



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND
AUDIT

Reference: Australian government purchasing policy and practice

THURSDAY, 4 FEBRUARY 1999

SYDNEY

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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Thursday, 4 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 Somlyay and Mr St Clair

Senators and members in attendance: Senator Hogg and Mr Charles, 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.

WITNESSES

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McNAMARA, Mr Patrick, Vice-Chairman, Association of Consulting Surveyors Australia 327

Committee met at 9.34 a.m.

CHAIR—I declare open this public hearing, as provided for by the Public Accounts and Audit Committee Act 1951, in its inquiry into Australian government purchasing policy and practice. This public hearing resumes from yesterday. Today the JCPAA will take evidence from the Australian Chamber of Commerce and Industry, Australian Business Ltd and the Association of Consulting Surveyors Australia. Before swearing in witnesses I refer members of the media who may be present at this hearing to a committee statement about 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 secretariat staff present at this hearing.

CHALKER, Mr Graham John, Federal Affairs Adviser, Australian Business Ltd

MARTIN, Mr John, Executive Director, Australian Chamber of Commerce and Industry

CHAIR—I welcome representatives of the Australian Chamber of Commerce and Industry and Australian Business Ltd. My colleagues are Mr Alan Griffin, from Victoria, Ms Tanya Plibersek, from Sydney, and Senator John Hogg, from Queensland. Thank you for your submissions and thank you for coming today. Do you have a brief opening statement that either or both of you would like to make?

Mr Martin—We would both like to make a short statement. We greatly appreciate the opportunity to appear before the committee. You have our submission so I will not go right over that, but could I just make a couple of general points. Firstly, I would like to emphasise the extent of the coverage which the ACCI has in terms of businesses that have a major interest in purchasing. We cover over 350,000 enterprises throughout the country, in all states and territories and all sectors of the economy, but in particular I would emphasise the extent to which we have coverage of small business.

I will make a general comment about the current state of play in terms of the development in purchasing and procurement. It is the ACCI's position that in terms of the principles and the framework we are generally very supportive of the direction. I think you will see from the tenor of our submission, however, that there is a challenge in the implementation of the process. There are two major areas of difficulty and challenge in terms of meeting the potential that public sector purchasing can provide for, particularly, our small and medium enterprises in terms of building and developing innovative firms and capacity in our industry.

Firstly, there is the extent to which there is a failure in information supply to small business. We have found, across a whole range of activities in developing firms and in assisting their growth, that information, intermediation and catalysing opportunities is a challenge and there is a certain degree of need to accept that you cannot just let things go to chance and there do need to be facilities and assistance given to the smaller players. Our member organisations play a big role in that. That is a big basis of their *raison d'être*, if you like, and Graham will give some examples of the sorts of roles they are playing and how that fits into the purchasing model that we would like to see.

Our submission makes reference to the fact that there is a need for a referral type of arrangement which we feel, in terms of the implementation of the policies at the national level at present, is missing. We make some suggestions about the nature of that. Perhaps we could describe the demise of Purchasing Australia and the demise of the National Procurement Board as presenting a possible danger of throwing the baby out with the bathwater. We have no problem with a much leaner, meaner public service which is better at purchasing and better at playing its role, but we do feel there does need to be some middle ground.

Secondly, we feel there needs to be some form of industry reference group which interacts with the Commonwealth public sector to finetune, to get feedback on the way the

policies are going but in particular how the implementation process is developed both centrally and within different agencies. The final point I would make is in relation to what we think is a very useful model, to which brief reference is made in the submission: the way this is carried out in the defence area. I will now take this opportunity to pass over to Graham, whose organisation has actually done quite a bit of work in that area.

Mr Chalker—Like the ACCI, I welcome the opportunity to provide comment on this important review by the committee. We are an independent, broad based business improvement organisation. A lot of people perhaps are not aware that we have been around for over 110 years; we were formerly known as the Chamber of Manufactures of New South Wales. We have about 5,000 members who provide employment for around 300,000 people. We have eight regional and two affiliate offices.

We are a founding member of ACCI and, through an organisation called Chambernet, we work closely with both those chambers to deliver business services to firms throughout Australia. It is a significant change in our organisation over the last few years that, rather than being predominantly an industrial relations and human resources organisation, we now provide a very wide range of business services, including trade, enterprise improvement and so on, to our members.

Government procurement is an area of considerable interest to a large number of our members, and one issue that I did not put in our submission, but which is indicative of the importance that we place on the area, is that we have now established a defence industries unit in our Canberra office because of the pressure from our members for some better access to that large marketplace and the opportunities we see with contracting out and so on. The unit has three full-time staff and is headed up by former Air Vice Marshal Brian Weston as its executive director.

The idea of the unit is to provide a conduit between Defence and our members and to identify opportunities in the defence market for those particular members, especially to help SMEs—who make up probably 80 per cent or 90 per cent of our membership—to find the right person in the department, but also to act as a marriage broker, if you like, between those SMEs and the prime contractors who do so much of the work in the defence area.

As John said, the government made some quite significant changes to purchasing practices in 1997 to assist small firms access the market and to assist Australian industry development. We welcomed those announced changes, although there are some areas in detail and, perhaps, in the area of industry development criteria which do cause us some concern. One of those particular areas is the idea that industry development criteria should only be applied to projects with a minimum threshold of \$10 million. We think that contracts much smaller than that can have a very significant industry development opportunity and there should be some mechanism allowed for it, whereby industry itself substantiates the importance of this particular purchase for the development of their industry. That should be taken into account rather than just the blanket, 'Below \$10 million it does not come into account.'

We would like to see tenderers and purchasers being required to provide regular reports on their progress against their industry development commitments, and departments making a

greater effort, in their annual reports and other reporting areas, to say how they are going against government purchasing policies. Measuring the impact of purchasing currently is severely impeded by the paucity of statistics. This has been an ongoing issue since before Bevis, back I think to Inglis, who did an inquiry in the 1980s. It has been an ongoing saga and we think the time is right to bite the bullet on that area.

An important area that we have identified is the culture of purchasing officers. The government statement last year on defence industry policy had some useful initiatives which, if they were taken to non-military purchasing, could help us a great deal in that area.

One of the areas causing concern to some of our members, particularly in information technology and printing, is the size of some of the contracts which are being let as part of contracting out and, if you like, amalgamation of mega-contracts. A lot of our SMEs do not have the ability to satisfy some of those and have difficulties understanding how they can fit in. Feedback from our members indicates that they are having considerable difficulties finding a central point to source information on purchasing opportunities and I can vouch for that, having run around a few times for some of our members to find that sort of information. Since Purchasing Australia no longer exists, it is very difficult to find where people can go to find out about opportunities. As John mentioned, perhaps there is a role that industry bodies such as ours could play in this by forming some sort of body. We might talk about that a little later. In our submission we recommend a number of administrative improvements which we think could assist both suppliers and purchasers but I will not run through those now. Thank you.

CHAIR—John, in your submission—and I guess Graham covered the same thing—you said:

An area of particular concern is the growing practice of "mega-contracting" by Commonwealth agencies which is creating a barrier against many small enterprises taking advantage of new opportunities created by public sector demand for goods and services.

It is our understanding from the Department of Finance and Administration, who actually pulled out some numbers, that government guidelines are that we endeavour to give at least 10 per cent of the purchasing value to SMEs and they are overachieving that by another 10 per cent plus. If those numbers are right and we are doing better for SMEs, do you feel that that is wrong and, in fact, SMEs are not doing as well as they were perhaps four or five years ago?

Mr Martin—I think it is the feedback we are getting through organisations such as Graham's that they are facing difficulties, so there is a lot of confusion out there through that. It may be that it is partly the change to a new style, that it is like any major change from the type of contracting that went on previously to this mega-contracting. What we are saying is that, because of the management of that change and the fact that there is an information deficiency for small business, they do not have the access and the capacity to track what is going on.

As to your point, Chairman, about the 10 per cent and perhaps their achieving 20 per cent: small business makes up 50 per cent of the economy. We did not set the 10 per cent,

and we are saying that 20 per cent should be a minimum and we should be able to do a lot better.

Mr Chalker—The figures that justified that last year, I understand, and that the government put out, worked through Transigo and some of the figures that came from that. I guess they are a useful indicative figure, but the problem that they do not tell us is how much of that work actually goes to Australian firms. As I understand it, it lists whether a firm is an Australian based firm but it may well be importing the whole of its content. It really does not tell us all that much.

CHAIR—I may get the number slightly wrong, but I think they said something like 97 per cent of the firms contracting. Remember that departments have to report on Transigo all transactions of \$2,000 or more and all tenders for \$2,000 or more, so if you are looking for a source of information it should be there. The reporting data said 97 per cent local firms but it does not tell us whether it is just a shopfront. I would be surprised if the Australian government ever got to the position, considering the size of our manufacturing and service sector, of trying to define what is an Australian company and what is an overseas company. I would have thought that was fraught with great difficulty, if not impossible.

Mr Chalker—As I said in my opening remarks, these difficulties have been going on since the Inglis inquiry back in the 1980s. The National Procurement Board had done quite a bit of work on trying to define the level of statistics in ANZ. It is a very difficult area, but we believe our members would like to see some greater efforts made to clarify some of the area of Australian and New Zealand content.

CHAIR—Have you got any specific recommendations? That is the problem we have. Nobody seems to have an answer, quite frankly.

Mr Martin—I think the other point about the 10 per cent or the 20 per cent is that it actually reflects the past and we are talking about a situation now where there has been a change in the past 12 months. I would not like to hazard a guess at what the impact of that is, but certainly we do not have the figures yet on that.

Mr Chalker—Perhaps to go back to the mega-contracting idea as well, we have members in information technology and particularly in the printing area. In Canberra, for example, the printing industry is probably the largest manufacturing industry; it turns over something like \$300 million. A lot of them had good relationships with various arms of agencies, not necessarily the whole thing. What they found was that DEETYA was one where the whole of their printing was outsourced, for example, and that they really were not able to compete in that sort of marketplace. Maybe there is an argument that they should be doing what we are, in fact, currently doing, which is coming together and talking more often and looking at the possibility of forming consortia and so on. As John said, there is an interregnum period where it is very difficult for them to get together and so on and they have missed out on that one big contract.

We have just seen the Australian tax office, for example, and the health department coming together and looking for a panel of contractors rather than saying that one person takes all. They can go to these people and say, 'We know you've got the right qualities, the

right capabilities to tender for this particular project’—whether it is a report or whatever—and that gives them a greater opportunity to get into the marketplace.

Senator HOGG—But that is as much a responsibility of the purchaser to recognise that they can break that into a number of segments to let out into the marketplace as it is for the small enterprises to come together to form loose consortia.

Mr Chalker—We do not go too much into it here, but the feedback we get from our members is that, with devolution of purchasing and some uncertainty over the last few years, there has been a loss of expertise in the purchasing area in a lot of departments. They are finding that at division level or branch level someone is coming to them with a requirement, where previously they would get the purchasing officer of the department coming who had knowledge of the printing industry, for example. That purchasing expertise has been lost in a lot of departments and that understanding of industry and its requirements has been lost, it seems to us. That is the feedback we are getting.

CHAIR—One thing confused me a little bit. In 1994 we had company after company, as well as organisations like yours, up here before the industry, science and technology committee, and their complaints were vociferous and highly detailed. In this inquiry we are not getting that level of input. The kinds of complaints and suggestions we are getting are reasonably uniform across the board. Your suggestion about mega-contracting is one that others have made. I just have a gut feeling about this because I participated in the other one, too. I feel that since the Bevis report there has been a culture change. I would like your view of that.

Mr Martin—Yes, that is what we are saying. We are saying that there has been a culture change reflected in the framework and the principles that are there, but there also has been a major structural change in the way the whole purchasing arrangements at the Commonwealth level are going to operate. You may not be getting much feedback yet, but I suspect from what I can observe through organisations like Graham’s—we have 40 member organisations—that there is a build-up of issues coming because of the management of the change.

We do not have any problem with where the change is being directed. If you take an example—it may be a simplistic one like the textiles, clothing and footwear industry or an industry sector or the automotive industry—we had a plan as to how it was to be implemented. I am not sure that we have thought totally through the way the structural changes with the contracting out are occurring. We are perhaps not quite managing it properly, in terms of, particularly, the small businesses that are going to be affected.

The points we are making are not dramatic ones; they are ones about having some intermediation and more information available. We are not saying, ‘Look, this is a terrible approach.’ It is quite the contrary. We are saying that the overall approach—and part of it is this culture of filter-down to the agencies—is being pressured, it is being leveraged. We have all been involved in putting the pressure on, but we are still saying that there are some issues.

CHAIR—You do recognise that the Office of Small Business is on your side?

Mr Martin—We do, yes. We are on their back all the time.

Mr GRIFFIN—You mentioned the baby and the bathwater comment around the question of the National Procurement Board. Could you expand on that a bit?

Mr Martin—What we have said in our submission is that there does need to be some consultation mechanism between industry and the Commonwealth in relation to purchasing. We are not saying the National Procurement Board was the ideal mechanism but there needs to be something, perhaps much more informal, which allows both a feedback of the type we are giving the committee, on a month by month or quarter by quarter basis, in relation to how the policies are working their way through and particularly in relation to this issue of how processes to assist the intermediation can work.

Mr GRIFFIN—It could also be a vehicle to assist with the gathering of stats.

Mr Martin—Exactly, precisely. In fact, the chairman brought that up. It was something I had not mentioned, but I think that would ensure that agencies were doing all their reporting properly and that there was some central or better collection of it. We are finding that even with the best will in the world, all agencies—DoFA and everybody else—are under pressure. They will focus on the thing that the secretary, or whoever is setting the priorities, is pushing them to do. If this becomes the second or third order issue, the production of stats will be something in which, two weeks before they print an annual report, they will say, ‘We’d better dig up some stats to satisfy Bob Charles’s committee.’

Mr Chalker—Our chief executive, in fact, sat on the National Procurement Board and I think it did serve a useful purpose for a period of time. It became rather bureaucratic over time and the amount of paperwork that passed through seemed to become a bit excessive. But it was a useful conduit for industry problems to go to on a regular quarterly basis or whatever, for them to be examined or looked at and for some of these difficult issues to be resolved in an intermediate sense. Perhaps it was not quite sufficiently industry focused. It was, a bit, an arm of government and Purchasing Australia, rather than perhaps an outside type.

Mr GRIFFIN—You have got nowhere to go now with those sorts of concerns?

Mr Chalker—No. In fact, on a more practical basis, one of the issues I raised in there is that a few months ago one of our members came to me and said, ‘Look, I’m coming to Canberra. I’ve got a client in Canberra already. I wouldn’t mind making use of the rest of the day seeing a few other people who might be able to buy my product.’ He mentioned a small business area. We had very good contacts for a long time with Purchasing Australia, but that function has basically now shrunk to about a branch which is very heavily concentrated on tendering and contracting out. He was not able to get a listing of purchasing officers, so I then went through the Commonwealth *Gazette* and went to various areas in departments which I thought might look after procurement. I found that was then devolved out again to divisions or branches. I spent three-quarters of the day trying to get a few appointments for this person, which to me seems a bit onerous when I should have been able to just find a spot where I could maybe get a few names at general purchasing level. It was not possible.

CHAIR—We understand that Defence has a requirement that at a certain level—I am not sure what it is—if a purchase order goes to overseas manufactured goods or produce services, whoever places the order has to justify why they bought overseas rather than Australian. Are you in favour of that?

Mr Chalker—Yes. In fact, in our submission we picked up a number of the areas in the Defence policy statement, and the figure they used was greater than \$100,000. Now they have to actually display it on the Internet as well and allow people access to it there, or that is my understanding. So, yes, we think those sorts of justifications would be useful.

CHAIR—What sort of level is there for other departments?

Mr Chalker—\$100,000 sounds good to me.

CHAIR—Remember that Defence is a different sort of entity. Approximately 50 per cent of Commonwealth purchasing today is by Defence. Because we created more GBEs and because of outsourcing and all of the rest of it, the other departments are now spending less money on goods and services. That is a fact and the stats prove it. At what point do you make them set up a bureaucratic process that becomes onerous and expensive for them, in a sense, but tries to help change the culture?

Mr GRIFFIN—If they spend \$100,000, I think, is what you guys are saying.

Mr Chalker—That is what I have said.

Mr Martin—Yes. This is part of the *raison d'être* for the idea of the industry-Commonwealth mechanism which could tease that out. It may be that \$100,000 is not the right pitch but it sounds a good starting point.

Mr GRIFFIN—We are not talking of something excessively bureaucratic. As I understand the Defence approach, it does not have to be a great thing. It says that they have tried to source local industry and have not been able to find it, and that is why they have gone overseas. They have looked but there is no-one here who produces that sort of product. That is the sort of justification they can use.

Mr Martin—One thing is that a lot of our membership quote back to us arrangements in other jurisdictions. The US is regularly one that they cite, saying, 'If we were in the US there would be a much harder requirement on going offshore to get the product.' They have tried to get into that market and met a brick wall. It is not that we are saying that because someone else does it the wrong way, we have to follow. We are just saying that there does need to be some middle ground.

CHAIR—If I remember rightly, the Australian Business submission stated:

In the US, the Federal Government's "Buy America" Act, enhanced small-business and minority set asides, as well as supporting state legislation, all increase the ability of US firms to access Government markets . . . Congress last year increased the portion of Federal Contracts going to small businesses from 20 to 23 per cent . . .

Mr Chalker—That is the main benefit of the Internet, that you are able to pick up a lot of that information off the Web now, of course. I got that from the Office of Small Business Administration site over in the States. In fact, some of the information I have in there about the use of defence and other areas has come from some papers prepared by the Canadian government, when they are complaining about the use of NASA and their ability to access the government purchasing market in the States. The Canadians have significant problems—they are getting in there as well.

Ms PLIBERSEK—Would you expand a little bit on the comments you made about the culture of purchasing officers and, perhaps, gaps in their knowledge.

Mr Chalker—I mentioned earlier that with the devolution of purchasing you end up with people in departments who are responsible for purchasing but, at the same time, they are also responsible for their total division—wages and salaries, the division head's car and all these sorts of activities. Purchasing is just one element of that. In the days when you had centralised purchasing areas you had a much greater ability to get some expertise and some career path development. Defence, in their industry policy statement, have actually mentioned a number of areas where they will be giving project officers who are in project-specific procurement competency training, and they also talk about giving specific procurement training to new graduates who come into the department. I doubt very much if most departments would think of procurement as one of the areas they will train their new graduates in, yet it can be a very important part, when they become senior officers, of the allocation of their budget. I think it is partly a problem with devolution of the purchasing function but I do not think it has been given sufficient importance in the career development of people.

Mr Martin—I think one of the challenges is that a purchasing officer down at the grassroots level has a range of things in front of him. You can either say, 'Here's the fault. This is in the form. This is what you must do,' or, 'Here are our broad objectives, and as part of that try to get the criteria that you must apply.' One of the benefits or one of the criteria should be, 'Buy Australian or source Australian when you can, if all these other factors also meet the requirements.' It is a challenge.

The point the chairman made is that he has seen some sort of a sea change since 1994. The messages have been getting out, but holding it and making it come back in terms of what actually happens on the ground is not easy. There are many other things impinging on someone. Also, that issue of the mega-contracting is bringing a change. We do not know entirely where it is going to take us, but we would like to think it will actually take us in the right direction. It has got to be managed, but it is taking the purchasing officer out of the equation.

Ms PLIBERSEK—Can you tell us a bit more about mega-contracting?

Mr Martin—Graham is closer to it than I am, because he has got some specific examples. Basically what it would do is take a whole package of activities and it would be taken over under contract by what we call a mega-contractor, whereas you might have had 50 suppliers dealing directly with the department previously.

Ms PLIBERSEK—We had the example yesterday of furniture and stationery being contracted out by some departments at the same time.

Mr Chalker—Basically it is the bundling together of whole departments' requirements. Maybe there are some benefits to departments. Our suppliers tell us that they are not always as forthcoming as they might appear in theory.

Senator HOGG—Are there any inappropriate bundlings that take place? I think this is what Tanya is alluding to. With furniture and stationery they found there were some SMEs that may well have been in the furniture area but were not in the stationery area.

Ms PLIBERSEK—It also gives departments very little control over the end provider, so it makes it very difficult to meet any of the targets you might set.

Mr Martin—Exactly, and some of the bundling may not be necessarily appropriate, but that is going to be a matter of judgment. We are getting hearsay at the moment from some of the suppliers who may be about to lose out and you would have to weigh that up. In areas like airconditioning there are suggestions that mega-contracts and big players from outside are buying in, and down the track a lot of the local suppliers will be going out of the equation.

Ms PLIBERSEK—By 'buying in' you mean providing—

Mr Martin—They would be loss leading. They want to get into the market.

CHAIR—What is the matter with that?

Mr Martin—Nothing, but what is happening in terms of the other factors? Will you get value for money down the track if you get a two- or three-year contract that appears to give you a great price? What happens after the three-year contract? Has that been thought through? Anyone in the private sector who does take a contract like that has a fall-back position and a confidence that that relationship will develop. We are not sure that is occurring. It is very early days and that is the problem. That is why we like the concept of some informal industry-Commonwealth consultative mechanism that would be reviewing this in somewhat more detail as to how these contracts are shaping up and where they are going, who the players are and what the views are about these types of issues.

Mr Chalker—One of the things that Defence does quite well in these sorts of areas—even though it can be very bureaucratic—is the forward ideas of where their procurement is going to come from, what sort of technologies they are going to use in the future and so on. They go through this process with their pink books and green books and yellow books. Then quite often they will hold forums and say, 'In this area this is where we're going to go.' They will sit the industry people down with them and ask for comments on it. They will put out a draft, often an expression of interest, which goes very widely and everyone who is involved in the industry gets it. They will put out a draft request for tender. In civilian purchasing we perhaps have not developed that quite to the same extent, and I do not know that you would want to get to that level. As the chairman said, it is a very special area, but I

think some more opening up of the sorts of requirements that departments would have would certainly be useful.

Mr GRIFFIN—Your comment on a lack of expertise among purchasing officers raises the question—and I would like your opinion on it because I am not quite sure if it is the case—of whether government purchasing worked better prior to that process occurring, when there were qualified and experienced purchasing officers in place?

Mr Chalker—No, I do not think we could make that claim. From the industry point of view I think the 1994 sessions were screaming out for that to occur. I suspect there is a philosophy now, as part of the principles, that there is something better and that we should not just be reliant on the purchasing officer down the track. He or she is part of the process. I do not think we could point to the fact that they have been factored out of the equation in some areas, particularly with the bundling up of contracts, to be the demise of something that was wonderful in the past.

Mr Martin—It has always been an area that has been raised by industry and it probably again goes back to Inglis in 1994.

Mr GRIFFIN—You mentioned earlier the defence unit, Graham, within your office, which actually gives the defence contracting. How long has that been going and can you pass any opinions on it?

Mr Chalker—A quick potted history is that a year or so ago our members came to our council, basically, and said, ‘This is a large area of potential for us,’ particularly out of the ACT region where a lot of high tech firms are supplying into Defence and a lot of representative organisations. The members were saying, ‘We pay our membership fees to a body like yours. What are you doing to help us to access that market? You’ve got services to take us overseas, you’ve got services to help us improve our enterprise in some way or another. What are you doing for us in the defence area?’ We said, ‘At this stage we might put a submission into an inquiry,’ but that is about it.

The council agreed. We had actually done some work in the health area. We had set up a health unit to help health services and some of the suppliers to the health industry take their product into government markets and offshore, importantly. They said, ‘Let’s do a business case in the defence area.’ We had a consultant come on board, one specialist and one of our in-house consultants, and they did a business case and decided, yes, this was a potential market.

If we were going to do it, we had to be fairly serious about it and put significant resources into it. We have established a full-time unit of three people—as I said, a former air vice marshal heading it up and two people, one out of industry and one out of government, to help him. Brian Weston came on board in October and his two staff came on board in December. They have already been out to see our members in the Hunter. We have got a lot of significant defence interests up in the Hunter area. They are looking at western Sydney to set it up.

We have a model we call the defence industry working group, which works in Canberra, which brings in our members. They talk to prime contractors, to Defence people and so on. It is soft networking in terms of, say, a small guy. It is the first time someone from Tenix or Boeing or Aerospace is actually talking with him and he can give him a business card and say, 'Hey, this is what we do.' That soft networking side has worked very well. We will try and establish those sorts of working groups in other metropolitan areas and, then through our Chambernet links through the other members of ACCI, we will see if we can make this concept wider.

When we were developing this up, the prime contractors themselves were under pressure from the Department of Defence and they often had difficulty finding out who in Australia could produce these sorts of things. They could go to the ISO, I guess, but a lot of our small firm members were not registered on ISO, so we think that this is going to act as a sort of a marriage broker, going to the policy. One of the things we talk about in here is that maybe there is a role for some similar body elsewhere. We have committed fairly significant resources to the defence area at the moment and I suspect we might have trouble convincing the board to set up a government—

Mr GRIFFIN—How did your one in the health area go?

Mr Chalker—That is going well. In fact, we focused particularly on offshore markets. We found that there was a real need for us. A lot of Australian health industry suppliers of products and services were going offshore one-off, by themselves. An ambulance manufacturer—I think he is in Taree—would go to Malaysia and say, 'I've got these you-beaut ambulances. How would you like to buy one?' The Malaysians would say, 'That's all very well, but we want a whole emergency ward tacked on to the end of a whole hospital. Your ambulance is just one part of that.' What we decided over the last three years is that we will really work at the consortia approach and build consortia, and we have worked at relationships with our counterpart organisations overseas, particularly Malaysia and India, to provide these sorts of services. The training area is one: we have pulled together training consortia.

Mr GRIFFIN—So you haven't done much on the question of actual provision of health services in Australia as such?

Mr Chalker—We found that our competitive advantage was in this pulling together of things offshore. There was a lot of competition in Australia for doing that sort of thing and the people were doing it themselves. The real competitive advantage for us was taking the groups in consortia offshore.

Senator HOGG—Yesterday we heard from the office furniture people, who said one of the unintended consequences of the devolution of purchasing would be that small business would miss out on R&D opportunities. Where they previously went to someone to purchase, let's say, a thousand desks or whatever it might be, they would meet this person maybe in another 12 months or two years time and say, 'We really need a different type of desk to suit this purpose.' They would proceed down the path of pursuing that because there was an opportunity to develop sufficient quantities then to sell back to the department. But now with the devolution they are going to find it harder because someone who is buying one or two

desks is not going to go along to them and say, 'Now we need a differently styled ergonomic desk.' That small enterprise has now got to go through and try and sell it, not to one central type of agency but to a whole myriad of agencies. Is this, in effect, going to happen? Is it something that has been discussed by your members at this stage?

Mr Chalker—I have heard the comments but I have not spent a lot of time on it, I must admit. It seems plausible.

Mr Martin—We would feel that that reflects this challenge with the devolution as to how the agencies themselves approach it. If they are going to be buying chairs one or two out, they are not going to get the best deal. They should be looking at either relationships with the furniture manufacturers or some sort of alliance with each other. Partly this is an issue of uncertainty as to where it is going to go and I think the agencies are under pressure to keep their costs down, but at the same time there is a nuance about purchasing which is maintaining those types of relationships and getting the best overall result.

Senator HOGG—Where is there going to be the incentive for small business to pick up and run with an idea that may have been a whole of department or even a whole of government type of purchase, when you have got this devolution and they are dealing in piecemeal purchases? Where is the incentive going to be?

Mr Martin—This is part of the problem we are trying to identify. At this stage I am not sure what the solution is except that it clearly means that you have to recentralise to some extent, but maybe the market is going to do it and the furniture manufacturers need to be getting together. Graham's organisation is doing it in other areas and then coming back to, say, the Commonwealth and offering them an arrangement across a range of agencies and saying, 'This is a smart way of purchasing over the next three to five years and you will get the best outcome,' a win-win situation.

Senator HOGG—It is not necessarily a smart way but the development of new pieces of equipment and new technology, where someone is sitting down and saying, 'Have you got something that will do this for me?'. Then the person will take the embryonic idea, go away, and come back and say, 'Is this what you want?'

Mr Martin—I think the challenge is that to some extent the Commonwealth, as the purchaser, was coming up and actually in some instances doing this quite well from a centralised point of view, but the game has changed and we have to find a way of still getting that result. It is up to industry itself to some extent.

Mr Chalker—There is a challenge to industry, obviously, in there. Our members cannot go back and maybe they have to think about other ways to develop business and say, 'Instead of selling 2,000 of whatever it is to this group here, we now have to go to this group, this group, and this group, and see if there's a market for those.' I think there is a fair challenge to us in industry to look at those sorts of opportunities and maybe they have to grow. It is the only way they can satisfy some of those things.

Senator HOGG—So it really comes down to there being some central organisation within government that you can still deal with?

Mr Martin—There has to be a central point that people can come to and I do not know whether it necessarily has to be government. It could be a small unit run by ACCI. They might be interested in running a small unit and it could then interface with the government. I know there are some models that Graham has indicated are being done on defence. This could be replicated in a more heterogeneous way and maybe therefore assist, say, the furniture manufacturers to interface better and work out what is best for the customer down the line and tie the R&D in with it. I would be loath to say it does have to be the government, but we have to get the support of industry and the government if something is to be set up.

Senator HOGG—The focus of what we are doing seems to be the advantaging of Australian and New Zealand industry, with which I have no argument. However, in the broader context, could this be perceived as being a non-tariff barrier which will operate against us in other forums such as the World Trade Organisation? Are we setting up our own non-tariff barrier?

Mr Martin—We are not asking for any mandatory requirements here; we are talking about cooperative arrangements, looking at opportunities and how consistent with value for money Australian suppliers can be factored into the process with our innovation. We are only aiming for the areas where we can produce things that are going to be value for money and good value.

Senator HOGG—I understand that and you understand that, but the perception outside of Australia may well be that we are establishing a regime and, whilst this may well exist in other parts of the world, we are really putting in place a non-tariff barrier.

Mr Martin—We have in fact moved in the other direction. We have freed the system up. To some extent what this discussion is about is how this may need now to be finetuned without going back to the more regulated approach of the past, because to some extent it was fairly specific. Certainly things like offsets and arrangements like that I know did have problems. We are moving in the other direction and we are saying that maybe there needs to be a little finetuning but, given the requirements in some of the other jurisdictions, it is not a problem. But it will always be an issue raised by the total rationalists.

Mr Chalker—I would argue that we have got probably one of the most open and transparent systems in the world, and any mechanisms we put in place need to keep that transparency in mind because not only does that help keep our cleanness at WTO and places like that but also it allows Australian firms access to the market. I think we would have a great deal of difficulty if someone suggested we were putting up non-tariff barriers but maybe we could use our current criteria but clarify what is meant by the industry development area.

Senator HOGG—The other question I want to raise is in respect of the concept of value for money, which we have heard a bit about. We have had evidence that, on most occasions, value for money purely and simply constitutes the lowest price, and that, whilst it is within the Commonwealth procurement guidelines, there is a definition of value for money which is a bit broader than that. We have been told that one of the problems that SMEs run up against is the fact that when they go to government purchasing officers it has invariably got

nothing to do with value for money but is really purely and simply lowest price. What is your experience?

Mr Chalker—We hear similar sorts of comments but there are other issues as well, in terms of how that is defined. There is actually a perception of a cultural problem against SMEs anyway. I had a recent case, before Christmas, where a member was explaining to me that he had had a long-term relationship in the multimedia area with a particular agency. He only had smallish contracts so there was no need to go to tender on the things. He developed this concept over a period of time that could have been much more significant, so the agency said, ‘What we need to do now is go out to open tender for this.’ So out to open tender they went, with a panel of seven people—three from the agency who had dealt with him for a long period of time and four from outside agencies. When the tender came around he was told afterwards, I think confidentially, that in fact the tender had gone to a large offshoot of a multinational company, basically because four out of the seven suggested that a local SME could not do this sort of work. You can put up all the definitions you like, but then that cultural problem always sits there against these sorts of people.

Senator HOGG—Getting back to the issue of value for money being lowest price: that still seems—from the evidence that we have had—to be a major determining factor in the minds of purchasing officers.

Mr Martin—I think it always will be. You have got to hammer that price. Cost is not just this year’s price or cost; it is cost over a period, and that is where value for money comes in. If you buy something and the servicing or follow-up or back-up is not efficient, you are going to lose out. It is giving more tools, possibly, to the people who are in the decision making to show them just what value for money is. We have had long discussions, going back 18 months or two years, about the value for money concept. In words, it is actually pretty well worded in the guidelines, as far as I am concerned. It is a matter then, as you say, at the end of the day, that the pressure is on to meet budgets and people do tend to go for the lowest price, the least cost for that year’s budget. It is culture again, I think, and understanding.

Senator HOGG—We heard from the ISO in New South Wales yesterday, in their submission, that for every \$1 million of successful new or retained manufacturing business the following effects flow through the economy, as they listed them: \$328,105 worth of tax revenue is generated, \$1,216,267 worth of value added is generated, \$210,082 worth of welfare benefits is saved and 22 full-time jobs are created. It would seem to me that, if I were a purchasing officer and I were charged with, say, purchasing these pencils, and if there were this pencil and this pencil but one was cheaper because it was from an overseas company, in that value for money area I would need to take that criterion into consideration. Should we be recommending that agencies take those sorts of factors into consideration when they are weighing up what item they should purchase?

Mr Chalker—My understanding was that they currently are supposed to take those sorts of things into account but, with budget imperatives, it does not always work out that way. For certain items—pencils and so on—there may be not be the same degree of necessity—

Senator HOGG—I am using the pencil as an example.

Mr Martin—It is amazing how often the pencil has been brought up in this.

Senator HOGG—It is something you have got near you and in your hand.

Mr Chalker—It is a difficulty of a ‘one size fits all’ type of policy. There are certainly different requirements which will have different impacts on industries.

Mr Martin—It probably is asking a bit much to draw the secondary consequences of economic benefit, that it was allegedly a locally made one, because the purchaser does not know the background of where the intermediate parts of that product were sourced. I think you have to be a bit careful how far it is taken. We agree with the definitions as they apply at the moment. If they were put in force and applied rigorously, we think there would be a value for money concept that would be okay. It is just that the realities of budgets are that always the bottom line seems to win over anything that says, ‘This is better value for money even though it might cost a little more.’ There is a range: if it is 50 per cent dearer then you have got to decide differently, but if it 10 per cent—

Senator HOGG—I am aware of the time. I have just got two quick questions. Do you have a definition of an SME? We have had a wide range of definitions before this committee.

Mr Martin—I thought we had an agreement with OSB, so whatever they say we say.

Senator HOGG—All right, fine. It is just that we have had—

Mr GRIFFIN—What do they say?

Mr Martin—They say 20 employees for the service industry and under 100 for manufacturing.

Senator HOGG—We have had different interpretations of what an SME is, so when we have spoken to different contributors to this inquiry we have not been comparing like with like.

Mr Martin—There is a longitudinal study that the Office of Small Business put out last year. It has every statistic you would ever wish to have, including the basic definitions, and we have no problem with them.

Senator HOGG—The last question is: what is the relationship between your organisation and the likes of the ISOs? Is it one of competition or complementarity?

Mr Martin—Very complementary.

Mr Chalker—Our organisation is represented on the New South Wales ISO. Our chief executive was, as a representative of that, the New South Wales representative on ISONET in Canberra but after a few years on that he moved away and stepped out of it. Our executive general manager now sits on ISO New South Wales. You will find all of John’s

members—VECCI and the South Australian chamber, Western Australia—are represented on ISO in each of those states, and we support the work they do.

Mr Martin—We are working very closely with them on the relaunching of the Australian Made scheme, for example.

Senator HOGG—I was involved closely in that.

CHAIR—Two very quick things, John: in your submission you mentioned businesses being charged for tendering documents. Is that still happening?

Mr Martin—Once again it is evidence that we have had from members. The point we make is that at times it may be appropriate to charge but it is disproportionately heavy on smaller businesses. Although \$1,000 might be nothing for a multinational, it can stop you having a go if you are a small business.

CHAIR—This question is to both of you. Another major employer organisation has told us that small or medium sized businesses, at least in their survey, are not taking up Internet commerce. In fact, a very large majority of their members have no access to the Internet. Could you comment on that?

Mr Martin—If I could just comment in a general sense, six months ago or a year ago that might have been true. In a year it has changed markedly. It is a hell of a challenge to take up and utilise e-commerce. We are actually involved in a very major project at the moment and I suspect whoever gave you that evidence may be part of that project. We are hoping to pick up some of the impediments that are in the way and assist the process. In five years time if a small business is not totally e-commerce skilled, they are not going to be in business. In six months time they are going to have to be a lot further down the track if they are not skilled at this stage.

Mr Chalker—As an organisation we have put a lot of resources into establishing a business called Australian Business On Line and more recently an offshoot of that called Tradehub, which is specifically designed for e-commerce transactions and so on. Like all these things there is no ‘one size fits all’. We think that probably 10 per cent of our total membership is currently utilising the Net and e-commerce quite widely. But in a survey we did in Canberra of local members, which is much more used to using these sorts of meetings, we ended up with something like 60 per cent already using email and regularly going into the Internet and who had their own Web presences and so on. I think 30 per cent had their own Web pages, 60 per cent were using email, but these are people who regularly service government departments, the Department of Defence and so on, so they are a very different kettle of fish to our macadamia nut processors perhaps in Ballina.

CHAIR—In 1994 one of the significant recommendations we made, which is now really being implemented, was electronic purchasing to give SMEs a fair go because of the proliferation of purchasing officers with devolution responsibility. If they are not picking up the Internet, the opportunity we were trying to give them then is not being realised.

Mr Martin—Once again it is up to industry and we have realised the need to really help catalyse this. We are saying to them, ‘It is actually an opportunity to lift your competitiveness against bigger players because it evens up the game.’

CHAIR—You are not telling government to fix that for you?

Mr Martin—No.

CHAIR—That is good. Well done.

Mr Chalker—We are doing it ourselves but the thing that we found with our experience—when we were involved with the Transigo as a part-supplier to one element of it—is that it is a lot harder than everyone thought three years ago. We believe we are getting closer to it with our Tradehub.

CHAIR—Graham, you said in your submission, talking about government purchasing and other policy objectives:

. . . there is no such reluctance to use procurement to support environmental and social equity agenda, even though this may actively discriminate against Australian companies.

Paper manufacturers believe they have very stringent environmental constraints on their production processes which makes their paper more expensive but that is not taken into account in government purchasing. We have yet to confirm that but we are trying.

Mr Chalker—We do not really go into judgment on whether it is a good or a bad thing that government uses its purchasing for all these different ranges of things. It is a social issue. The point we are making is that it is hard, if not impossible, because you have local firms having to meet these objectives but how do you then quantify whether an offshore producer is meeting the same sorts of criteria?

CHAIR—I accept that point. Thank you very much for your submissions, your frankness and your forthrightness today and for coming and talking to us. It has been most useful. We will send you a copy of our report when we table it in both houses.

Proceedings suspended from 10.38 a.m. to 10.55 a.m.

MORIARTY, Mr Bernard, Member, Association of Consulting Surveyors Australia

McNAMARA, Mr Patrick, Vice-Chairman, Association of Consulting Surveyors Australia

RICHARDS, Mr Richard, Chairman, Association of Consulting Surveyors Australia

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

Mr Richards—Yes, Mr Chairman. First of all, we thank you for this opportunity and especially thank you for changing the date of our hearing to allow us all to be here. The ACSA represents a large sector of the industry in the survey mapping community. Five years ago if we had appeared before this committee—and I understand you are only looking at the time since then—we would have brought a stack of evidence that we could not have jumped over. But the work that has been done since that time has had a tremendous effect and because of that we will be limited in the evidence we can give you. We do strongly believe that there is no place for government enterprise in business competing with industry or the taxpayer.

I appreciate that the inquiry that you are holding does not include state government or local government business, but our belief is that the Commonwealth government is a leader and state and local government will follow. If we can get competition and the purchasing policy set right in the Commonwealth government, then we believe it will filter down through the other levels of government and that is where a lot of our problems lie. The philosophy of competitive neutrality is one that we support, but we think it is still flawed and, if we have the opportunity, we would like to discuss that further. That is all I have to say, Mr Chairman. The other matters will come out in the questions to our report.

CHAIR—Thanks for that.

Mr Moriarty—Mr Chairman, it is probably fair to say that our total submission is predicated on what we understand to be a basic government of the day tenet, and that is that the government will not compete with an efficient private sector, which in turn will eliminate an unnecessary burden on the taxpayer. Our total philosophy is predicated around that, together with the statement the Prime Minister made shortly after being elected to government that small business is to be regarded as the engine room of the Australian economy. Those things, together with the comments that our chairman has made, are what we are still a little concerned about. Whilst we understand that you are not inquiring at all into state and/or local government, some of the things, I believe, can still be changed within the federal government as a result of what state governments are doing.

If I may, Mr Chairman, I would like to refer back to report No. 336 of April 1995 which is an inquiry into the commercialisation of the Commonwealth public sector. I quote from that particular document the New South Wales Surveyor General when he made a submission to that inquiry. He was talking about AUSLIG, which was a government competitor of the private sector at that time. The Surveyor General in that inquiry said:

AUSLIG cannot simultaneously perform the role of honest broker in terms of the national interest at the same time as it is advising government and competing for work against other tenderers.

We understand and accept that and we, in fact, applaud that particular statement because we most sincerely believe that a conflict of interest very strongly exists when the regulator is a competitor.

Following that inquiry and the change of government, AUSLIG was in fact put to a market test and AUSLIG was sold. That particular decision, Mr Chairman, we would applaud from the rooftop because we think what you did in that regard was superb. However, as a result of AUSLIG being sold, much of the work that was being done by them is now being done by the private sector, so AUSLIG has become a market wherein they will ask the private sector to do certain things, which we support. Shortly after the sale of AUSLIG, some of the work that they had done was put out to tender to the private sector. One of their major contracts was, in fact, for mapping.

They called for a panel of people to be involved in that mapping. The panel was selected and it consisted of four tenderers: two were from the private sector, one was the New South Wales state government and one was the New Zealand government. We have difficulty with the New Zealand government being involved and we have difficulty with the New South Wales government being involved because we believe that to offer work back to a government thwarts the intention that the Commonwealth government had in mind by putting the work out to the private sector.

Whilst I understand that it can be argued that value for money is the object of the exercise, in the case of offering a contract to the New South Wales government—who, I might add, have not completed any work under the tender because apparently they are unable to satisfy the requirements of the it—has had two effects. The first effect is that it keeps one of the private sector tenderers out of that marketplace; the second effect is that, because the remaining work is to be issued now to the three remaining tenderers, the New Zealand government or a foreign enterprise gets a larger slice of the work. We consider that to be contrary to what the original intention was when the decision was made that the work be privatised.

The second tenderer was Terralink, which is a New Zealand owned firm. Whilst I understand that there is a treaty, if you like—I think it might relate to the Trans-Tasman Mutual Recognition Bill which, in fact, says that New Zealand will be treated in exactly the same way as Australia, and I understand those arguments—the concept of a New Zealand government firm, once again, we believe thwarts the intention of government in assisting the private sector. Not only does it do that, it then brings another government player into the market in Australia. We have got the effect of using the Trans-Tasman Mutual Recognition Bill to bring a New Zealand player in, albeit government, but that player then sets up in Australia and competes for work continually with other Australian firms. So we now have this New Zealand government firm not only taking part of the original AUSLIG work but taking it offshore and it is competing in Australia for additional work against the private sector.

Whilst I have said that I understand the concept of the mutual recognition bill where New Zealanders will be treated fairly, if that is to be the case and we in the private sector are to suffer as a result of that, it seems that we are not getting the benefit of that on the other side of the coin. For example, one of our members shortly before Christmas purchased an aerial survey aircraft from New Zealand and returned it to Australia but the same rules did not apply. Before that aerial survey aircraft was allowed to operate in Australia, albeit coming from New Zealand where we have supposedly got this concept that we are all treated equally, the aircraft was not regarded as being airworthy to fly in Australia and it had to be put through a major service—I think the cost was in the vicinity of \$15,000 to \$18,000—simply because the terms of what New Zealand said were not recognised.

On the one hand we are paying the penalty of equal recognition of competition with New Zealand and on the other hand we are not getting the benefits of it. What we would like to see government do, as far as you are allowed, is to prevent the contracting of work to government departments.

CHAIR—Okay, we hear you. You said in your introduction:

Commonwealth government policy on purchasing has improved recently . . .

You mentioned that in your opening statement, Mr Richards. How?

Mr Richards—If we go back to about 1991-1992, one particular example that I was very aware of—and Mr Moriarty was as well—was the defence tender for the outsourcing of the army survey mapping. Both of our companies as private individuals bid for that work and, in fact, our company was the selected tenderer until the in-house bid was opened and considered to be a cheaper bid. As far as I am aware, in the many years that have passed, it was a bid that was to be outsourced to save the government money. They ended up actually forming a new government department to do the work that was being outsourced from a government organisation. To my knowledge they have not even bought the equipment yet that we had offered to buy in the first year of performance. There were performance criteria set and they were not met by the incumbents. I went through the freedom of information process, we complained to Senator Bronwyn Bishop—we did everything we could—but it just fell on deaf ears.

I had an opportunity to talk to a group similar to yours with regard to defence purchasing. I am not sure how long ago but it was probably three, four or five years ago. That matter was raised, along with a lot of other matters and we believe to a certain extent, in the defence area, that has been resolved. We had tried to assemble evidence on some of the contracting as a result of that new government department called the Australian Topographic Survey Establishment. As a result of that department being formed, they have been calling for tenders from the private sector to carry out the work they were commissioned and set up to do.

We have heard—only verbally, so we cannot present it factually—most of those tenders that have been called either have not been let or have not been completed properly and the specifications have gradually been reduced to try to get the work done. That is one clear

example of where our company probably spent \$300,000 or \$400,000 trying to win that bid and was selected as the winning industrial or private sector bid and then was passed over because it could be done cheaper by the incumbents, who do not pay sales tax and all the other costs. Generally speaking the sale of AUSLIG, as Mr Moriarty pointed out, has made a major change. Until that happened this organisation spent most of its time lobbying for something to be done to prevent AUSLIG competing with our members. AUSLIG in those days had small offices in various states of Australia which competed head-on with small businesses with 10 or 15 people and took the work from them. That has changed and, as we said, we applaud that change, but unfortunately there are still some examples—and one perhaps I could quote is ATSIC.

ATSIC negotiated a contract with the organisation that bought AUSLIG, a company called Landinfo. A contract was negotiated with Landinfo without going out to tender. The work that Landinfo was given to manage—especially in Western Australia where I come from—was all of the ATSIC survey and mapping work. Landinfo has gone out and is awarding that work to the very lowest bidder they can find. In the last 12 months I have personally bid on five or six projects totalling \$250,000 where they have been awarded at the lowest possible price and senior staff at Landinfo have told me that the reason they do that is that they can make more money than if they did it themselves.

I do not see that as a value for money exercise for the government. If ATSIC perhaps had gone back through AUSLIG—as I believe they should have—and let that work to the survey industry, the government could have saved the profit margin being made by the middle man.

CHAIR—You also said:

Instead, there are a number of government monopolies: agencies with strangleholds on business opportunities, performing work for other federal, state and local government agencies and even for that small portion of private sector work placed to open tender.

Can you give us an example of that outside what we are talking about specifically here? You say there are a number of monopolies. Which are they?

Mr Richards—One that comes to mind at the moment—and I do not know if it totally answers that question, but—

CHAIR—You said there are a number. You did say that.

Mr Richards—Yes, I appreciate that. Unfortunately we have not got all the evidence. I appreciate we had a delay in the calling of the hearing, but until recently we did not appreciate that we were going to be called to give evidence and we have not been able to get all of that evidence together.

Mr GRIFFIN—With respect, on that point, though, if it is in your submission you ought to be in a situation where you can back it up; otherwise, you say, ‘We believe there may be.’

Whether you get called to further explain on the matter is not the point. The point is that, if you make a statement like that, you ought to be able to back it up. You are asking us to take the statement seriously.

Mr Richards—Yes. I could give you one example that comes to mind and that is with the Bureau of Census and Statistics. The work they have done in recent years for all of their mapping for statistic capture has been outsourced to a group of government agencies around Australia called the Public Sector Mapping Agency.

Mr GRIFFIN—You are saying it is a mapping issue. The point I was trying to get at, and I think Bob was trying to get at, too, is that we understand what you are saying around the question of the mapping and surveying area. That statement reads—to me, anyway—like it is a question of a wider issue across government. Is it a wider issue across government? If so, where?

Mr Moriarty—To a large extent the comment that was made when we were saying that there are ‘a number of’ government agencies also refers to the state government. The hesitation in going too far on that is that we realise that you are not really able to do anything about state government, nor are you examining them. But one of the prime things that happens in this country at the moment is that state governments compete and they will compete, as I have mentioned, with the Land Information Centre—and I have quoted the Surveyor General—but they will also compete for overseas work. Within Western Australia, South Australia and Victoria, there are government organisations set up that will seek and win overseas projects. One of the most valuable things that the Commonwealth has to offer in winning a project overseas with a foreign government is the crest. To walk into a foreign government department with the assistance of the Australian government is unbelievably invaluable. It is tremendous support.

During the time of AUSLIG we were never able to use that crest because all of a sudden we would have had AUSLIG competing with us, so we simply were not prepared to take the benefit that the crest had to offer us. We now have the situation where AUSLIG is not a competitor, so we are more than happy to take them in—and support us—but we find that we are in there then with the Western Australian government. I personally was in Bangladesh recently with Tim Fischer on a trade mission. The amount of work I saw him do in Bangladesh seeking projects and trying to assist Australian exporters was terrific, but there I was as a private business competing, I found, with the Western Australian government.

Whilst I understand that you have no control over the Western Australian government, my concern is that as a private business there is no way on God’s earth I can match the prices that the Western Australian government will put in. For example, we all know about loss leaders. I am prepared to put in a loss leader, as is any small business from time to time when it is necessary to win a project, but if you are looking at a multimillion dollar project in a foreign country you simply do not have the opportunity to put in a loss leader. They are the sorts of monopolies that we are talking about.

Perhaps the resistance in naming them is twofold: firstly, it is really a state issue, and I understand that; but, secondly, if I go too far in criticising what happens with the state government, when this gets back to the Western Australian government department and/or

the South Australian and/or the Victorian departments, the prospect of me getting their assistance on another project in the future—not that I have had it in the past—is really non-existent. That is just practical.

The Australian government makes major contributions to the ADB and to the World Bank, and the percentage of funds that we get back in projects alone which come back to Australia is minimal. I did have the figure some years ago.

Mr GRIFFIN—We had them the other week. At least the figure they gave us—we get lots of figures—suggested that there is a very high percentage that actually comes back in terms of our programs to Australian firms.

Mr Moriarty—Are we talking about the World Bank and ADB or are we talking about AusAID?

Mr GRIFFIN—AusAID.

Mr Moriarty—I have no complaints with the percentage that comes back from AusAID.

Senator HOGG—AusAID said 80 per cent.

Mr GRIFFIN—Yes, in relation to AusAID.

Mr Moriarty—Yes. I accept 80 per cent. I would have thought AusAID was higher. I have no complaint with AusAID.

CHAIR—For the tied contracts is it not higher with foreign governments supplying some of the labour or work or whatever?

Mr Moriarty—That is right, I have no complaint with that. My issue is not with the Commonwealth government, I understand that, but we make a major contribution to the ADB and to the World Bank. We just do not get the percentage back in Australian contracts. The reason, I believe, we have not got the percentage back in overseas contracts in the past is because private sector people in the survey and mapping industry have been afraid to take the crest in because they would be competing. Now we are equally afraid because we are still competing with state governments. Whether or not there is anything the Commonwealth can do to encourage—

Mr GRIFFIN—So you are saying in that situation what you are afraid of is the likely result because when you are competing against a state government you are unlikely to be able to be cost competitive because of the in-built advantage they have got.

Mr Moriarty—Yes.

Mr GRIFFIN—It is not afraid to tender; it is concerned that no matter how good your bid is you are unlikely to win it.

Mr Moriarty—No. If the bid is good—

Mr GRIFFIN—Your initial position was you would not use the crest for those reasons around the question of AUSLIG and that meant private firms from Australia did not compete for those sorts of operations overseas; therefore, Australian firms did not get them, which kept the percentage down.

Mr Moriarty—Yes.

Mr GRIFFIN—Now the issue is that, in fact, Australian firms can compete but they are also competing against state governments as such.

Mr Moriarty—Yes.

Mr GRIFFIN—Although I understand your concerns on that, the end result of that in terms of ADB and World Bank projects would be that there are Australian bids in that are competitive, because they are either private sector ones or they are state government ones. If cost is the issue in terms of ADB and the World Bank, that should lead to more Australian contracts being granted, shouldn't it?

Mr Moriarty—If cost is the issue. No, my point is that if the state government of Western Australia want to go in and compete against me they are going to beat me hands down pricewise.

Mr GRIFFIN—Yes, I understand that.

Mr Moriarty—That is the thing I am afraid of. The other issue, of course, is the majority of World Bank projects will only accept one tenderer from one country and that then becomes a major issue. This has also happened to me—I know it is beyond the four years, but it is a 'for example'—I went in as a private tenderer on a major contract to Singapore and one of my competitors was the South Australian government. I will never know to this day whether or not I would have won that tender but my bid was not even considered because we had one from the South Australian government. The South Australian government subsequently withdrew from the bid and I was not even considered.

I believe a group of private sector firms could get together and form a joint venture so that there would only be one bid. The state government is not interested in that. When I say I am afraid, that is the sort of thing I am talking about.

Mr Richards—I am a director of a company that is a joint venturer with the Western Australian government to carry out the overseas work. In that joint venture the private sector has not competed or not contributed to any tender let in the last three or four years because the pricing policy of the state government is just not adequate to support the sort of work being done.

Mr GRIFFIN—Sorry, just explain that to me a little bit, if you could, please?

Mr Richards—We set up a joint venture a number of years ago to carry out work in Vietnam, to build a project in Vietnam for land titling and so on. It was United Nations funded. We set up a joint venture between the Department of Land Administration and five of the major survey companies in Western Australia. It carried out several years work. It was only worth about \$1 million overall because it was a pilot project.

Mr GRIFFIN—But you went to tender for that as a consortia.

Mr Richards—No. We built the project. As a consortium we built the project and got United Nations funding, UNDP funding for it.

Mr GRIFFIN—Was there a tendering process to get that?

Mr Richards—There was no tendering process. The idea was that it would lead to a project that we could then manage as a joint venture or whatever. But that gave us, in joint venture with the government, international experience which was not available in Western Australia until that time. The project in Bangladesh is a classic example where the relevant minister from Western Australia has just gone there to sign that contract. It was bid for by the Western Australian government in their own right without the private sector partners, because the private sector partners, when asked to put the bid in with them, said that there was no way in the world that the pricing policy was at a standard that could support the work being done. That has happened on probably four or five projects.

The Western Australian government, apart from that activity, is probably further down the track than most other state governments in that they have outsourced most of their work within the state and probably within the Commonwealth. I doubt whether there would be very much competition at all, only on this Public Sector Mapping Agency, where we compete head-on with local government and overseas. The reason we did not bring examples of that sort of thing was that it was considered not relevant to your hearing.

CHAIR—If we go back to your statement, ‘There are a number of government monopolies,’ you are really talking about your single issue.

Mr Richards—About the survey and mapping industry.

CHAIR—All right. Have you gone to the ACCC?

Mr Richards—We have made various presentations to the ACCC, not specifically on that issue, though.

CHAIR—Why not?

Mr Richards—Because the presentations we have made have not achieved anything, so we have not kept beating our drum. We have made presentations on a number of things to the ACCC, to Alan Fels. One of the commissioners of the ACCC has addressed our association in Canberra, talked to us privately—no minutes so that we could have a very open discussion. My personal feeling is that we would not achieve anything.

Mr GRIFFIN—Looking at your submission in terms of the recommendations there, the recommendations basically all seem fine to me on a personal level but they do not seem to directly address—it is in the conclusion to a degree—the concern you have got on the question of government competition. Is that a fair thing to say? They are good general recommendations in terms of the need for training, professional expertise on panels and so forth, but they do not seem to really address the issue that seems to be your major problem.

Mr Moriarty—It would probably be fair to say that what we are really seeking to do is establish a philosophy. In my opening comment I support the concept that government will not compete against an efficient private sector, thereby eliminating an unnecessary burden on the taxpayer. That is basically the philosophy that we have. What we would seek to do, rather than come here whingeing and belly-aching about what the New South Wales government might do and/or the Western Australian government might do, would be to establish support from the federal government to encourage and/or prevent federal government contracts going back to the states which effectively and totally thwarts the original intention of supporting the private sector. It is a basic philosophy that we talk about. To have come here and pulled out figures about what the New South Wales government might do or what Terralink might do—as the New Zealand government—we consider to be irrelevant because we understand about the support with New Zealand and we understand value for money within what the Australian government might want to achieve in their purchasing policy. It is the philosophy of supporting the private sector and not going in through the back door, handing the projects back to government, that we seek your support on.

CHAIR—I think we have well and truly got your point. You have come to us with a single issue.

Mr Moriarty—Yes.

CHAIR—You have said that things are getting better but you have got a single issue and it does concern you and we can all understand that. Thank you very much for coming and talking to us. When we table our report in both Houses we will certainly send you a copy and we will see if we can address your issue.

Resolved (on motion by Ms Plibersek)

That this committee authorise publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

CHAIR—I declare this public hearing closed.

Committee adjourned at 11.25 a.m.

