is wrong.

CHAIR—Something is bothering me here. You are saying that there are two companies, which you think are American owned, that are supplying overseas goods?

Mr Radda—No, not necessarily. Not that I am aware of.

Mrs Power—No, not necessarily. It is more what Mr Brough said, that they are a supply and distribution centre. They buy from here, here and here.

CHAIR—Why would an American owned company be in Australia buying Australian goods?

Mr Radda—My understanding—this is only anecdotal—is that it is an American parent. When the question was asked whether they are Australian, it becomes a little less clear because I think they might have an established Australian company. It is because that is what they do. They set up one-stop shops. They are experts at that sort of arrangement. Look at the Officeworks scenario. Officeworks is run by Myer but it is a concept that is bought lock, stock and barrel from America's Office Depot. I think the scenario that we are talking about in this example is very similar, except it is not owned by Australians. It is American people doing the same thing.

CHAIR—Who owns it is irrelevant to this committee's purposes anyway. What we are looking at is industry development in Australia, and if we had to sit here and worry about who the heck was the owner today and who might be the owner in 30 seconds or five years, I think we would never get to first base with the inquiry. What we are concerned about is developing Australian industry, whoever owns it.

Mr Radda—We have the same concerns in that inappropriate amalgamation of sectors or industries does result in a situation where Australian companies, manufacturers and suppliers cannot supply.

CHAIR—Are you now telling us that this furniture-paper combination is now widespread through Australian government departments?

Mrs Power—Yes.

CHAIR—Would you like to advise the committee which department?

Mrs Power—Certainly the one we listed—Health and Family Services—was a public tender. The remainder of the departments can just ring a supplier and have them deliver office chairs. They give every department a very large catalogue. You could go to a number of departments and take that catalogue off purchasing officers' shelves. From that catalogue they can order pens, pencils, an ergonomic chair, a desk, workstations, printing, brooms, buckets and office works.

CHAIR—Coles Myer.

Mrs Power—But they are not the companies.

CHAIR—Fascinating.

Mr GRIFFIN—Are those purchases mainly smaller purchases or do they tend to be larger ones? And how small is small?

Mrs Power—As we are not government people, we do not really know. We could not really answer that. I can tell you that the Department of Finance and Administration, the competitive tendering and contracting group, would be the people you should speak to. They certainly would be able to give you much more specific answers from the government's point of view because they are aware of those one-stop shops.

CHAIR—The other area I want to explore is the endorsed supplier concept. Can you tell us the difference in operation between the common use contract and endorsed supplier concept. How do you see—not whether or not it is working, because we heard you say that—that it does work? What are the mechanisms? What happens?

Mr Radda—What physically happens on the ground at the moment?

CHAIR—Yes, with an endorsed supplier.

Mr Radda—Hopefully, an endorsed supplier is registered on the Internet. This is the hope; I am not sure exactly what happens. Hopefully the purchasing people in all of the departments are aware of the benefits of those suppliers who are listed because the suppliers who are on that listing have a range of minimum requirements that are necessary, I believe, for government purchasing. Hopefully those people know that, by accessing any company on that listing, they short circuit a whole lot of work that they would have to do otherwise, or they should be doing otherwise, and that therefore they would use that list to request people from that list to supply them furniture. We know that has happened.

CHAIR—To give them a price first.

Mr Radda—Yes, to give them a price first. We know that the very first order that I am aware of that went through the system was for furniture. Practically, I think that is how we would hope it would operate.

CHAIR—Do your members complain about the expense of the registration process?

Mrs Power—No, not at all. It is very simple.

CHAIR—Has anyone complained about the non-use by industry of Transigo?

Mrs Power—No. My understanding is that Transigo is now linked to the ESA program, or vice versa, and that that is now working quite well. People are typing into Transigo and getting the list. We understand from DOFA that there are now 15 ESA companies for furniture and that people are typing into Transigo and looking them up.

Mr Radda—We actually had a national board meeting of the CFIAA today and we discussed the issue independent from this. It is that notion of the time lag because the ESA

process has taken some time to get up and running. We have had Christmas in the middle. Manufacturing is not particularly active over the Christmas period and the comment around the table was, 'Mine is in the process now.' So they had that monthly or regular uploading, or whatever they call it. Our indication, in terms of industry uptake of that, is that it is a bit early to call but the general consensus is that our industry will be participating.

CHAIR—But we had from one industry association a statement that a very high percentage of small to medium sized businesses were not Internet viable; that is, they were not up on the Internet. It was not that they did not have web sites, just that they did not have the computers in their operations. They were not connected to the Internet.

Mr Radda—At some of our branch meetings we have found that ESA is probably a better system than what happened before for SMEs. We have had companies that have lodged applications—one only is actually on the listing—which have been quite happy to go through that system because they think that, as SMEs, it suits them. The general comment we get is: 'We have to go Internet anyway.' This is another sort of commercial pressure, not something necessarily being posed in itself, but most of them are thinking about it, doing it or have done it.

Ms PLIBERSEK—Is it better for them because they are not spending the money on advertising or promotion that they would otherwise spend to reach those buyers?

Mr Radda—Very much so. They also hope that they will have it and be able to use it as some sort of mark to say, 'I am an endorsed supplier.'

Ms PLIBERSEK—Would they use that with other customers outside the government?

Mr Radda—Yes.

Mrs Power—Even within the government. Today one of our members said that with every single quote he does for a Commonwealth government department he puts his certificate in as part of his submission. With every quote he just puts it there. Certainly the Queensland government appears to be going to embrace it as well, the South Australian government is going to embrace it and the ACT government is going to embrace it. Victoria is still in the process. It likes the whole concept.

One of the questions when you are applying for ESA is, 'Are you a member of an industry association and are you a signatory to the code of practice, Buysafe?' If you tick that, the rest of the questions drop out—you do not have to answer the rest of them—and most people are very happy with that. We are heavily promoting the use of ESA and so we do not see a problem with our industry accepting it. We have been party to writing it. Michael and I have met with the DOFA people probably once every three weeks for nine months, so we have been very intimate with the process.

CHAIR—That is good to hear. We understand that on 1 July Transigo will no longer be mandated as the only Internet service provider for government purchasing. Will that conjure problems?

Mr Radda—What does that mean?

CHAIR—We don't know what it means.

Mr Radda—I don't know what that means either.

CHAIR—We don't know what departments are likely to do. Individual departments might go to different Internet service providers.

Mr Radda—I am not the world's biggest Internet head, but who provides the service would not seem to be critical for us in the ESA process. What we see as critical is that there is a list that is available with a common address that everyone can access. So who actually underwrites that and where it is housed—all that sort of stuff—I am not sure that would impact on what we do or the benefits that would flow to us. Is that right? I have just been told that there would be 15 or 16 different addresses potentially. That is bad, really bad. That is atrocious.

Ms PLIBERSEK—Alternative Internet providers will only set up if there is some reason, some profit, for them to do that. Why would they bother doing it if there is an existing site that already has these elements?

CHAIR—Perhaps they could convince one of the departments to give them all of their business.

Ms PLIBERSEK—But what financial benefit does the person providing the Internet site get, unless they are charging potential clients and potential advertisers to be there?

CHAIR—I am reading the media release. It says:

The Government believes that a better result would be achieved if agencies made arrangements to suit their own circumstances, rather than relying on a single service provider.

Mr GRIFFIN—That is more likely to lead to multiple listings—you could try different spots where you might get the same information. It is still likely to be a situation where there will be a central location, by definition.

Ms PLIBERSEK—Are you proposing that the department set up their own site that they expect businesses to send information to rather than government set up their own site where they have possible providers listed?

CHAIR—Let me go on. Perhaps I can clarify this:

Agencies will continue to use Transigo to advertise their public business opportunities and notify purchases valued at \$2,000 or more in the Purchasing and Disposals Gazette on Transigo, until 30 June 1999 . . .

After that, it is open to competition.

Mr Radda—It is much easier if there is one central source where you can access work that is on offer.

CHAIR—There may not be.

Mr GRIFFIN—I can see that there is a potential that that might not be the case. It would be a pretty dumb sort of thing.

CHAIR—What will be the case after 1 July?

Mr GRIFFIN—It will not be legislated or ordered to be the case. The question would be: what sort of department is going to be dumb enough to pull out of what is already there as an essential web site. They might list elsewhere as well, but I would have thought it will be a question of how thick they were.

Mr Radda—I would be surprised if people did not want to go elsewhere—individual differences and wanting to be seen somewhere else.

Mr GRIFFIN—If they could be at both places, why would they not be at both places, in the circumstances—unless there is an enormous commercial profit to do it.

Mrs Power—It seems to me that the provision of the web site at the moment is the most important thing. We have worked with the department to achieve that list of endorsed suppliers, which has nothing to do with product or offers. You simply go in and look up and see that A, B, C, D, E and F companies are endorsed supplier arrangement companies. Then it is up to each department to contact whichever of those companies they choose to get their offers from. That in itself was quite a major step forward in my view because it really did open up competition in the sense that once you were on that list the departments had the opportunity to come to those companies. If that list was going to cease existing in one location, it would be a major change.

CHAIR—Is that list on Transigo?

Mrs Power—It is a link.

Mr Radda—I thought Transigo was where departments listed their orders.

CHAIR—I thought so, too.

Mr Radda—So it is not the ESA list; it is the order list. It just makes it more complicated to access. That is the problem. If it is separated out we can work through it.

CHAIR—I think we have worked through and answered our own question. Thank you very much for your submission and for coming.

Resolved (on motion by Ms Plibersek):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 5.03 p.m.

