



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND  
AUDIT

**Reference: Australian government purchasing policy and practice**

FRIDAY, 26 FEBRUARY 1999

MELBOURNE

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**JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT**

**Friday, 26 February 1999**

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

**Senators and members in attendance:** Mr Charles, Mr Georgiou 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**

<b>AIZENSTROS, Mr David, Marketing Manager, Australian Paper</b> . . . . .	<b>395</b>
<b>CARFAX-FOSTER, Mr Richard Alan, Adviser to the Board, Australian Institute of Purchasing and Materials Management</b> . . . . .	<b>381</b>
<b>CHALMERS, Mr Athol, Manager, Federal Government Relations, Telstra</b> . . . . .	<b>339</b>
<b>FLANAGAN, Mr Paul, Group Manager, Purchasing and Headquarters Services, Australia Post</b> . . . . .	<b>367</b>
<b>KELLY, Mr Hayden, Director, Corporate Services, Telstra</b> . . . . .	<b>339</b>

**LAWREY, Mr Allan John, Director, Ballistic Innovations . . . . . 353**

**POOL, Mr Peter James, Chief Executive Officer, PJP Aerospace and Defence  
Industries . . . . . 386**

**RYAN, Mr Gerald Patrick, Corporate Secretary, Australia Post . . . . . 367**

**STEARNS, Mr Robert Murray, Sales Manager, Ballistic Innovations . . . . . 353**

**TEMPLETON, Mr Darren, Manager, Market Analysis and Performance, Telstra . 339**

**WILLIAMSON, Mr Arthur William, General Manager Marketing, Australian  
Paper . . . . . 395**

**Committee met at 9.30 a.m.**

**CHAIR**—I declare open this public hearing of the Joint Committee of Public Accounts and Audit. The committee will now take evidence, as provided for by the Public Accounts Committee Act 1951, for its inquiry into Australian government purchasing policy and practice.

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 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 with Commonwealth procurement. Some of those concerns are being raised in submissions to this inquiry. For example, some of the statements and claims that have been made in submissions include: firstly, 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. That was from Streets Enterprises, submission 4, pages 3 to 4.

Secondly, it has become apparent that frequently the selection of the winning bid is largely based upon price. That was from Ballistic Innovations, submission 10, page 3.

Thirdly, unfortunately the 1994 report has largely been a wasted opportunity, as the procurement practices by the Commonwealth entities have not progressed in a manner that has assisted industry, particularly SMEs. That was from the Australian Information Industry Association, submission 13, page 2.

Fourthly, in respect of the principle of national competitiveness and industry development, in broad terms it is our opinion that government purchasing has not helped local industry to become internationally competitive. That was from the New South Wales ISO, submission 34, page 5.

Fifthly, 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. That was from ISONET, submission 36, page 5.

Sixthly, unless purchasing competency training and accreditation levels are given status in departments through 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. That also was from ISONET, submission 36, page 5.

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 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 supplier arrangements, the views and experience of the business community, the adequacy of purchasing statistics, and possible initiatives that could further enhance Commonwealth procurement.

The committee has conducted public hearings in Canberra and Sydney. Today, the JCPAA will take evidence from Telstra, Ballistic Innovations, Australia Post, the Australian Institute of Purchasing and Materials Management Ltd, PJP Aerospace and Defence Industries, and Australian Paper Pty Ltd.

I will refer members of the media who may be present at this hearing to a 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 secretariat staff present at the meeting.

[9.34 a.m.]

**CHALMERS, Mr Athol, Manager, Federal Government Relations, Telstra**

**KELLY, Mr Hayden, Director, Corporate Services, Telstra**

**TEMPLETON, Mr Darren, Manager, Market Analysis and Performance, Telstra**

**CHAIR**—I welcome representatives of Telstra to today's hearing. We have received and read your submission. Do you have a brief opening statement you would like to make before we start with questions?

**Mr Kelly**—The submission we prepared was mid- to late-1998, I believe. Telstra, over the last eight months, has put considerable time and effort into reviewing its sourcing activity. We have substantially changed not our policy but our practices in sourcing. We have had a significant turnover in staff in that area. We reviewed the area and took the view that perhaps we did not have the right skill mix for the commercial zone that we are now entering as a semiprivatised organisation. We have had a turnover of some 50 per cent of 70 staff directly engaged in procurement in Telstra. We have recruited from outside commercial entities. We have recruited graduate analysts out of university and put into the area some internal people with perhaps higher intellect and better skills than the previous incumbents.

We have also significantly raised the profile of sourcing within Telstra. It was, up until 12 months ago, just something that happened, not necessarily a predetermined discipline or plan. Associated with the raise in profile of sourcing, there have been a number of procedures, policies and practices developed—which are well documented and understood by the various business units in Telstra—and we are now operating to that discipline. Contrary to a number of other government organisations, we have probably moved back to a centralised model of sourcing, because we see that that is the way we can apply discipline across the process. We really had evolved to a degree into an organisation where we had varying levels of sourcing competence and end results, depending on who was doing it, on a decentralised basis. We have moved back to a more centralised model to try to capture the discipline that we need in our sourcing activity. That is all I have to say as a lead-in.

**CHAIR**—Thank you for that. Could you tell us what drove this change in attitude in procedure?

**Mr Kelly**—I guess the history of large organisations, when they try to have a look at their expense line and value for money, goes something like, 'How many staff do we need? What can we outsource?' Eventually someone wanders along and says, 'Do we really get value for all the things we spend outside?' It was an evolution in the cycle of the maturation of the company, as much as anything. If you have a look at our profit and loss, our external spend is the biggest component of that. For the first time, we have really started to focus on that, not necessarily with a view to reducing that spend and cutting suppliers' margins and perhaps driving them out of business but more to having a look at the end-to-end supply chain to see that we are getting value for the goods that we bring in and that we do get them out to the field—or wherever they are required—in the most efficient way.

We are achieving cost savings across our sourcing, but not all that is unit price. A significant amount of flow-on cost saving is emerging as we look at the procedures that surround the goods that we buy. It is an end-to-end supply chain management view that we are trying to take of it.

**Mr GEORGIU**—Is a copy of that review that you conducted available?

**Mr Kelly**—Yes. We can provide that.

**Mr GEORGIU**—The submission you made was in August 1998. Have you got the update for the 1997-98 total value of purchases, likely value—

**Mr Kelly**—Yes, our 1997-98 numbers indicate that 76 per cent of our—

**Mr GEORGIU**—Could you give me a number?

**Mr Templeton**—It was \$8.5 billion total purchases for 1997-98. The scope of what we included in that \$8.5 billion was changed to the previous reports we submitted, because the previous reports only included most of the network equipment type purchases.

**Mr GEORGIU**—Have you got a consistent run of figures on the same basis?

**Mr Templeton**—No, not available today. We can provide those though.

**Mr Kelly**—We can provide those.

**Mr GEORGIU**—It is just that it makes it a bit difficult if you have spent—because of what I assume is redefinition—double. What are we going to do with the figures that you have supplied?

**Mr Kelly**—We will provide some. Noting that if we take the view of what is really local content, the 1997-98 methodology is the proper methodology.

**Mr GEORGIU**—Can you just give us the \$8.5 billion local value?

**Mr Kelly**—It is \$6.5 billion.

**Mr GEORGIU**—SMEs?

**Mr Kelly**—I have not got that breakup with us.

**Mr Templeton**—\$1.7 billion.

**Mr GEORGIU**—My mathematics is not that good. Does that mean that under the old methodology you had a larger or smaller proportion of local value compared with 1997-98?

**Mr Kelly**—Under the old methodology, a much smaller proportion of our total spent emerged as local value. As we said, the old methodology concentrated on network



infrastructure, rather than what Telstra actually buys. If you expand it to what we actually buy, the local content as a percentage increases.

**CHAIR**—Telstra nee Telecom, at least in the past, was always known as an engineering organisation driven by and run by engineers. Small companies that supply Telecom, and large ones too, tell me that Telecom always had an ethos of trying to develop Australian industry, so that Australian companies could produce and supply the products and services that then Telecom wanted. Has that ethos changed?

**Mr Kelly**—No.

**CHAIR**—I come out of industry, too—30-odd years. In my experience, centralised purchasing was an absolute requirement because it was so important to keep your hands on what was being spent and where it was being spent.

**Mr Kelly**—Exactly.

**CHAIR**—I am really interested in what drove you to go back from decentralised purchasing to a centralised function and, I assume, reporting to very high management levels.

**Mr Kelly**—What drove us, to be quite frank, had nothing to do with local content. It had more to do with a series of fiefdoms had been set up in regard to sourcing. When we came in to do the review, we found that we had business units running essentially the same contract as other business units for the same type of supply, with the same company, at different prices, with different conditions—I suspect you have heard this story before.

We were just out of control. I would ask somebody, ‘How much business did we do with ABC company?’ and they would quote me. Then I would ask, ‘But have you checked this business unit?’ and we would find the same goods being sourced by that business unit, slightly different conditions, slightly different technical requirements when that was not necessary because a different group of engineers had got across the specification stage. Pricing was all over the place and even payment conditions were all over the place.

Most of our suppliers we now talk to tell us they would much prefer this model, because one of the difficulties they had was dealing with different parts of Telstra and getting different stories about what the real product requirement was. So as we come across suppliers under this new process, most of them tell us that they are much more comfortable with the process as it stands now.

Part of the new discipline, apart from going to market when contracts naturally expire, we are also trying to gather all this mess up and bring it forward in waves and put it to the market again, regardless of the status of the number of contracts we have out there, and put some discipline into what we are actually buying. Obviously, in that context, there are winners and losers. Most companies, including losers, during the process are telling us that they are much more comfortable with the current way of doing things than they were in the past.

**CHAIR**—Do they have a single access source to your purchasing requirements?

**Mr Kelly**—Yes, they do. The slight area of decentralisation we still have is the sourcing group, which is the central body responsible for the contract, going to market, doing the commercial negotiation and letting the contract. Then we have a supply of managers. If a particular business unit is the main user of that supply, that supply manager is located out in the business unit. Their role is to ensure that the technical requirements are being met, the day to day supply is being met. They work with the supplier to achieve mutual wins on the way through the contract. The core purchasing is centralised. The ongoing management of the contract, once it is let, resides with the principal using business unit.

**CHAIR**—Who heads this corporate purchasing group?

**Mr Kelly**—It reports to me at the end of the day.

**CHAIR**—You report to the managing director.

**Mr Kelly**—No, I report to the group managing director, finance. I am two away from the CEO. In the past, sourcing has not had that sort of focus in Telstra.

**Ms PLIBERSEK**—You mention in the submission that you are working on an industry development report, which was due to be completed in September 1998. Is that available to us?

**Mr Templeton**—Yes, it should be. We have submitted it to the department. Yes, we can get you a copy.

**Ms PLIBERSEK**—Thank you. You mention in your submission that your drive to encourage a world class local industry has contributed to industry achieving exports in excess of \$1 billion. Can you give us a few examples of particular successes that you have supported?

**Mr Templeton**—Most of the exports related to our establishment of our presence in offshore countries.

**Ms PLIBERSEK**—So you are exporting expertise and services rather than goods?

**Mr Templeton**—Yes. We are more an expert of service, which is namely a telephony service. If we are developing infrastructure offshore, then obviously we are exporting expertise as well in doing that.

**Ms PLIBERSEK**—I think Telstra was helping the Vietnamese government set up their telephone system. Is that correct?

**Mr Templeton**—Yes.

**Ms PLIBERSEK**—When you do that, you export your knowledge, but do you source any of the infrastructure from Australia as well?

**Mr Kelly**—An example of things we have put into Asia is that our cable comes from Pirelli in Sydney.

**Ms PLIBERSEK**—Are you talking about optical fibre cable?

**Mr Kelly**—Both—optical and copper. If we, for example, go into an Asian country and we have to put some network infrastructure in, we use our Australian supply agreements to supply the wherewithal for that infrastructure.

**Ms PLIBERSEK**—Do you do that because your existing contracts are more convenient? Is it a price thing or is it a quality of goods issue? What makes you do that?

**Mr Kelly**—It is probably a mix of all three. I guess the last one is the critical one—quality. If we are about to put a network into an Asian country, we are more comfortable using material that we know is of sufficient quality to put that network in. If you use cable as the example, Pirelli obviously produces to the standards that we require to maintain our networks in Australia. We are fairly comfortable that they will fit the bill when we go to Asia. If we source from overseas, we have to go through the same rigorous quality testing to get there. On something like cable, to be quite frank, the margin you might get on pricing, based on our deals in Australia, is not significant enough to want to risk the quality aspect of it.

**Ms PLIBERSEK**—I just have a few further questions. You are clearly able to give us a local value and a value for things purchased from small and medium enterprises. Some of the people who have come before us, including quite large organisations, have had some difficulty in giving us those figures. Have you found it difficult to collect those statistics? What systems do you have in place to do it?

**Mr Kelly**—To be quite frank, one of the real surprises out of the review—and you would probably need to know that I did not know anything about sourcing until eight months ago—one of the things that I could not quite understand was, whilst we had a broad handle on where we were spending our money, when you really started to trowel and ask the more detailed questions that data was not readily forthcoming.

**Ms PLIBERSEK**—From your business units. Because it was decentralised, they did not have the systems in place?

**Mr Kelly**—Yes, and our financial systems were not necessarily reporting it adequately because the data was only as good as how it was entered into the system. I could not quite get my mind around how much money Telstra was spending on other incidentals, which is always the easy way to key something into a system. So we have taken steps in the interim to fix that sort of stuff so that our reporting is more adequate. We now report monthly results to the CEO and the GMD Finance and quarterly to our OMG Group, which is the CEO and his six direct reports. To my knowledge, sourcing had never been reported in Telstra to that level.

**Mr GEORGIU**—So where do these figures from?

**Mr Kelly**—Out of our financial systems, basically.

**Mr Templeton**—Also, as part of our tendering process, when we go out to suppliers, if they have any imported content, we ask for that percentage of imported content as part of their responses, as well as responding to how they intend to develop any domestic suppliers or industry.

**Mr GEORGIU**—We have just been told the figures are not real good. Where do these figures come from?

**Mr Kelly**—These previous reported figures?

**Mr GEORGIU**—We will go through the previous ones, but I am also interested in your level of confidence in your last figures. Tell us where these fantastic figures come from.

**Mr Kelly**—My level of confidence in the last lot of figures is high.

**Mr GEORGIU**—Okay. What is your level—

**Mr Kelly**—Don't ask me for a confidence level on the previous three reported figures.

**Mr GEORGIU**—So we really have no base on which we can say, 'Telstra's performance in purchasing local value has improved, not improved or has remained the same.'

**Mr Kelly**—That is my personal level of confidence. The group that we did review were largely doing the network infrastructure stuff from a centralised environment, and they are the figures that were reported in the three previous periods. They would be, in my view, fairly accurate. But what the company did not understand was that, as a percentage you spend—and this is true for all telcos—network infrastructure is going down and other goods and services, whether it be software that runs exchanges, are going up. We did not have a very good handle on that. That is what has been incorporated into the last lot of figures, and the confidence level on that is high.

**Ms PLIBERSEK**—You have pulled these earlier figures out of existing records. They were not figures that you kept so that you could keep an eye on where you were sourcing from?

**Mr Kelly**—Those figures were kept as a measurement of our industry plan, but our industry plan really did not go outside the engineering group. As I said, the engineering purchasing was relatively centralised, so they would be a reasonably strong set of figures, but they really were not the true picture if you look at what we were buying from a local content basis.

**Ms PLIBERSEK**—You just made the distinction then between network infrastructure and, for example, software. Software would not have been included in those earlier figures?

**Mr Kelly**—In the first three sets of figures, software related directly to network infrastructure but not software outside of that or other goods and services.

**Ms PLIBERSEK**—For example, the software you used to pay your staff or work out holidays would not have been included but the software that runs the switching and so on would have been.

**Mr Kelly**—Exchanges would have been, yes.

**CHAIR**—Mr Templeton, correct me if I am wrong, your emphasis now is not on having reports on what is Australian but rather what is overseas sourced.

**Mr Templeton**—We use the component of what is sourced overseas to help us determine what the local content is.

**CHAIR**—Is that focus reflected in your purchasing guidelines, for instance, Defence? You are only partly government owned, although a majority.

**Mr GEORGIU**—It is still a majority.

**CHAIR**—In 1994, when I was a member of the committee that held the purchasing inquiry, there were two shining lights, if you can call them that, and they were Defence and Telecom, that were making a real attempt at Australian sourcing. Somehow we thought you were not doing badly. But Defence has moved now to a requirement for the purchasing officer to write an explanation if any purchase of goods over \$2,000 was not sourced locally and say why they bought overseas goods.

**Mr Templeton**—We have not got that strict reporting after we source the event. However, we put it on to our suppliers as part of the tendering process to explain to us what their imported content is, if they have any, and how they plan to develop Australian industry if they were to win the contract.

**CHAIR**—Let us say you sign a \$30 million contract with XYZ for whatever and you have a requirement in the tender document for Australian content and industry development. What testing is done down the line to make sure that that actually occurs?

**Mr Templeton**—I would say that the testing is limited, apart from the reporting in the industry development report. It would be given added emphasis in our proposed model for having a centralised control over our supplier base.

**CHAIR**—I know personally of an instance—this is not Telecom related necessarily—where a contract required a certain level of Australian sourcing and the commitment by the contractor to local content and industry development was very high and helped them win the contract—a huge contract. When the contract was performed, those commitments were not kept and nobody followed up on it. Have you got the same sort of problem or potential problem?

**Mr Templeton**—We may have a potential problem, but with our proposed model where we have a centralised control over suppliers I think that will be given added focus.

**CHAIR**—You have a different function between purchasing and project management or business unit management. You have a contract that comes from somewhere and goes into purchasing. They go out for tender. It is evaluated, I assume, with some input from the organisation that wants the good or the services. A contract is let and signed and then it goes away from purchasing. Purchasing does not know about it anymore because the project manager or the business unit manages the contract. Is it really worth while telling people that they have to have a maximum Australian content and develop Australian industry at the tender stage and then not make sure they do it at the production and delivery stage?

**Mr Templeton**—It makes sense to do it.

**Mr GEORGIU**—But it is not being done.

**Mr Templeton**—I would say that it is probably limited and we are not formally reporting it, apart from what we report in the industry development plan report. That is sourced from the users of the products and services and the responses to the original tenders. There is no strict reporting process in place at the moment to report that those commitments are being—

**CHAIR**—I was a building contractor for years on state government contract after contract after contract. At least one federal government contract required a certain number of apprentices as a percentage of the work force on the job. I cannot recall once—

**Ms PLIBERSEK**—That is a good idea.

**CHAIR**—It was a terrific idea, but no-one ever came and asked us to prove that we did it—not once.

**Mr GEORGIU**—They knew you were honest.

**CHAIR**—You did what you had to do to get the job done and you hired as many apprentices as you could properly manage. I do not know anybody who sat down and kept a set of stats so that they could prove it.

**Mr GEORGIU**—Mr Kelly, are you guys still claiming ownership of this submission?

**Mr Kelly**—Yes.

**Mr GEORGIU**—I am a bit confused at the moment. On the bottom of page 3 there is a sentence which reads:

Telstra does have a stated preference to purchase from local manufacturers who offer "best value for money".

What does that mean?

**Mr Kelly**—It means that, where we have two suppliers who are equal and one is much lower on local content, invariably we will go for the local supplier. When we talk about ‘best value for money’, if that is the clarification required, the mind-set was not necessarily embedded into Telstra. We are trying to ensure that the mind-set and the culture of the company is not that best value for money is lowest unit cost. Best value for money is the end-to-end cost of the product, quality, delivery capability, et cetera. We are expanding the view in some quarters as to what is best value for money. I did come across some sourcing activity which said that best value for money was read as the cheapest unit price. There was no end-to-end assessment of what the product had actually cost us. To be quite frank, those pay phones that we are busily trying to refurbish now are a great example of buying best value for money from a supplier with not much local content.

**Mr GEORGIU**—Prior to your wholesale renovation of this, that sentence and the objective reads:

Give preference to the purchase of products and services from Australian based suppliers, where these meet Telstra’s competitive and market requirements in terms of price, quality, availability and reliability.

Has that not been at the centre of Telstra’s attention for some time?

**Mr Kelly**—It has not been overtly stated as at the centre of our attention.

**Mr GEORGIU**—It has been overtly stated.

**Mr Kelly**—Rather, the figures that we came up with for 1997-98 indicate that it has been understood across the company that we go for local supply where it is of equal value.

**Mr GEORGIU**—Let me put it this way. In a case where two products are broadly similar in terms of price, quality, availability and reliability, like your pay phones, will the Australian tenderer get the contract?

**Mr Kelly**—Invariably, yes.

**Mr GEORGIU**—Invariably?

**Mr Kelly**—Yes.

**Mr GEORGIU**—This was not always the case, but it will be the case in the future?

**Mr Kelly**—I would suggest that, whilst it was not stated in our policy as it is likely to become, it was understood anyway and the figures indicate that. We have had, in some areas, no choice in recent times because the technology is not available in Australia. Where what we are purchasing is available in Australia and it is equal and competitive, we will go with the local supplier. We have even taken it a step further in that we are now working actively with ISONET in areas where we have not been able to go. I reference paper, because we are about to go to the market on directory paper. We are working with ISONET on that. We did not source that locally on our last contract. The discussions we have had

with ISONET are that we would like them to help us get an Australian manufacturer who is competitive. They tell us they can deliver in that regard. We will see what emerges.

**CHAIR**—So we have been buying the directory paper from overseas?

**Mr Kelly**—Our last contract was with Fletcher Challenge, who, I understand, are New Zealand based.

**Ms PLIBERSEK**—This is a slightly broader question. In relation to a partially privatised Telstra operating in a commercial environment, how do you think that has affected your company's commitment to issues like industry development, or is it more important for you now to look at the bottom line in terms of, as you say, unit cost?

**Mr Kelly**—The commitment to the industry development plan is as strong as ever. A number of our senior people are very much committed to that plan. The focus on the bottom line has really made us look not only at how we are purchasing but also more at what we are purchasing and the arrangements surrounding the delivery of those goods and services. To be quite frank, there is as much affect on the bottom line if we get that right as there is for potentials when we go to market to see what unit price we can get. The numbers that we are looking at in a lot of areas show that our buying is not too bad, but then all the cost comes in after we buy the product. That is largely of our own doing, not for suppliers.

**Ms PLIBERSEK**—So do you think that having an emphasis on buying local content is cost effective for you over the long run? Could you say that?

**Mr Kelly**—It is not cost ineffective from what I have seen. I could not sit here and state a case for Telstra needing to buy more goods with imported content, apart from in areas where it is becoming not available with local content. That is happening in some of the technical areas.

**Ms PLIBERSEK**—Why is that happening?

**Mr Kelly**—Because the local manufacturers often cannot even tender for it basically. I do not believe that our commitment to the industry plan is having an effect on our bottom line.

**CHAIR**—I want to talk about Transigo a little bit. In a press release on 12 January Richard Alston notified changes for implementing electronic procurement. Can you tell us what sorts of implications that has for Telstra if you know?

**Mr Kelly**—I cannot comment specifically on Transigo because I am not aware in any detail of the product. In the context of electronic procurement, our stated intention is to move to electronic procurement with our 1,300 top vendors. What product we use, we are not quite sure of at the moment.

**CHAIR**—So you may not use Transigo either?



**Mr Kelly**—No, to be quite frank, we may not. We have another product named Purchase Net.COM which is an Internet based product. That is a Telstra product. At the moment we are weighing up the pros and cons of Transigo or Purchase Net.COM.

**Ms PLIBERSEK**—With the changes that the minister has suggested, will that mean that companies will have to buy a number of types of software to cover where government departments would possibly be?

**Mr Kelly**—That is a good question. We have two products, Transigo and Purchase Net.COM. IBM also have a product.

**Ms PLIBERSEK**—If I were a small business, I would buy both of those and possibly the IBM one.

**Mr Kelly**—If I were a small business, I would resist that vigorously. That is one of the things that we are trying to wrestle with. People will tell you that you should do electronic commerce with every supplier. The reality of life is that, unless you sponsor into the software a lot of the small suppliers who supply product which is integral to your needs, it is just detrimental to their business to take it on.

**Ms PLIBERSEK**—Especially at this stage where it sounds like there is a number of products being developed. Nobody knows which one is going to be the VHS and which one is going to be the Beta.

**Mr Kelly**—Exactly. We are focusing on our 1,300 top suppliers. We have not got a stated intention past that. I had this conversation five years ago with the guy who was running around telling us that everybody would deal EDI within six months. That is fanciful at best if you understand small business. We have not got any stated intention on the supply side past our top 1,300 suppliers and we are very much aware that we will get to some of the 1,300 suppliers and they will say, 'I've just spent a lot of money on the IBM system.' My view is that, from a practical sense, we will have to work our way around that.

**Ms PLIBERSEK**—Is there anything actually preventing you sponsoring people into the system now? Is that something you have considered?

**Mr Kelly**—No, there is not. We will judge cases on their merits. It is quite likely that, when we get out of that top 1,300, where we have a long-term relationship with a SME we might take the decision that it is to our benefit and their overall benefit to put it into their business free of charge. We are concentrating on the top 1,300 and, if we achieve that, I will be more than happy.

**Ms PLIBERSEK**—At what stage is that at now?

**Mr Kelly**—We are trialling Purchase Net.COM with our stationery supplier, Corporate Express. We are about to put it into our industrial electrical supplier, printing supplier and another supplier. We will trial with those four suppliers for a period of time. Then we will start talking to the top 1,300.

**Ms PLIBERSEK**—Do you think that overall in the long term this will be an advantage for small and medium enterprises or a disadvantage?

**Mr Kelly**—It will be a disadvantage if companies try to ram it down their throats. That is my view. It will be an advantage if companies are prepared to work with them and understand whether it is practically of any benefit to deal that way or not. For some companies with the amount of business you do with them, why do you need to do it electronically? We are prepared to look at it on its merits for our small suppliers. We certainly do not have a principle of insisting they deal that way.

**Ms PLIBERSEK**—In terms of not just purchasing now but thinking of advertising contracts, letting tenders and that other part of e-commerce—

**Mr Kelly**—There is a potential danger there if you adopt a policy of only advertising your tenders that way. We have no stated policy to go down that direction because it does automatically exclude some capable suppliers.

**Ms PLIBERSEK**—You can see that, if you develop a decent system, it will be quite easy to say we need \$5,000 worth of something and not bother putting that sort of advertisement in the paper because it is not worth the trouble. If you have got a decently functioning e-commerce system, that is not a lot of trouble, is it?

**Mr Kelly**—What? To put it in the paper?

**Ms PLIBERSEK**—To have it on your e-commerce system, whichever one you choose.

**Mr Kelly**—We will advertise on the e-commerce system, but we will not necessarily—

**Ms PLIBERSEK**—Wouldn't it be easier to use that sort of system for things of smaller value?

**Mr Kelly**—Smaller amounts typically are not what you get off your top 1,300 suppliers anyway. We would put that across the system, but it is typically not what they would supply to you anyway. When we get down to our smaller suppliers, it is really the stuff that you advertise in the newspapers or call for RFTs via other hard copy methods.

**Mr GEORGIU**—Could we have a supplementary bit of paper from you that puts the figures on an equivalent basis, even if you have to go back to just the infrastructure stuff?

**Mr Kelly**—Sure.

**Mr GEORGIU**—Secondly, I would like to have something on a matter which we really have not had time to pursue, that is, the degree of reliability that you place on the numbers, and the mechanisms that you have for verifying that the Australian content is there.

**Mr Kelly**—Sure.

**Mr GEORGIU**—You may say, ‘We believe there are no real mechanisms,’ and I am quite happy with that, but I would like to see the figures on an equivalent basis.

**Mr Kelly**—Yes.

**CHAIR**—You say you are committed to encourage industry to establish world manufacturing centres in Australia. Can you tell us to what degree you have had success?

**Mr Kelly**—I will take that question on notice. I have no doubt that our engineering people will have some examples.

**CHAIR**—Could I just point out to you, Mr Kelly, that one of the things that we noticed in 1994 and that we are noticing again across this set of hearings and submissions gets back to the issue I raise when I ask if you follow up on the contract stage to see if they actually do what they committed to do. The same thing is involved with the grand words we use about Australian industry development. I know very definitely, I can give you cases, of where Telecom have developed Australian industry and where, following on, Telstra have as well. I can tell you some examples of that from my own electorate and fields further.

I just point out that it seems to me that hardly anybody is placing any emphasis whatsoever on finding out after the fact if it is working or not. They are grand statements in principle, but nobody really knows what is happening. It is just like nobody really knows what is Australian content. I suspect that you do not either. Is that true?

**Mr Kelly**—We are as good as the information that the supplier gives us, I guess is the answer to that.

**CHAIR**—If you have a black box with a printed circuit board that is filled up with components, the supplier does not tell you what percentage of that black box is Australian?

**Mr Kelly**—On our RFTs we ask for that percentage to be reported back to us.

**Mr Templeton**—That is our key source of determining what is local content and what is imported.

**Mr Kelly**—It is a standard clause.

**Mr Templeton**—We use that as a base, then we work out what we spend and use that as a basis for determining our local content.

**Mr GEORGIU**—Could we have that as well?

**Mr Kelly**—That is a standard clause in our RFTs. To take your point, we then do not go out to the factory and pull the box apart and say, ‘This did not really—’

**Mr GEORGIU**—You lied!

**CHAIR**—We do not make silicon chips. We never made transistors. Did we ever make valves? I think we might have made valves, but we certainly never made transistors and we do not make chips either.

**Ms PLIBERSEK**—I have one final quick question. You mentioned that you were attempting to change the culture of your purchasing officers—do you call them that?—or your purchasing unit. What sort of training do they do? How detailed are your guidelines? You have mentioned that you have put more emphasis on that as an important part of the organisation. Can you tell us a little about that?

**Mr Kelly**—We have an internal training program for buyers. I will be quite frank: I need to have a look at that to see whether it is terribly valid anymore. Most training tends to be either current or decidedly out of date, so we need to have a look at that.

We have a certificate course as well, which is a bit extra, which is run internally. A number of people have been recruited into the group and some of them have whatever is on offer at Australian universities, et cetera, as qualifications. I am a bit surprised that, as I understand, there is not a professional buying course offered by universities; they are typically two-year diploma certificates. A number of the people we have recruited from outside have those qualifications and we are certainly encouraging the younger people who have joined the group, by giving them study assistance part time, to get out and to make that stuff available to them.

**CHAIR**—Thank you very much for your submission, for coming here and for the data that you are going to give us.

**Proceedings suspended from 10.19 a.m. to 10.30 a.m.**

**LAWREY, Mr Allan John, Director, Ballistic Innovations**

**STEARN, Mr Robert Murray, Sales Manager, Ballistic Innovations**

**CHAIR**—Welcome. We have received your submission. Would you like to make a brief opening before we ask you punishing questions?

**Mr Stearn**—No, I am running out of words to say.

**CHAIR**—In your submission you said that errors and omissions in contracts and designs are a major concern. You go on to say:

Any error I might point out is usually construed as meaning that I have a commercial interest in changing the original project value, not its performance or place of manufacture.

Could you tell us what you are talking about?

**Mr Stearn**—In our particular case, where a drawing or a bill of quantities item indicates that there is to be a bullet resistant piece of glass in a window, if you read the balance of the documents you can reverse engineer that simple statement to its probably correct meaning of a requirement for a bullet resistant barrier. When somebody says they are going to put a bullet resistant piece of glass in there, you just know that something is wrong somewhere: there is a requirement to stop bullets across the barrier, not just the piece of glass. As a consequence, building projects—whether they are government or private enterprise—frequently have a bullet resistant window in a plaster stud wall, which has not got a hope of stopping any bullets.

The moment that I point that out, a lot of head contractors turn around and say, ‘Wait a minute, you have a commercial interest in this, you are trying to get more money out of the project.’ True story—we are trying to get more money out of the project, but by delivering the goods that reading the documents led us to believe was what the client actually requires—a barrier, not a piece of glass.

**Mr GEORGIU**—Have you drawn this to the attention of the people drawing up the specifications?

**Mr Stearn**—Yes, you can do that.

**Mr GEORGIU**—Have you?

**Mr Stearn**—Yes.

**Mr GEORGIU**—What has their response been?

**Mr Stearn**—Sometimes it becomes, ‘Oh, we had better do something about that,’ and a hasty redesign and reprice occurs before installation takes place. That generally comes from either the client or from the architect. We do not get what the client’s intentions are. We only get a piece of paper with a drawing on it, or a bill of quantities, that says precisely

what is required. If we had the client's intentions—that is, 'We want a bullet resistant barrier here'—then all is explained.

It is exactly the same for purchasing Australian products. If we had a piece of paper that said, 'We want an Australian product for this particular thing,' we would be halfway there.

**Mr GEORGIU**—You currently work for the Overseas Property Group.

**Mr Stearn**—Correct.

**Mr GEORGIU**—Have you drawn this to their attention?

**Mr Stearn**—Yes.

**Mr GEORGIU**—What has the response been? I am talking about bullet resistant barriers.

**Mr Stearn**—Sometimes the response has been, 'Yes, we'll get it from you'; sometimes the response has been, 'No, we'll source it from overseas.'

**Mr GEORGIU**—On specifications of bullet resistant barriers, you have said that there is a problem that what is specified usually is bullet resistant glass, which allows it to be surrounded by a stud wall that does not move. Have you pointed this out to the people at OPG, saying there seems to be a systematic defect in your specifications?

**Mr Stearn**—Yes.

**Mr GEORGIU**—What has been their response?

**Mr Stearn**—There is generally sufficient room within the drawings to rectify those sorts of mistakes. It is either us supply it or it is fixed overseas by the structure of the building. It is not an Australian product driven—

**Mr GEORGIU**—Let me stop you. I am saying, if there is a systematic design misdescription—that is, bullet resistant glass when it should be bullet resistant barriers—you have drawn this to the attention of OPG, and has OPG rectified that in their standard specifications?

**Mr Stearn**—Generally, yes. Occasionally it falls off the edge when an architect gets it wrong. Those things are picked up with a phone call to fix.

**Mr GEORGIU**—You are not faced by any intransigent environment that says—

**Mr Stearn**—No.

**Mr GEORGIU**—When you point it out to people, they are sensible enough to try to amend the contract specifications?

**Mr Stearn**—Yes. It is not so much the government department being unwilling to do things properly; it is quite often the process of architects, quantity surveyors, builders or all those sorts of people getting in and doing their bit in omitting something, not picking up on the intention or something along those lines. That is where I am at the bottom end of the pile. I have no power to change the way people approach things.

**CHAIR**—Have you got any solution for that? What is your solution to that?

**Mr Stearn**—Just listening to your earlier remarks about how do you control these things, if you go down the track of a very prescriptive approach and identify every nut, bolt, screw and everything that occurs all the way down the line, you are going to create a bureaucratic nightmare. We are going to go back to the good old, bad old days of having a huge machine called Purchasing Australia that is capable of doing those sorts of things. That is clearly not the flavour of the month. These days it appears to be one of directive control where the client will set the direction but not the path and allow private enterprise to select the path. In doing that, you have got to have sufficient management from the client's point of view to be able to more precisely select the path in certain areas. If you are going to do that, then that person has got to have sufficient power to be able to direct a private contractor down a certain direction on a particular product, system, service, whatever it might be, to do that. If it means that the product or service increases by 15 per cent because there is a bent to Australian made products, so be it. Frequently, those people do not have the power to do that because, when it is a government department, they go to parliament and say, 'We need a bag of gold for \$50 million.' If they spend 1c more they are in deep trouble and—worse—if they spend 1c less, they are in more trouble. So they have got this finite bag of gold to play with. Unless departments have got room to move so they can make decisions based on Australian made product or OH&S issues that increase the price of the project, that is the way it is going to run.

**Mr GEORGIU**—You have a paragraph at page 4 which says:

... we estimate that about 50% of the work that could be made by us goes to local overseas manufacturers. The head contractor usually says that he can do the work locally. While some of the projects have locally supplied fittings that, in all likely will meet the required performance, most do not.

**Mr Stearn**—That is the same problem.

**Mr GEORGIU**—That is a substantial indictment of purchasing. If they do not need a specification, that is a substantial indictment.

**Mr Stearn**—Yes, it is. But most of those people we have come in contact with have a definite requirement that they regard as being highly important: to get the best value they can for the taxpayer's buck. As a taxpayer, I am not going to argue too hard with that. What I am saying is that, if the government has a policy to purchase Australian made product, maybe the best value for the taxpayer's buck does mean it comes from Australia rather than overseas.

**Mr GEORGIU**—That is not what you are saying. You are saying that overseas supplied fittings, in most cases, do not meet the required performance.

**Mr Stearn**—It could be worse than that. They do not know.

**Mr GEORGIU**—Now I am confused. Do you want me to read it out to you again?

**Mr Stearn**—No.

**Mr GEORGIU**—You know what I am saying?

**Mr Stearn**—Yes. Our problem is one of a requirement to produce test reports. We have conducted, and are still conducting, testing on different elements of our products to meet the client's requirement. As a result of that, all the products that we supply to Overseas Property Group have been tested.

**Mr GEORGIU**—Fine.

**Mr Stearn**—When they decide to do something different overseas that is not in accordance with our method of manufacture to meet their requirement, they take a guess.

**Mr GEORGIU**—You are making an assertion that, where it is not locally supplied, most of the projects do not meet the required performance standards.

**Mr Stearn**—Correct, they do not. The reason I can say that is they do not have test reports. They take a guess.

**Mr GEORGIU**—As they say in the classics: please explain.

**Mr Stearn**—Our particular requirement is to stop a particular sort of bullet. If OPG purchase a wall or a window or a door that is said to stop that sort of bullet, they do not know whether it does or whether it does not. There is no test report. When we have had guys overseas installing our product, there have been a number of installations where that is supposed to be a bullet resistant wall and you look at it and say, 'No, no way. It is not.' It is a frequent occurrence.

**Mr GEORGIU**—Have you drawn this to OPG's attention?

**Mr Stearn**—Yes.

**Mr GEORGIU**—What has been their response?

**Mr Stearn**—'We think it is.'

**Ms PLIBERSEK**—How can you tell by looking at it whether it is or not? I know you are experts in the field, but—

**Mr Stearn**—Without giving the game away—



**Mr GEORGIU**—We would not understand anyway.

**Ms PLIBERSEK**—Speak for yourself!

**Mr Stearn**—There are two performance requirements that are required. One of them is to stop bullets; the other one is to stop a forced entry attack. Given the amount of testing we have done, I can tell you that we have had our fair share of failures in that particular mode. A test report to us that says, ‘This particular approach does not work,’ is as valuable as one that says, ‘That particular approach does work.’ The difficulty that OPG have is that a local contractor says, ‘We’ll do it this way,’ and—however they come to that conclusion—they do not know whether it does or whether it does not meet the requirements.

**Ms PLIBERSEK**—So it may not be the material that is in question but rather the seams in the wall or some other thing.

**Mr Stearn**—Exactly. There is generally enough to say, ‘Hmm, yes. Maybe that’ll work,’ but sometimes you think, ‘No, no way. There’s not a hope that that’s going to work.’

**Ms PLIBERSEK**—Can you give us any examples of that? You do not even have to tell us specific places, but what would make you look at something and say, ‘That’s not going to stand up.’

**Mr Stearn**—The thickness of the material, the fixings or the way it is constructed. You can get through a steel stud wall that you find in your home very quickly but, because it has got a lump of steel on one side, everyone believes that it is going to meet the requirement.

**Ms PLIBERSEK**—But it would not?

**Mr Stearn**—The whole wall would fall over before you broke the steel. That is the silly thing about it: you have this huge, thick piece of steel on the front and everyone knows you cannot get through that, but you can push the wall over. So you are not really achieving the aim of the exercise: to provide a barrier.

No matter what I say, I have a commercial interest in it and I am trying to get more money out of the project. That is true, but I am trying to deliver a service. What is the best value for the taxpayer’s buck is not inconsistent with the aims and goals of Ballistic Innovations. We are in business to make a profit. We choose to do that by delivering the quality, the service and the product that our clients want. The two goals are not pulling each other apart; we are on a consistent path here. We are trying to provide exactly what the client is looking for to meet their intentions. It is true when people say, ‘You have a commercial interest,’ but your wish of achieving a safe workplace, using Australian product and getting the best bang for the taxpayer’s buck is not inconsistent with our aims.

**Ms PLIBERSEK**—Or in your case, the least bang for the taxpayers, I suspect.

**Mr Stearn**—Yes.

**Ms PLIBERSEK**—So what would you need? Would you need a checklist of specifications that you would recommend that people looking for a service like yours would need? What would you recommend?

**Mr Stearn**—We are in the same bind as Robert alluded to earlier. If we go down that particular track and we specify the thickness of the steel, the grade of steel, the shape of it, the thickness of the glass, who made it, what the interlayers consisted of, what colour stainless steel and all the rest of the stuff that went with it, that would mean when it came to tender that this specification must be followed to precise detail. And that is not the intention of government.

It is an open, fair and equitable tender contracting system. If I have a product that is half the price of that specification that comes out and does exactly the same thing, and I can prove it, then the government is paying too much because it has overspecified, overengineered the requirement. So we do not try and get into how thick, how high, and what colour; we try to work backwards and say, ‘What is the performance requirement? What sort of bullets has it got to stop? Has it got to be forced entry resistant? Do you need to talk through it? Do you need to pass things through it? Does it need to be architecturally pleasing? What is the architect’s thought on that? What is the client’s thoughts on it?’ And then you can come up with something to make the thing work cost effectively, easy to install and does exactly what the client wants.

There is one overseas project that has a window in a library, and the window is a frame with a piece of glass in it so you can go and borrow books from the library, and there is a pass through tray underneath it, but you cannot talk through it because there are no holes. That is what the architect actually designed, that is what the client actually got, and when the client turns around and says, ‘That does not work because you can’t talk through it,’ the builder then says, ‘Okay, I will fix that—give me a variation.’ ‘No, sorry, there is no variation; we have spent all our money.’

**CHAIR**—You usually talk to a lot of architects, don’t you?

**Mr Stearn**—Exactly.

**CHAIR**—What is the nature of your business? Do you do any private sector work?

**Mr Stearn**—Yes.

**CHAIR**—Or is it mostly with state governments and the federal government?

**Mr Stearn**—It is state, federal, private enterprise, whether they are semi-government departments or not. We do a regular amount of work with Taiwan. We have done work in Singapore and Turkey for other concerns, other than government. We have done work for the Canadian government as well in Hong Kong. So we get around for people who have got this sort of requirement, whether it is defence or whether it is business or government.

**CHAIR**—Most of the installations, then, are overseas, not in Australia?

**Mr Stearn**—It would be about fifty-fifty, I guess.

**CHAIR**—In your submission, you said:

Since Purchasing Australia has been disbanded, no central authority exist for Commonwealth departments to approach for possible sources of supply.

That is a common statement that has been made by industry organisations and particular companies that have made submissions to us and come to talk to us about this. You went on and said:

We note that several commercial organisations, such Telecom Transigo, Tender Search and Info Link, claim to have an almost exclusive access to Commonwealth tenders.

Being affiliated with all the above organisations means additional expense and time, sifting through the information.

You are unable to use Transigo as an indicator of what is offered for tender above \$2,000, because we are informed that that is what it does.

**Mr Stearn**—It is going to cost us something like \$80 to be a part of Transigo.

**CHAIR**—How much?

**Mr Stearn**—I think it is \$80.

**CHAIR**—Once a year?

**Mr Stearn**—Once a year to get that information, plus—

**CHAIR**—That is a big expense, isn't it?

**Mr Stearn**—Yes, but plus we have then the addition of the Internet service provider. We have to pay him, so that is two bills. They are both Telecom organisations and we cannot get common billing.

**CHAIR**—But I assume you have a turnover in the millions, and \$80 is certainly not a constraint?

**Mr Stearn**—No. It is not so much the \$80; it is the need to have to write yet another cheque.

**CHAIR**—What I am trying to get down to is this: you said, 'I have to belong to all these things.' Can't you get all of the government work above \$2,000 from Transigo?

**Mr Stearn**—Yes, as far as I am aware I can.

**CHAIR**—So you can get it all?

**Mr Stearn**—Yes.

**CHAIR**—You use Transigo?

**Mr Stearn**—Not as yet. It is a desire to go and do that, but we have not yet done that. We are not too far away from actually doing it.

**CHAIR**—Why haven't you?

**Mr Stearn**—I have been ringing around the place saying, 'Okay, I want an Internet connection; I want one bill with Transigo', and I cannot get it.

**Mr GEORGIU**—Why do you care?

**Mr Stearn**—I am sorry?

**Mr GEORGIU**—Why do you care whether it is one or two bills?

**Mr Stearn**—It is just another cheque. I can go and look it up in the *Age* newspaper for 80c.

**CHAIR**—You can use electronic commerce, pay them on-line.

**Mr Stearn**—It is just another small embuggerance in the way, that is all.

**Mr GEORGIU**—You must be very punctilious in your work. Could I ask about Army? You say:

Army has insisted on the use of an imported material for use in some range observation towers, when a good, if not better product is available from local manufactures and in likelihood, some 40% cheaper.

Can you tell us a bit more about that?

**Mr Stearn**—Army has actually specified a particular material. On asking around, you ask, 'Why have you selected that material?' 'Because you cannot get it in Australia', is generally the answer.

**Mr GEORGIU**—No, I do not understand.

**Mr Stearn**—They generally say, 'Well, we had to go overseas to get any material. This is a product that we know and it is available overseas, and no-one makes anything like it in Australia.'

**Mr GEORGIU**—But you say that you can provide an equivalent or better for 40 per cent less. What do they say about that?

**Mr Stearn**—Yes. Depending upon what the actual requirements are, but yes.

**Mr GEORGIU**—What does Defence respond?

**Mr Stearn**—‘Too late. It is in the documents. The project is already running. To change it now would be a problem.’

**Mr GEORGIU**—Do they take on board your information?

**Mr Stearn**—Yes, and things in that area with Defence are changing. Things in that area with Army are changing because of their fixed structures. One of the things that is speeding that process up is that a lot of these materials are now being handed over to Public Service providers like Serco and Transfield and the like who are now picking up these building projects and building them on behalf of Army. Those companies have a slightly more open mind as to where the material comes from, how it is constructed and what its cost is, whereas Army was terribly prescriptive in its approach. Private enterprise is a bit more directive. The difficulty that we still have is what is the performance requirement. When you are talking about things like hand grenade ranges, what is the performance requirement? It has to stop grenade fragments. Who has got test reports? Don’t know. Who has tested it? Don’t know.

**Ms PLIBERSEK**—Can I ask you a question about what you are saying about test reports. You are saying that you have test reports for your product because you are forced to?

**Mr Stearn**—That is a big question. We have test reports because it is a sales and marketing tool. When somebody says, ‘Can you make a bullet resistant window’, I can say, ‘Yes, here is the test report.’

**Ms PLIBERSEK**—But other companies do not use this same tool?

**Mr Stearn**—Not always. One particular project I came across yesterday nominated the thickness of the glass and a performance requirement that was miles over and above what the glass could possibly handle in a million years. So when the project was priced, the builder priced the thickness of glass.

**Ms PLIBERSEK**—A possible solution for the problem you are describing would be to force everyone to have test results.

**Mr Stearn**—For our particular product, yes. For Australian made product you need something in the package to say that this is an Australian made product from scratch or it is partly Australian made or it is all imported—whatever the definition is that you are going to apply to it. This would go out with each subcontractor’s tender, and he fills that in and returns it. When you have got it back you can say that the cheapest product is all imported, the dearest product is made in Australia but there is one in the middle here—pricewise—that has a large proportion of Australian content and that is the way we are going to go.

**Ms PLIBERSEK**—I am concerned about what you were saying earlier about some products not actually being up to the task for which they are bought. Are there international standards in your industry?

**Mr Stearn**—We use Australian standards and the Australian standard is—to pick a figure—probably 10 per cent more severe than those with overseas tests.

**Ms PLIBERSEK**—What you are saying is that some of these goods are not tested at all so they do not meet international standards nor Australian standards?

**Mr Stearn**—They may do but the problem is that no-one knows. Not knowing is a pretty bad thing.

**Ms PLIBERSEK**—There is no requirement at all to ensure that things meet these standards when they are being bought by the Australian government for use overseas?

**Mr Stearn**—There probably is, but who cares?

**Ms PLIBERSEK**—You are saying that, in practice, nobody is paying any attention to the standards.

**Mr Stearn**—No. That is right. Surprisingly enough, there is one company that continually asks us for test reports at the end of the project and a statement saying that what we have supplied is in accordance with those test reports. That is one company and that is one builder who works for one supermarket. Government test reports for a project—

**Ms PLIBERSEK**—So they take it on faith that you are providing things that actually are bulletproof?

**Mr Stearn**—I can stand up to any contractor in Australia and say, ‘This piece of tin plate is bulletproof’, and he would have to believe me because there is no test report to the contrary.

**CHAIR**—You said in your submission that you are currently holders of a standing offer for Overseas Property Group. What is a standing offer?

**Mr Stearn**—It used to be what they called a period contract. Since the demise of Purchasing Australia, having run with the selection process of the standing offer of the period contract for OPG, it has now handed over responsibility for all of that to OPG directly.

**CHAIR**—What is a standing offer?

**Mr Stearn**—It is an offer of certain goods and services that are available at a contracted price at any time.

**CHAIR**—Like a bulletproof window.

**Mr Stearn**—Yes, like a door. We have doors that start at \$2,000 and go up to \$8,000. Anyone of those doors to suit the application of that project is available at that price.

**CHAIR**—In the 1994 report of Industry, Science and Technology on government purchasing, we found that there was a cultural cringe within the bureaucracy negative to Australian produced goods and Australian supplied services. That is, we found a bias, if you will, to overseas manufactured goods. Have you encountered that?

**Mr Stearn**—I think, to a certain extent, we have encountered that with our dealings with government. It is something of a badge of honour, if not added credibility, when we say we have a standing offer with OPG and supply a lot of fittings overseas. The credibility factor goes up and so does the badge of honour come with it. Sometimes you talk to private enterprise and they say, ‘Oh, it is bureaucracy. Whatever you are offering them must be too expensive.’

**CHAIR**—No, I think you have missed the question.

**Mr Stearn**—There is something of a bias in there. This badge of honour that I am talking about is saying that we can do things that, as far as we are aware, none of our overseas competitors can do. That puts us a step ahead of that sort of argument. We are every bit as good as, if not better than, overseas suppliers.

**CHAIR**—So you have not found any particular bias amongst the bureaucracy to buy something made in the United States or Germany or Sweden?

**Mr Stearn**—No, it is diminishing very quickly.

**CHAIR**—That is good to hear.

**Mr Stearn**—So far as our product is concerned, in our experience. I do not know about others. I suspect the motor car trade would be different.

**Ms PLIBERSEK**—Would you say it is going the other way, that there is something of a growing preference for Australian goods?

**Mr Stearn**—No. The feeling that I have got is that it is generated by the best value for the taxpayer’s dollar, and that can lead you to go to either extreme.

**Ms PLIBERSEK**—Just on that issue of value, do you find that value is usually interpreted to mean lowest price or is there further consideration given to the life cycle of a product and so on?

**Mr Stearn**—Invariably, it means 99 times out of 100 that it is its lowest price. When you consider the environment that we are in, we bid to the John Hollands and the Lend Leases of this world and they are competing with four or five other equally sized builders and it could be hundreds of millions of dollars worth of work. So most of those people generally want the work and it is a big knock if they do not get it. When we talk about our piddling \$100,000 worth of work, if that is what is going in there, it is very small beer, but that \$100,000 worth of work can make or break it. In the case of supermarkets, as little as 2½ per cent variation in prices occurs.

**CHAIR**—If you are tendering against a bill of quantities, very obviously price is going to be the determining factor to meet this classification.

**Mr Stearn**—True story.

**CHAIR**—With respect, the contractor has little choice but to accept your statement that you meet the specifications.

**Mr Stearn**—Correct. But he does not ask for our test reports either, so how would he know.

**CHAIR**—I accept that.

**Mr Stearn**—The biggest problem that we have—and I guess it is fairly typical of it—some of our doors weigh 130 or 140 kilograms, so it is a fairly lumpy sort of door. One particular client has a little foot square window in the door. When it comes out to tender, we get a bill of quantities from the doorframe supplier for the doorframe. We get a bill of quantities for the door leaf. We get a bill of quantities for the window in that door leaf and we get a bill of quantities for the lock in that door leaf. That is four people we have to quote to plus there might be six of each of those specialty trades in there. So we are talking about 30 or 40 people we have to raise quotes for.

When the project is actually built we get a press metal doorframe, a lightweight commercial domestic doorframe trying to hold up a 130-kilogram door with a piece of glass you get out of your home window that is not bullet resistant. What happens? The glass breaks, the door sags and it is invariably us who get the phone call, ‘You have stuffed us up.’

**CHAIR**—You have to educate the quantity surveyors, don’t you, to put it together as a package.

**Mr Stearn**—Yes, but we cannot do that because it is a breach of their standards and that is going back to directive control. You are the customer. If you decide that you are going to have a bill of quantities specific to a certain product or a certain service, you could direct the client and architects to bundle those items in one bill of quantities, so you can control it, so you know what is going on.

**CHAIR**—I can remember heaps of bills that had fire doors and security doors as a package, not an individual frame door, window glass, lock, striker plate et cetera.

**Mr Stearn**—Sometimes it happens. But that comes back to an issue of control from you and how you want to control your projects. You are the customer at the end of the day. Customers have been known to make silly decisions. Some customers have been known to make great decisions. So the ball is in your court on how government wants to play that particular aspect of it.

**CHAIR**—You need to talk to lots of architects and quantity surveyors. You have got a big marketplace.



**Mr Stearn**—Yes.

**Mr GEORGIU**—I am still concerned about the security implications of non-bulletproof and bulletproof structures. You say that most of them are not supported by test results. I must say I find that surprising. I will take your word for it, but I find that surprising. My second point is how is the actual security of these installations tested when they are put into place? You can show me any number of test reports.

**Mr Stearn**—I take your point. The testing revolves around either a panel or an assembly as far as we are concerned. As far as other companies are concerned, it largely revolves around the panel only. So the stuff in particular for OPG was tested as a panel or panels—because there are two or three different materials in there—put altogether as an assembly and tested as an assembly.

So from our point of view, we believe we have done the right thing and followed it through to the logical end. When people present goods and services as if it were complying and they provide a test report, some people provided a test report that is incomplete. In the case of the bullet resistant test report, there are three panels and three shots on each of those panels, so that is nine shots in total.

Some people have offered a test report that one panel has been tested with one shot on it. Now they could have done that in good faith, supporting the claim that they are capable of providing such a product and it is probably accepted as if it did actually comply, because the people were not familiar with the standard and did not read what the standard requirements were—‘There was a test report; that is good enough. We will have that; it is cheap’. From a duty of care point of view, I find it strange that any builder anywhere does not demand our test reports and put them on the project file because if something does come up, they can always say, ‘No, your worship, we are not negligent. There are my test reports.’

**Ms PLIBERSEK**—Does your industry have any accreditation process? Is there any central industry body? Is there one or not?

**Mr Stearn**—There is ASIAL, the Australian Securities Industry Association Ltd.

**Ms PLIBERSEK**—Does that play any role in quality assurance?

**Mr Stearn**—No, not as far as we are concerned. They do have a number of awards. We won an award off the industry in 1997 for whatever it was, and that is the way they tend to praise their members. There is a growing push, particularly in Victoria on education. There are a number of security management courses which are beginning to address these sorts of issues and are starting to produce some excellent people out of them. It is largely a matter of education and experience.

**Ms PLIBERSEK**—So you are training buyers or are you training architects?

**Mr Stearn**—We are training security managers, and those managers are the ones who are going to have to go into architects and say, ‘This is what we want,’ and he has got to make sure that that is what he gets. Right at the moment, those security managers, from

wherever they come, do not have the authority to change anything. They have got to go back to the project administrator and say, 'I need more money.' The project administrator might say, 'No, we are spending more on Australian made carpet, therefore, you cannot have it.'

**Ms PLIBERSEK**—So your industry body is taking some steps by training security managers. Are there any other steps being taken to make sure that there is some sort of across-the-board standard?

**Mr Stearn**—I do not believe so.

**CHAIR**—Thank you very much for coming and talking to us. It has been most informative and indeed most interesting.

[11.17 a.m.]

**FLANAGAN, Mr Paul, Group Manager, Purchasing and Headquarters Services, Australia Post**

**RYAN, Mr Gerald Patrick, Corporate Secretary, Australia Post**

**CHAIR**—I now welcome representatives of Australia Post to today's hearing. We have received and read your submission. Do you have a brief opening statement that you would like to make?

**Mr Ryan**—Yes. Thank you for inviting us to come here today. We are a major GBE whose services obviously affect the commercial and social lives of all Australians. But more to the point, in relation to this inquiry, we are also a major purchaser of goods and services in Australia. I want to make a few points which bear upon some of the issues that I think you are particularly interested in.

Firstly, we have an industry development plan which has an ANZ content target of 85 per cent of the goods and services that we purchase. We purchase approximately \$1.1 billion of goods and services annually of which, in 1997-98, 93 per cent was estimated to be of Australian or New Zealand content. In cases where it is not possible to purchase our needs from within Australia or New Zealand, our plan also encourages negotiations between our overseas suppliers and potential local suppliers to secure a number of things: the highest local involvement in the manufacture, assembly and maintenance of those goods; local production, if possible, of spare parts; and some knowledge transfer for ongoing use. We also have some exporting activity which has resulted in work for Australian companies in the areas of our philatelic products and a computerised parcel sorting machine.

Probity in our purchasing policies and practices is given a high priority. We have a purchasing code of ethics emphasising fairness and honesty. We have regular internal audit reviews of our purchasing procedures. It is a regular practice in relation to major contracts to ensure integrity and accountability by having those processes audited by major external accounting firms. We have substantial involvement with small to medium enterprises. In fact, we are a large business in many respects comprised of many small businesses. For example, we have 3,000 licensed post offices that offer services on our behalf and to whom we provide goods and services to assist in that activity. We have over 5,000 mail contractors who act on our behalf, largely in rural and regional Australia.

Finally, we are not simply price driven in our purchasing practices. We look for best value for money and in pursuit of that we expect high quality goods or services, high standards of performance and reliability to optimise the achievement of our corporate, commercial and community service objectives. Mr Chairman, that concludes our opening statement. We would be happy to answer questions.

**CHAIR**—Can you tell us the degree to which your purchasing is centralised or decentralised?

**Mr Ryan**—Yes. It is not overly decentralised. Perhaps I could elaborate on that. We have a headquarters area that looks after purchasing policy and which also handles major contract management.

**CHAIR**—What is a major contract?

**Mr Ryan**—In our terms, normally in the range of anything over \$5 million to \$10 million would be regarded as a major contract. We have a property division that clearly is responsible for purchases in relation to property needs and which is responsible for construction contracting. We have a division called Sprintpak that looks after, again in a central sense, our consumable needs and also has a warehousing activity internally for us. Our information technology area has a small purchasing group that operates under the general guidance of our purchasing headquarters group.

In the states we have smaller local purchases that are undertaken within set guidelines and within set delegations. Finally, we have a national operations area, again in the headquarters area, that looks after things like mail carriage contracts and surface linehaul contracts. We do disaggregate, as you would have seen, to a certain degree in headquarters, because each of those goods and services that we need requires particular knowledge on the part of our people to ensure that we are getting best value for the goods and services we are seeking in those areas. But as you will see, largely, it is a centralised form of purchasing in respect of major contracts and in respect of major activities like property and IT.

**CHAIR**—In reporting to us, you say that 93 per cent of \$1 billion a year is sourced from within Australia. How do you collect your data? Do you have any knowledge of whether what you are buying is Australian or simply happens to be a front office for an overseas company or a rep for an overseas company?

**Mr Flanagan**—When we call tenders, for example, we ask our tenderers to indicate on their tender schedule the proportion of local and the proportion of imported content. From our point of view, local content would be made up of the labour involved to, say, manufacture, assemble, install, distribute goods that are being made. With regard to componentry, you may have things like assemblies which have components that come from overseas and components that are made and assembled here. That is one element of it.

In the areas where we are buying goods off the shelf—and we do a lot of that—a lot of the consumables, for example, that our Sprintpak Division purchases are off the shelf. We do not have any better knowledge than anybody else in the community as to what the origins are of all or part of that equipment. For example, if you buy a PC today, it is very difficult to understand exactly how much of the componentry within that PC comes from Australia or is made overseas.

**CHAIR**—Unless you ask the supplier.

**Mr Flanagan**—Unless you ask the supplier. When we go out to tender for PCs, we ask the supplier to tell us what that proportion is for that particular piece of hardware. In recent years, I guess they have been a little bit more practical. When we used to have the offsets arrangements in Australia, companies like Unisys, for example, would state that their PC was

100 per cent Australian made, because in some other area of activity they established offset credits which enabled them to claim Australian ownership. Since that provision has gone, they have to be a little more precise in what they do, so we get a bit more accurate information.

**CHAIR**—Can you tell us what percentage of your purchases is made in Australia?

**Mr Flanagan**—No, I cannot.

**Ms PLIBERSEK**—You have an idea for larger tenders, but because a lot of your purchasing is devolved to actual post offices, is that the reason that you cannot tell us for smaller purchases?

**Mr Flanagan**—That is part of it. Part of it as well is that we endeavour, where we can, to buy standard off-the-shelf goods. As I said, we are in no better position than the rest of the community to determine that. I have not yet detected whether within the community there is a consistency of understanding, even in the labelling.

**Mr GEORGIU**—What does 94 per cent estimated ANZ content actually mean?

**Mr Flanagan**—It is our best estimate. Our accounting people go through our systems that we have got within the place, coming from what I just mentioned about what comes in the tender schedules. In our recently introduced SAP accounting system, which has a materials management/inventory purchasing component in it, they can derive from an input field there which requires the person putting in the particular item to quote the Australian content from what the tenderer has told us. But with respect to the items that are bought off the shelf by Sprintpak or by our work centres for the smaller items, our accounting people go through all of the systems we have got in the place and endeavour to come up with the best conservative estimate they can.

**Mr GEORGIU**—So how do you get an estimate of ANZ content of 93 per cent for 1994-95?

**Mr Flanagan**—By that mechanism.

**Mr GEORGIU**—I thought that was something that you had newly introduced. You have had it for some time?

**Mr Flanagan**—No, we have been doing estimating since we first put it in the annual report in about 1992-93. What we have been doing since then, as we got better accounting systems and more flexible ones, is that we have been endeavouring to build in as much accuracy to, I guess, satisfy ourselves that what we are putting in there is a fair reflection.

**Mr GEORGIU**—In your local purchasing or your devolved purchasing, what sort of incentives or directives do you give your purchasers to buy Australian made if it is of similar price and equal value?

**Mr Flanagan**—We have our purchasing handbook, which is right down to work centre level, which states what our objectives are in that field. It gives our people guidelines on how they ought to go about enabling us to achieve that objective. The type of purchasing that is done at that level, as I said, is primarily at the work centre level. It is primarily off-the-shelf items.

**Mr GEORGIU**—Yes, but there are lots of things on the shelves.

**Mr Flanagan**—I know there are, but some of our postal managers would, with the best endeavour, follow what our policy is to achieve that objective. If they cannot be any surer than you or I as to what it is, then I guess in some cases we are buying the Australian made and in other cases we may not be. But we have endeavoured, in building up our statistics for the annual report, to do, as I said, two things: make the best judgment we can but at the same time be conservative.

**CHAIR**—With regard to your industry development plan and the target of 85 per cent, while you test with respect to what is being ordered, on a major contract, if there is an industry development requirement in the contract and if the successful tenderer specifies that a certain item or a certain percentage of the contract will be Australian made or manufactured, do you test that they actually do that?

**Mr Flanagan**—Yes, we do.

**CHAIR**—That is good.

**Mr Flanagan**—I can give you an example. In the last two years, we have contracted for major equipment as part of our network renewal program. So far we have let contracts in relation to optical character recognition machines, bar code sorting machines, tray management systems, for in the vicinity of \$200 million.

The tender call required the tenderers to address our industry impact statement, which we had prepared and published prior to that. That stated what our objectives were with respect to industry development. The industrial supplies office was brought into the process, both in the development of the impact statement and in the tender call. The tenderers were encouraged to register with them and to work with them in order to present to us a tender which maximised the Australian industry development promises.

When we got to the contract stage, the tenderers were then required to commit in the contract to the obligations that they had quoted us. In the tender call they prepared what we call an appendix 4, which sets out their industry development objectives, and we intend to hold them to that. The contract has a clause which says that, if they fail to fulfil those commitments, they run the risk of a moratorium of up to five years on further contracts with Australia Post.

We have a very tight project management system in place. For example, in the case of OCRs we have purchased 62 machines which have to go into a number of mail centres around the country in a very short time frame, so we have to have very tight project

management. The project manager's prime responsibility is to ensure that all contractual obligations are fulfilled, including those industry development ones.

Each year in March the particular company is required to provide a report to us for us to make sure that their promises are being fulfilled. Along the way the project manager, in constant contact with them, needs to be and is vigilant to make sure that they are not changing, for example, the nominated subcontractor, which tells us straightaway that they are not fulfilling their obligations. So, whilst our prime objective is to get the right machines in the right place at the right time, we are certainly using more than our best endeavours to make sure that they fulfil their obligation.

**CHAIR**—There is a specific specification which I believe our secretariat has alerted you to. The specification was for:

Rosslyn Street Redevelopment, West Melbourne, Specification—Electrical Services, Section 120, UPS systems.

Our understanding is that certain specifications set out in a tender for that development said on page 3 at clause 200 in paragraph 3:

. . . the UPS module shall be equal to UNIBLOCK, manufactured by PILLER GmbH, or an approved equivalent.

It went to say:

. . . each module shall be fully tested prior to despatch from the manufacturers works. These tests shall be witnessed by the customers engineer—

that is, Australia Post's engineer—

and shall include for all associated travel, subsistence and accommodation for 3 persons.

That does not sound like much Australian development to me.

**Mr Ryan**—I can assure you it did not restrict the possibility of Australian involvement in that activity. In the event, as you know, that did not happen. But we did not see that these terms precluded a bid by an Australian company nor a proper evaluation of that bid against a product standard that was certainly specified in the contract.

**CHAIR**—In 1994 we heard, over and over again, instances of specifications being written for or preference being given to overseas suppliers, which included trips overseas by the purchasing officers involved. To me this reads very much like that, particularly where it says:

. . . shall be witnessed by the customers engineer and shall include for all associated travel, subsistence and accommodation for 3 persons—

obviously in Germany.

**Mr Ryan**—The particular example given of the technology was German, I believe.

**CHAIR**—Was what?

**Mr Ryan**—German, I believe. But that clause of itself does not in any way suggest, in my view, that it was automatically assumed that it would be an overseas product that ultimately won the tender. Had an Australian company won it, we would have placed the same obligation on that company to have our engineers go to wherever the site was—it may have been interstate—and to bear the cost of that.

I have a number of points I would like to make about that contract, if you think it would be of assistance, and we have other people here with us who can deal with some technical detail if that is an avenue you wish to go down.

**CHAIR**—This committee is not about going down bunny holes to follow every contract and every specification.

**Mr GEORGIU**—Except occasionally.

**CHAIR**—Yes. We are not pursuing it as an issue. I just wanted to cover it an overall sense to see what the culture is, what the intent is, and whether you really mean it when you say we have an Australian industry development plan or if it is all just fancy words with no backing.

**Mr Ryan**—That is obviously a perfectly legitimate and not surprising interest of the committee to pursue with businesses like us. I will just provide some background. If it is sufficient—fine. If it is not, we can amplify.

This particular contract was for a critical piece of equipment. It is a battery backup system, and that system instantaneously bridges the down time between a main electrical failure and the kicking in of a local generator system. It has been put into a building that will house our national data centre. That national data centre will also look after our pay systems, our accounting systems and our counter systems on terminals. There is about \$200 million worth of computer equipment at the site to look after those time-critical counter transactions. The committee may not know that something like \$80 billion a year goes across our counters through our bill paying and banking services.

**CHAIR**—Eighty billion dollars?

**Mr Ryan**—Eighty billion dollars, including \$40 billion to \$50 billion of taxation paid by small businesses which we handle on their behalf. Our principals are depending upon that money and they want it by the end of day. We have to ensure that our computing systems can do that. All I am saying is that this system forms an important backup facility for the building in which these systems will be housed, so we wanted nothing less than the best. We are not going to put those services at risk.

Insofar as this particular tender is concerned, as you correctly say, we did specify a standard or a benchmark by exemplifying a particular product type. But, in our view, we made it clear that we were prepared to accept a product that was approved by our evaluation expert—and we have him here today—as an equivalent product to the product that was



exampled. We wanted to ensure that the system that was finally chosen met a benchmark and we provided a recognised product as being that benchmark standard, so our prospective suppliers had a very clear idea of the sort of product that we were looking for. If we can draw an analogy, we are looking for a V8 but, if someone had a V6 with add-ons and they convinced us that that V6 could do the job of a V8, we would look at all of that plus price. But we did want a certain standard to be met.

After the electrical contractor, who was a sub-contractor to the building contractor, put forward a short list of bids to us for consideration, we received an approach from ISO Victoria on behalf of one tenderer. That approach outlined the tenderer's concerns and indicated that the tenderer's bid was worthy of further consideration. We acted on that approach. We had the evaluation team that looked at the original bids review the matter. All alternative suppliers, including this tenderer about whom we were approached by the ISO, were invited to make a presentation to that evaluation committee.

We engaged Price Waterhouse Coopers to attend that process. They reported that all suppliers presenting were treated fairly and equally by the evaluation team. We want to assure the committee that the selection was based on which product best met our needs while still being value for money. We want to assure you that our review process was proper. We believe it was conducted with integrity.

**CHAIR**—Thank you very much for that.

**Mr GEORGIU**—I do not understand a lot about Australia Post. I refer to 'Value of goods & services purchased' in your submission. How much of that actually concerns services that could only be purchased in Australia? What is built into that?

**Mr Ryan**—I could give you a couple of examples.

**Mr GEORGIU**—Is your hiring of local agencies as post centres built into that?

**Mr Ryan**—Yes.

**Mr GEORGIU**—So you cannot get Germans to do that.

**Mr Ryan**—No. The relationship with licensees is worth about \$160 million. Carriage contractors, who obviously are regionally based, are worth about \$234 million. So there is \$400 million out of \$1.1 billion.

**Mr GEORGIU**—There are no alternatives for a substantial proportion of the 94 per cent?

**Mr Ryan**—Yes.

**Mr GEORGIU**—Could I refer you to page 8 of your submission where it says 'Property—contract value—\$182.0m', 'ANZ contract value—\$181.1m' and 'Value of "Australian made"—\$109.0m'. I have difficulty understanding that.

**Mr Flanagan**—The function or division there which engaged that contract is the property division.

**Mr GEORGIU**—I understand that, but not much else.

**Mr Flanagan**—They have to look, obviously, at the clear things of buying land, buying buildings and constructing buildings. In the construction process, you are faced with the type of issue that the chairman was just addressing. For example, if it were a German UPS some of the equipment would fall into imported content. Hence, when you look at property and you see that their contract value was \$182 million, the ANZ contract value is not a lot of difference.

We have endeavoured, in trying to provide a response and a submission to the committee, to go back and look at those contracts to make our best guess of ‘Value of "Australian made"’ and that has come down to \$109 million in that particular case. By eliminating where there is any doubt in our mind that it was Australian made, we have eliminated it from the count.

**CHAIR**—I have to admit to some confusion. Petro has drawn this to my attention: under ‘State, function or division’ there is ‘Vic/Tas’ with 44 contracts, with a contract value of \$1.8 million, but the value of Australian made is \$4.57 million. How did we do that?

**Mr Flanagan**—With creative accounting. That is all I can say.

**Mr GEORGIU**—That was very quick. You should get in before us!

**Mr Ryan**—Smokes and mirrors there have produced a glitch—I am joking. There is clearly a glitch in those figures and I think we had better come back to you with a corrected version.

**Ms PLIBERSEK**—I wish to take Petro’s question—about the division between goods and services when you are talking about Australian content—a little further. Over the past few years Australia Post has outsourced more of its functions than ever before, hasn’t it? One of the things that I presume you have been outsourcing is cleaning. Was that previously done by employees of Australia Post but is now outsourced? Wouldn’t that automatically raise your Australian content without changing who is employed or where the money is spent?

**Mr Ryan**—Yes, it is self-evident that it would lead to an improvement in the proportion. Whether it continued to be our former employees or someone else is unknown, of course. But, yes, outsourcing would mean that our goods and services bill would rise. In almost all cases it would be an Australian based company that would provide the service, so that would contribute to the percentage of ANZ services that would come into our total.

**Ms PLIBERSEK**—Can you give us any indication of how significant that shift has been in terms of—

**Mr Flanagan**—Are you looking for a shift towards outsourcing—how much of our dollar is going to outsourcing?

**Ms PLIBERSEK**—Yes, how much is it worth?

**Mr Flanagan**—I could not answer that here, but we could come back to you with that.

**Mr Ryan**—I might be able to get some advice from our property representative as to, say, the cleaning impact. That might help dimension it to a degree. In terms of cleaning, IT and other outsourcing, I would suggest we take it on notice and come back.

**Ms PLIBERSEK**—Thank you.

**Mr GEORGIU**—I refer to the explanation of your allocation in property between the ANZ annual estimate of value and Australian made. You have got a couple of large items, but I will just take one. The headquarters purchasing unit is shown as \$213.5 million contract value, the ANZ contract value is \$210 million and the value of Australian made is not available. That is, for approximately a quarter of what you spend there is no estimate of Australian content. Is that \$213 million in your \$1,057 million?

**Mr Flanagan**—Yes.

**Mr GEORGIU**—You have this as not available. Do you not know how much of that actually was Australian content?

**Mr Flanagan**—No, the \$213 million is the contract value. The ANZ content value of that is \$210.5 million. We thought that the committee might be trying to draw a distinction between what is Australian content and what is Australian made. We may be wrong in that, but we were endeavouring to—

**Mr GEORGIU**—It says ‘ANZ contract value’. Is that what that means?

**Mr Flanagan**—That is what it means, yes. The Australian-New Zealand content of \$210.5 million is in a total contract value of \$213.5 million. But then, if you want to look at how much of that ANZ content is Australian made, in that particular case we were not able to provide any figures that we thought would be useful to you.

**Mr GEORGIU**—So let us go back to property: \$181 million of that was ANZ and, of that, \$109 million was Australian.

**Mr Flanagan**—Yes. That was our estimate of Australian made. Property had more accurate statistics in their systems than we did in the general purchasing area.

**Mr GEORGIU**—So if you were to distinguish between Australian and New Zealand content—I am just talking about Australian content—what would be your estimate of Australian content?

**Mr Flanagan**—Within the Australian-New Zealand?

**Mr GEORGIU**—Yes, because that is a fairly large number for New Zealand.

**Mr Flanagan**—The New Zealand is almost non-existent. I can think of one particular area, which we have only just contracted with, which has a very high New Zealand content. We have just entered a contract with the New Zealand post office to supply to us vertical sorting frames for use by our postmen, which has made terrific efficiencies in their organisation. They are manufactured in New Zealand. But in our other contracting, very little of our business that I can recall actually comes from New Zealand.

**Mr GEORGIU**—There seems to be a lot in property.

**Mr Flanagan**—No, we are putting the two together as ANZ content. That is Australian and New Zealand.

**Mr GEORGIU**—Yes, it is \$181 million.

**Mr Flanagan**—Very little of that is New Zealand.

**Mr GEORGIU**—The difference between Australian made and ANZ is the difference between \$191 million and \$109 million?

**Mr Flanagan**—Yes. We are talking about two different definitions here. One is Australian and New Zealand content, and part of that content can be labour. A lot of it is probably labour, in assembly, distribution and installation of equipment. But the Australian made relates only to the components, or the manufactured goods. If we buy something—

**Mr GEORGIU**—I will let that one sink in, and come back.

**Ms PLIBERSEK**—I was interested to note that you are required to prepare an industry impact statement prior to calling for tenders for any contract locally to exceed \$30 million. That is quite a big figure. Is there a reason you have set the bar so high, or did you just decide that \$30 million was a good figure? It is probably worth doing it for \$10 million or \$20 million, it could be argued.

**Mr Flanagan**—That was actually set for us by the government of the day. The government drew a distinction between government departments, set at \$10 million, and GBEs, at \$30 million.

**Ms PLIBERSEK**—I am interested also to know what training your people who are responsible for purchasing receive—both those people who are responsible centrally and those people who have the credit card at the local post office—to ensure that they are following your guidelines.

**Mr Flanagan**—Within Australia Post we have a system which we call a performance management system. It is an individual relationship between the manager and staff member in any activity. At the start of any financial year we will set objectives for the year, and we do a half-year assessment and then a final assessment. Part of that is a development plan between the two for the individual to look at what competency is required for the job, what

competency the person may have, where the gaps are and how we should proceed to develop that person. That is right across the organisation.

Within purchasing, when looking at development for specialist purchasing people we have focused on university and TAFE courses. Also, some independent organisations and some of the state governments, from time to time, run courses that we will send people to. With the people down at the work centres where some purchasing activity is only part of their duties, we have not really done a lot, I guess, in terms of training those people in purchasing activities. We have provided them with the handbook and the guidelines, and endeavoured to give them as much information as we can in that.

Last year, Post engaged a private consultant, who is, in fact, an adviser to the defence department and the Victorian government on purchases—a gentleman by the name of Brian Powell, whose name may be familiar to you—to have a look at our purchasing activities within Post. One of the issues he identified was perhaps a need for some more specialist competency training with respect to purchasing. Late last year, as a result of Brian's review, Post created a new position and engaged a gentleman from outside as a group manager, strategic procurement and logistics. He started late last year. One of his roles is to develop a competency assessment and training regime right across the organisation with respect to purchasing and logistics activities. We realise that we are not perfect in that area and we need to do something.

**Mr GEORGIU**—Could I go back to property. I would just like to understand it. The ANZ contract value is \$181.1 million. That means that the contracts available to Australian and New Zealand companies total \$181 million?

**Mr Flanagan**—Correct.

**Mr GEORGIU**—The value of Australian made within that is \$109 million?

**Mr Flanagan**—Yes.

**Mr GEORGIU**—So that means that \$72 million was not Australian made content?

**Mr Flanagan**—Not Australian made, because that may well have been the labour—

**Mr GEORGIU**—Go slowly, please.

**Mr Flanagan**—Let us say we go into a supermarket today and a good on the shelf has got 'Australian made' on it. We might pay \$4 for that. If you get behind and analyse the costs, the Australian made portion of that might be only \$2.

**Mr GEORGIU**—That is what that reflects?

**Mr Flanagan**—That is the difference. That is our best judgment of the difference.

**Mr GEORGIU**—So we have contracts of \$181 million, of which \$72 million are not Australian made. It is not that they are New Zealand made or anything else, it is that they are not Australian made.

**Mr Flanagan**—It is not a manufacturing part of it or a making part of the content.

**Mr GEORGIU**—So it could be Australian labour?

**Mr Flanagan**—Oh yes. It more than likely is. The building contractors on site constructing it would fit into the \$181 million.

**CHAIR**—That is made, but the transport to get it here is not.

**Mr GEORGIU**—So how does that relate to estimated percentage of ANZ content? We are talking about value of goods and services purchased.

**Mr Flanagan**—In our assessment of the percentage at the bottom of the two columns, we have looked at the contract value and the Australian-New Zealand content value, not the Australian made proportion of that.

**Mr GEORGIU**—So that is a different number than the 94 per cent estimated of ANZ content?

**Mr Flanagan**—It is within the 94 per cent somewhere.

**CHAIR**—In your submission, which was dated August last year—it is not your fault we did not talk to you until now, but we had an election—you said:

Investigations have commenced with major suppliers to Australia Post and with an Internet service provider on the development or introduction of a package suitable to Australia Post's needs with respect to the use of electronic commerce vehicles.

Has that progressed?

**Mr Flanagan**—Not very far. There are a couple of reasons for that. There are two organisations that we were discussing this with. One was a company which Yakka, who were supplying uniforms for our postal delivery and driving staff, had engaged to endeavour to establish an electronic commerce regime between them and their major customers and alternatively down to their suppliers. That system was obviously focused on the needs of Yakka rather than the needs of us as a buyer. So all of the information and ownership of that would have been in the hands of the supplier, which to some extent, from our point of view, makes it difficult for us to change.

Nevertheless, we thought it was useful to talk with Yakka, and we agreed to work with them and progress towards a trial of that system and measure that against another system which had come to us separately from an Internet providing organisation known as OzEcommerce, which is a joint venture between a couple of people, including Howard Scruby; you may know their names. What they were endeavouring to do was to establish an

Internet system which would put all of the information in the hands of the buyer rather than the seller so that we could swap suppliers as we needed without losing our control over the issue. OzEcommerce ran into some difficulties in their development phase and have gone quiet on it. Subsequently Yakka unfortunately lost the major contract that we had with them, so we are not working with them.

What we have done in the interim is that we have created a new position within my headquarters purchasing unit and we are out there looking for an expert in electronic commerce who can come in and work either with myself or the new gentleman that has been brought into the organisation to try to take Australia Post down an electronic commerce path to match up with the electronic commerce activities that Australia Post has already got going with respect to its post office counters. We are already established in that part of it. What we want to try and do is get the link up.

**CHAIR**—In relation to the Yakka contract, did they lose it to an overseas company?

**Mr Flanagan**—No, they lost it to an Australian company.

**Mr Ryan**—If I could add a couple of points on the e-commerce issue, at our business conference late last year we identified a number of tasks in this area that we wanted to undertake this year. One of them of relevance to this committee is that we want to investigate the placement of our tenders on the Internet and the lodgment of tender bids via the Internet. This will be one activity that that new position will be looking at.

Secondly, as Internet commerce becomes more prevalent, our aim is to work with suppliers so that, if an order is made electronically through the Internet, we will be identified as the preferred deliverer. So at the back end of Internet commerce, we hope to handle the physical delivery, and we see that as quite a significant business opportunity, depending upon the take-up rate. I know you have investigated that issue in a separate committee.

**CHAIR**—We did.

**Mr GEORGIU**—What is the value of Australian made and what is the difference between that and estimated percentage of ANZ content?

**Mr Flanagan**—Are you looking for a figure or an explanation?

**Mr GEORGIU**—A definition.

**Mr Flanagan**—I see Australian made as, for example, in relation to that glass, if the sand that is used to make the glass and everything else that goes into it as far as chemicals—

**Mr GEORGIU**—You have got two headings which I cannot understand the relationship between. What does estimated percentage of ANZ content mean and what does the value of Australian made mean? What is the difference between them?

**Mr Flanagan**—I believe the difference between them would essentially be labour.

**Mr GEORGIU**—So, when we say estimate of ANZ content of goods and services, does that include labour or not?

**Mr Flanagan**—In the ANZ contract value, yes, it does. It includes everything that goes into it.

**CHAIR**—Could you check that up? I am guessing that you have got services like consultants, software supply houses, accountants, auditors and all the rest that go into the ANZ part but certainly are not part of Australian made.

**Mr GEORGIU**—I am not guessing; I am uncertain. I would like to know the difference between one and the other. On the face of it they should overlap unless there is some significant degree of New Zealand component. If there is a difference of some substantial proportion of your overall expenditure just in one item, I would like to be able to fit the two together just for my own peace of mind.

**Mr Flanagan**—We will certainly come back to you. I have been in this job for 10 years and from my experience our purchases that come from New Zealand are almost minuscule.

**Mr GEORGIU**—I accept that, but that is precisely my point.

**CHAIR**—Okay. Thank you very much.



[12.06 p.m.]

**CARFAX-FOSTER, Mr Richard Alan, Adviser to the Board, Australian Institute of Purchasing and Materials Management**

**CHAIR**—Welcome. Thank you for your submission which is perhaps a little outdated since it was made last August. Would you like to make a brief opening statement before we ask you questions?

**Mr Carfax-Foster**—Yes. The reason for the opening statement is really to give you a background brief on the institute and to try, in a nutshell, to give you an executive summary of our concerns at the time the paper was put in. The institute is a professional body representing some 2,400 members who work in the field of procurement, purchasing and materials management. As a professional body, our objectives are to further the profession and to promote and support a rising standard of education in the profession, to promote a professional ethos, especially in the field of ethics and fair dealing and, of course, to promote the practice as a profession in its own right.

The current executive is all voluntary. We have no full-time executive staff. It is strictly a part-time organisation. The executive is largely made up from the private sector. We are not dominated by the state or Commonwealth government members. Our membership, of course, comes from all levels of both private and public industry. The reason we made a representation to this body is that we have a vested interest in the promotion and support of good procurement and purchasing practices in both the private and public sector.

As an aside, one of the things we have done in support of this is actually to become the first non-government board member of the Victorian government sponsored PACCER, the Procurement and Contracting Centre for Education and Research. The institute regards good procurement and purchasing practices as important to the Australian economy, because they have an impact on both the buying and selling ends of transactions. Good procurement and purchasing practices are good for our members as well.

The main reason for this preamble is just to assure you that we do not have any particular axe to grind, other than ultimately the good of the country and the good of our members. In a nutshell, our perception is that the Australian government does not retain the strong central policy and standards function to ensure uniform levels of competency across its departments. In the eyes of the institute, the Australian government has over-delegated the procurement policy and practice. It has paved the way for fragmented practices and standards and these have increased financial risks both to the government and to suppliers.

I can sum that up by saying that we believe there is no longer any central agency that is a centre of excellence, setting standards, providing assistance and generally providing an overseeing role. There is no strategic management of procurement by the Commonwealth government. The government is thus exposed to higher costs due to fragmentation and loss of skills; a lack of standards; the inability to aggregate expenditure across departments; the ability of suppliers to divide and conquer; having no central source of market intelligence; and having no central source of data on what government spending trends are. On the other

side because it has become harder to deal with government, there will be an increased supply cost.

Our paper does contrast that with the examples of, say, Victoria and Western Australia where even though they have decentralised the function, they still maintain a strong central policy and standards area. In the Victorian government, for example, an accredited purchasing unit can only work within a limit that it is accredited to. The accreditation, of course, is done by the centre. That is the end of my opening statement.

**CHAIR**—Thank you. In your paper you said:

The Australian government, perhaps more than other public sector agencies, has made good progress with the development of policies and guidelines—

What did you mean? You have just knocked the Australian government for decentralisation, fragmentation, reduction in standards and data collection as I recall your comments. Yet you said in the paper it had made good progress, ‘perhaps more than other public sector agencies’. What other public sector agencies?

**Mr Carfax-Foster**—I think it would be more correct to say that, from the time this paper was drafted, up to a certain point of time, the Australian government had exercised a very clear leadership role in this. But, in recent times, with the devolution—I suppose my personal opinion, if you want to put a stake in the ground, is that it was probably when the Department of Administrative Services procurement function was shut down.

**CHAIR**—That was longer than last August.

**Mr Carfax-Foster**—True. I think I would have to say that it is badly written in that respect.

**CHAIR**—Okay, thank you.

**Ms PLIBERSEK**—Could you explain a little bit more about what you were saying about the Department of Administrative Services?

**Mr Carfax-Foster**—Yes. My understanding is that Purchasing Australia was the name of a function within the Department of Administrative Services. Purchasing Australia at some stage—I cannot remember exactly when—was changed and there was extensive downsizing and the shutting of regional offices and things like that. Personally, I do not have that much direct knowledge of it. What I forgot to say is that I come out of the private sector myself.

**CHAIR**—Do you have much experience directly or knowledge of individual discrete government departments? For instance, to put the thing in context, in submissions from a number of organisations and, indeed, private sector companies, we have been told that changes in strategic direction and actual practice in Defence over the last year have had a huge positive impact except for the odd instance here and there. Most people seem to think that what Defence has done and the direction they have taken has been quite successful and

it is good for Australian business. You could not get those same comments about other federal government departments. Do you have a comment about that?

**Mr Carfax-Foster**—The institute would agree with this but then the Department of Defence has a long history of and experience in capital procurement, if I could put it that way, and has far more infrastructure embedded in the essential roles of the three services, for example, which I assume has contributed to this. Certainly they have been strong sponsors in the field of education for procurement people, but that is just one department, albeit a huge department.

**CHAIR**—They do spend half of what we spend?

**Mr Carfax-Foster**—Yes. It is an expensive business.

**CHAIR**—Yes.

**Mr Carfax-Foster**—Do you actually require a separate submission or statement to that effect? I can seek one from the executive.

**CHAIR**—Yes, thank you.

**Mr GEORGIU**—What would you like the Commonwealth to be doing?

**Mr Carfax-Foster**—The institute would like the Commonwealth to be doing the reverse of what it is doing. The institute perception in many ways in areas such as electronic commerce is that the Commonwealth is actually tagging the states, not leading the states. I think I would be correct in assuming that the Commonwealth is the largest single spender in Australia.

**Mr GEORGIU**—I hope so.

**CHAIR**—Telstra just told us they spent \$8.8 billion.

**Mr GEORGIU**—Overall. You meant the largest single expenditure centre in Australia?

**Mr Carfax-Foster**—Yes.

**CHAIR**—We spent \$8.4 billion and Telstra spent \$8.8 billion.

**Mr Carfax-Foster**—By not having the standards and accreditation set up that the Victorian and Western Australian governments have—and I understand that South Australia is heading down the same track—there is a lot of scope for the problems we have identified, but then we have not quantified them obviously.

**CHAIR**—Have any of your members approached you or talked to you about the issue of access to information regarding what contracts and tenders are on offer?

**Mr Carfax-Foster**—I cannot answer that directly.

**CHAIR**—Are you familiar with Transigo?

**Mr Carfax-Foster**—Not directly. I have heard of it but I cannot say anything more than that except that the last comment I heard was that it was not successful.

**CHAIR**—What is it specifically—because you have commented both in your paper and today—about the Victorian and Western Australian governments?

**Mr Carfax-Foster**—Yes.

**CHAIR**—How is it that they operate? What is it about the way they operate that you support?

**Mr Carfax-Foster**—Speaking for the Victorian government which I know best through living here, they have maybe led the trend of outsourcing, downsizing and putting business back into the private sector. To coin their phrase, they ‘steer the canoe, they do not paddle it’. But the people and organisations that do it, the accredited purchasing units, are all trained by the same people. They have to meet centrally mandated standards.

The first function of PACCER when it was set up was to pump Victorian public servants through it. It was very hard. Last time I looked it was actually difficult for a private sector person to get on a PACCER course because they were so full of the Victorian people being trained.

**CHAIR**—Is that the extent of differences that you want to emphasise?

**Mr Carfax-Foster**—Policy, standards, accreditation. Yes, that was the full extent that I am competent to emphasise.

**CHAIR**—Their purchasing is not centralised either, is it?

**Mr Carfax-Foster**—No, it is decentralised. This is the whole issue: Commonwealth government purchasing is decentralised, but it is decentralised, from our perspective, without standards and without aggregate information.

**CHAIR**—You do not consider the Commonwealth purchasing guidelines to be adequate?

**Mr Carfax-Foster**—They are adequate to a point but it is a bit like giving someone guidelines on behaviour and saying, ‘Here are your guidelines on behaviour, go away and do it,’ but actually do not do anything; it is ‘fire and forget’.

**Mr GEORGIU**—Is it because of lack of training or lack of monitoring?

**Mr Carfax-Foster**—Training and monitoring. The way in which the Victorian government is set up, conceptually, all purchasing details feed back into the centre, so they

actually track what the Victorian government is spending on commodity items. This means, of course, that you must have uniform catalogues across.

**Mr GEORGIU**—Do they actually track in Victoria?

**Mr Carfax-Foster**—They tell me they do, but I am just an observer there.

**CHAIR**—Thank you very much. We appreciate it, and when we bring down our report, we will make sure we send you a copy.

**Proceedings suspended from 12.22 p.m. to 1.51 p.m.**

**POOL, Mr Peter James, Chief Executive Officer, PJP Aerospace and Defence Industries**

**CHAIR**—I welcome the representative of PJP Aerospace and Defence Industries to today's hearing. Do you have any comments to make on the capacity in which you appear?

**Mr Pool**—I am also here representing Australian Specialised Defence Equipment, as chairman of the board, and the Australian Middle East Defence Export Council and the Australian Export Council, of which I am also a board member.

**CHAIR**—Thank you. We have read your submission. Do you have a brief opening statement that you would like to make before we ask you questions on it?

**Mr Pool**—I speak for my own company, but I am also typical of a small to medium size business working with large manufacturers in Australia who are endeavouring to supply equipment to the Australian Defence Department. Also, it must be specifically highlighted that the Australian defence industry does not make nuclear missiles or biological warfare weapons. Most of the Australian defence industry participates in infrastructure. For example, my company specialises in field hospitals, medical equipment and rapid deployment communications equipment.

The Australian people at large sometimes think that because we participate in defence industry we are out there making bombs and bullets, which is not the case. In my involvement in the Middle East, I would call myself an environmentalist because one of my roles there is to look at the Persian Gulf. The three main aspects of the Persian Gulf are the quality of their water, because they drink it—they desalinate the water; the quality of their fisheries, because they eat it—a third of their diet comes from their fisheries; and, finally, their economy relies on offshore oil wells, as we all know. Without proper security for their offshore oil wells, the whole Persian Gulf would be an environmental disaster.

There is sometimes a misconception of what the Australian defence industry is doing. In reality, most of the industry today which existed in 1975, 25 years ago, participated in some form of support for the Australian defence industry. There is less industry in Australia, certainly less manufacturing industry, as a result of some of the government purchasing policies in the past.

Australian industry, which I have participated in for the last 25 years, has declined from having approximately 70 per cent of domestic market to about 30 per cent of domestic market. Therefore, if we do not manufacture and export, we do not exist any longer. So the impact of Australian government purchasing policy on that is more relevant today than ever before.

In the sense of my example with the field hospital, we worked 10 years for the Australian Department of Defence and, at the end of the day, the whole of that work was thrown out of the window by some senior person within Defence getting a jolly overseas and deciding that the deed would be done irrespective of the procedure that had to be gone through in the sense of any public tender.

The tender process that I was subject to was flawed—that was proven—and it was not only on that occasion that it was flawed with me. As well, there have been many other occasions with many Australian businessmen who are striving to support local employment and striving to maintain an export industry for Australia. That is where I am coming from. As I said, I am not only here in a defence industry capacity, but I work as an engineer and designer in general industry as well.

**CHAIR**—Thank you for that. The example you gave us of the field hospital was a \$5 million contract, as I recall.

**Mr Pool**—Yes, in total.

**CHAIR**—Did you receive a satisfactory explanation as to why you lost the contract?

**Mr Pool**—No, I did not. In fact, at the end of the day, to be quite honest with you—and it is in the record now—the Hon. Bronwyn Bishop at the time was Minister for Defence, Industry, Science and Personnel so I took it to her as I thought it was time that someone stood up against this. She investigated the matter and found that, quite frankly, things were flawed. I am sure you can ask her—she would remember the case—but she found that it was flawed and that our company should have been awarded the tender.

She was advised—and I was also advised by the Commonwealth solicitor—that the government would be sued if they overturned the contract. Bronwyn Bishop intended to overturn the contract. I was told that the Commonwealth would be embarrassed, that it would be a political embarrassment for the Commonwealth, and that if I wanted to continue doing business in the Defence department I should pull back and think about where I was.

**Ms PLIBERSEK**—Who told you that?

**Mr Pool**—It was inferred to me. Also, I was told that if I took the Commonwealth on they would defend it and that I would not stand a chance of winning. I sought legal advice on that, and I was also advised that that would probably be the case, that in the end the Commonwealth would win. So for a small company I had no choice but to back off.

I saw Bob Katter and the commissioner for youth suicide or whatever it is last night on television. At the end of the day, it is not only Australian industry that suffers, it is our youth out there because we are destroying the opportunities for those youths. As an example of that, I had two young engineers work on that project. It actually broke their spirit, the fact that they worked on and were so committed to that project—to designing that equipment and working on the tender. It broke those two people. Today, they have no confidence in the sort of procedure that we have.

Without going into the emotions of things, I think it is fitting that I submit this statement which was written by Tony Hughes-d'Aeth who is a high regional director in Defence. For a long time no-one said anything, but he said it all in that statement, so I would like to submit that for you to read. I think that wraps it all up.

We, SMEs, are treated differently—if I can say this—than Tenex, Martin Lockheed and Transfield. The big companies can deal with the politicians; we can't, in that sense. They have that access; we don't, in that sense. They can deal with the generals; we can't.

For a long time in Canberra it was widely known there was the club. People were wined and dined and looked after. That is how it is. I did not belong to that, nor did I want to belong to that. But that is how it is—things are done that way. Sadly, SMEs have always been in the position that if it is too tough you get off the field, but I have stayed on the field and I have played the game. I have also done a lot of good projects. In one lot of Defence contracts we supplied a lot of counter-terrorism equipment and a lot of the trauma treatment equipment to the ADF. I served with the ADF once and my son serves there today, so I am fairly committed to supporting the Australian Defence forces.

**CHAIR**—How long ago was the tender that you lost?

**Mr Pool**—It goes over a long period. If I can just give you an example, it started in 1989 when the surgeon-general came to me as an ex-serving engineer in the Army. I served in Vietnam and I knew him then. He said, 'Peter, we want you to design a rapid deployment field hospital, and we want it to be Australian.' I said, 'Fine.' For a surgeon-general to turn up in his car outside my office was rather rare. Anyway, I believed in him and we started the procedure. The Commonwealth awarded us the contract to do a development program, and we then spent nine months, six days a week, committed to that project. We delivered that project.

They then turned around and someone did a jolly to Sweden. They then said, 'These Swedish tents are good, too; we have enough money so we will buy 20 of those.' So the rest of the money was absorbed in buying Swedish tents. They used those as trial tents for the Australian rapid deployment field hospital, and then we were promised that eventually the RAAF, being the mobility section of the ADF, would also have rapid deployment field hospitals. They were to have a fully equipped rapid deployment field hospital at Richmond RAAF Base. You will have seen the use of the rapid deployment field hospital in New Guinea's tsunami.

In any case, we waited nine years and finally we got the opportunity to bid again for 140-odd tents—and it was not only the tents but the system that goes with them. We were offered the opportunity to bid, and we did. The bid was flawed because they had already decided they were going to buy Swedish ones.

**CHAIR**—When was that?

**Mr Pool**—That was in 1996.

**CHAIR**—In 1996.

**Mr Pool**—We submitted our bid, and the bids closed in early 1997.

**CHAIR**—Do you believe that Defence purchasing is the same today as it was in 1996?



**Mr Pool**—As a result of my determination and that of a few others probably it has changed, but it has taken its toll. It has taken its toll on many of those players in the industry.

**CHAIR**—But is it working? With all due respect, we cannot fix the past.

**Mr Pool**—No, I understand that.

**CHAIR**—We are trying to examine where Australia is today compared with 1994 when Industry, Science and Technology did a report on government purchasing trying to find out if the government was doing a better job or a worse job and, in any case, could it do better. We cannot fix the past; nobody can fix the past, but we understand very substantive changes have been made to Defence purchasing policy. We have heard that not only from Defence but also from industry associations and from a number of individual companies around the place. It has been suggested to us in a number of submissions that Defence industry purchasing policy and practice ought to be a model for other Commonwealth departments. Would you like to comment on that?

**Mr Pool**—Yes. It has changed—only in recent times, only in June last year. It has changed in the sense that it needs to change in depth the entrenched culture that is in the purchasing element that does not support Australian manufacturing industry.

That goes right through the personnel that run defence procurement. It has only changed because of Bronwyn Bishop's determination in the industry strategy paper that cabinet approved last year, in June I think. That is the only change that has occurred, and that was a direct result of my falling on my sword, I guess, and a few others doing that. But that is it; the changes are still to be implemented in the real sense.

**CHAIR**—We understand, for instance, that not only has Defence more centralised their purchasing operation but that today any purchase of \$2,000 or more which does not go to Australian industry for Australian goods and services requires a written explanation of why. Wouldn't that be a big change?

**Mr Pool**—That was the case also then, but the paperwork did not follow either. It was the case in my case: then, any purchase over \$100,000 had to be explained. When Bronwyn Bishop called for the reasons, she did not have them, and nor was the paperwork done for that. It was the entrenched issue that was there. I must say I admired her determination to try and fix it.

**Mr GEORGIU**—I do not mind revisiting the past. What was the difference between your tents and the Swedish tents as to price and as to quality?

**Mr Pool**—There were seven main points that were drawn out. Firstly, we were told that our tent was too heavy. When the Swedish tents were delivered, I went to Richmond and weighed the Swedish tents with the RAAF. The tents weighed in excessive of 300 kilograms. Our tent was 185. So the Swedish tents were heavier. We were told that ours was heavier. That was the first thing that was wrong.

The Swedish tents were designed for NATO deployment. Our tents were designed for tropical dry/wet climate. The Swedish tents had a vent in the roof. They said that our sample tent did not have a vent in the roof. The sample tent certainly did not have a vent in the roof because it was the previous tent that the Australian Army requested. The reason it did not have a vent in the roof was because in Sweden they put a heater in the tent when they are in the snow. That is what the vents are for, for the chimney to come out of the tent—they use wood fired and kerosene fired heaters. That was why ours did not have it. We explained all that at the time, but they were just looking for some non-compliances and wanted to find something.

The tent was green. The colour of the tent they required was beige. I explained that the tent was green because it was the second of the first prototype ordered by the Australian Army. We were in fact the ones that argued the case for medical carers not having green because it would generate further heat when operating in the field and that they should have beige. They wrote beige into the specification. However, when we said that they could inspect the tent as a sample of our quality, they went away and said, 'Hang on, the tent is green. We are going to put that down too.' We provided the Army with tents because they said they had to be green. We then argued that they should be beige.

**Mr GEORGIU**—As to price?

**Mr Pool**—On price we were cheaper. We were cheaper by something like \$200,000 over the tentage purchase, which was about \$4 million. There were additions to the tentage purchase such as the Red Crescent, tropical flies and supporting equipment.

So the whole thing was poorly done and it was done for those reasons because a decision had already been made. They only went out to tender because that was part of the procedure. People behind the scenes had already made the decision to buy a Swedish one and to get us out of the way somehow.

**Ms PLIBERSEK**—Who does it benefit and why?

**Mr Pool**—I do not know. It happened nowhere else in the world. It would not happen in America. It would not happen in Britain. But it happens here. I could not imagine the Swedes buying an Australian tent designed for a dry and rain depression tropical climate to operate in northern Europe. It would be a nonsense. Yet we bought a tent designed for NATO forces operating in northern Europe in the snow.

**Mr GEORGIU**—That is okay—we sent our tanks to Darwin without airconditioning! But, seriously, what do you think has changed since your problem?

**Mr Pool**—My problem is entrenched, it goes back 20 years.

**Mr GEORGIU**—But looking from now on, what further things should change?

**Mr Pool**—I have a view that it is the persons in the armed forces too. The chairman made the comment about centralising purchasing. That was done for cost cutting reasons; it was not necessarily going to change the culture within Defence. So the first thing is the

public servants' role. They try and do their job, and there are a lot of good people there so I am not knocking them.

The second thing is the culture within the uniform segment of Defence. Most of those people are there for two years in uniform and then move on to another posting. A lot of the time some of that culture is: we will buy it overseas because it must be better; the US is using it, or the British are using it, and we do not want to make a mistake by buying something Australian that might not work. That is an entrenched culture. Where that starts is through their training. Having been an ex-Defence person in uniform, I think training needs to be implemented at the Australian Defence Force Academy level so that they understand the implications of some of their decisions when they are put in a position, as the purchasing officer or the project director, to oversee purchasing.

At the end of the day, the real impact is not only to the future of Australia's manufacturing export capability. There is also—and this is a term they use—the 'through-life support'. The Swedes are in Sweden—how do they now support the tents in Australia? They cannot. It has been done through an agent here who just dumps it in the market. There is no through-life support. So when it is deployed to New Guinea, they will ring up someone like me and say, 'Will you go up and fix it because you know how to do it, or will you send one of your engineers?' That is where it falls down. For through-life support we need to manage it here, or we need manage it in Rwanda where the doctors are.

I was with the Deputy Surgeon General on a visit to Kuwait, Saudi Arabia and the UAE only two weeks ago. He finally said to me, 'I realise what you are talking about.' He said, 'I was in Rwanda. If we need something, we want it there. We want you to supply it, we want Australia to supply it, not someone in Sweden.' As an example of that, I fought in the Vietnam War and pilots died because we had Swedish aircraft that were not supported with parts because Sweden was neutral—and one of those pilots was a friend of mine. Although the spare parts were not made available, they still flew those planes. That is the sort of impact that it has.

**Ms PLIBERSEK**—You mentioned that you were given seven reasons for the Swedish tents being chosen and I think you only mentioned the first three. You mentioned weight, you mentioned that the Swedish tents were designed for the cold and you mentioned colour, then we got diverted to cost.

**Mr Pool**—The next one was the absence of a non-slip doormat. What a nonsense! The next one was the absence of rubber inflatable bladders. We used an Australian designed material supplied by an Australian manufacturer that was a compound of rubber and PVC. The reason we did that was because of the extreme heat in operating with those tents in the north of Australia. It gave us a tent in which the bladder would not split. We explained that to them. In the cold climate use of the Swedish tents in Europe they do not have any problems with the bladder expanding because the temperature is always less than ours. They do not get 51 degrees in the north of Australia. So that was a nonsense. Then the windows were the incorrect size—

**CHAIR**—You mean they do not get 51 degrees in the north of Europe.

**Mr Pool**—They do not.

**CHAIR**—We certainly do in the north of Australia.

**Mr Pool**—Yes. So the next one was—

**Ms PLIBERSEK**—The windows were in the wrong size.

**Mr Pool**—that the window size was incorrect. We actually showed the two engineers a window size. By the way, during the time they examined it—and they did this purposely—I was in the United Arab Emirates giving a dissertation on the Australian designed tent to be purchased by the UAE government. So they even did it while I was out of the country—and I was there representing the Australian defence industry and the Australian defence department on that, so I am damned if I know. They then said that the windows were the incorrect size. The windows were the incorrect size because they were the windows the Army had originally asked for—that the Surgeon-General had asked me to put in. That is the size they wanted so that people being treated, patients, would not have too much exposure to the sun and they would have privacy.

Finally, the tent surfaces were not sand in colour. We showed them a green tent; the Army originally asked us to have it in a olive drab green. Then we fought the case for nine months to develop a sand colour which matched the No. 5 camouflage net for the Australian defence department. That sand colour was not matched by the Swedish; we matched it on the sample of tentage that we then showed Bronwyn Bishop. We matched it to the camouflage nets. Again, all our products, including the substrate, were Australian. The substrate yarn is made in Tasmania.

**Ms PLIBERSEK**—That is one contract you lost. Since then, have you won other contracts with these same tents? Have you supplied them elsewhere in the intervening period?

**Mr Pool**—No, we have not. It devastated us. We worked in Singapore for four years with the Surgeon-General. In 1997 when the Swedish tent system was bought by the Australian defence department, the Swedes went straight to Singapore and said, ‘Hey, the Australian government has bought the Swedish system.’ We had sent a tent there; we had spent \$140,000 in Singapore. It was all blown out the window because the Australians had bought the Swedish system. Similarly, in the UAE, the contract was for \$16 million. We had the same problem: we spent hundreds of thousands of dollars, and we just got blown away.

**Ms PLIBERSEK**—Can you tell us a little about the other products your company supplies? It is not just tents, is it?

**Mr Pool**—No. We have done projects for the Australian Antarctic Division. We do all the oil spill responses—the special fuel tanks for the Australian Antarctic Division in the Antarctic, right through to providing environmental management on oil spills with our fabrics and our designs. We work with the Australian Maritime Safety Authority in that field. We have, for the Australian defence department, done the astern refuelling for the FFGs, the submarines. We did the whole program. We have done the rapid deployment

communication system for the Australian Army. We have also done the foldable two-man kayak that goes on the Collins class submarine. We provided 120 of those, which are inflatable structures that have to operate 20 to 30 nautical miles to sea.

I will draw on one simple example, and this still happens. This is another simple example of where we go wrong. We were asked during the development of the foldable kayak to develop a specialist paddle for our SAS and commandos. Again, we designed 14 paddles. We built them; we gave them to EDE, the Army and defence centres testing laboratory. They said, 'Yes, these are the two we like.' In fact, one of the Army testing engineers, or one of the Public Service senior engineers—his first name was Peter but I cannot remember his surname—was a previous Olympic champion kayaker, so he knew what he was talking about with paddles. He determined, from a mechanical engineering point of view, a structural point of view and a laboratory testing point of view, that this was the paddle that was needed.

The Army then said, 'Yes, it is the right colour; it is the right shape; it is the right reinforcement. It will stand up to the impact of fending off submarines in 30-knot winds and all the things that special forces have to do with that paddle to operate off the submarines.' They then said, 'Here is a contract for 200. We will buy the first 200, put them into service and see how they go.'

We gave them the drawings, we did something like \$50,000 worth of tooling. I convinced two other small manufacturers to help me with the project. Two years later, the tender comes out, 400 paddles required—our drawings, our specification and everything. Melbourne Canoe Shop picks up the tender from the newspaper and said, 'Yes, we will go for that. We can do that.' They put their submission in, copied our drawings, copied our paddle and won the tender. The defence department rang me up and said, 'You're too dear. You're \$8 per paddle too much.' The defence department gave the contract for 400 paddles to the Canoe Shop in Melbourne.

What happens then? The paddles now in service operated by the SAS and the commandos, our best people, in the night on the submarine do not fit together, because they have got two different types of paddle clips. Some of the people are hurt as a result. Finally the Army says, 'Hang on, let's go back to where we were.' They asked me to design a paddle because the timber paddles they could not maintain. Finally, they go back to buying a timber paddle from Germany. Buy 400 of those, throw the other 400 out, throw our 200 out because we have now been gazumped out of the thing and buy an imported paddle from Germany, when they did not want a wooden paddle in the first place.

In the end, I went to a general in Canberra and I said, 'Look, if you people can't get the paddle right, what can you get right?' To tell a general that is not very nice. He does not like it. I told the general, Bill Crews, who is now a commander of Australian Intelligence. He said, 'Peter, you get too emotional about these things.' I said, 'I tell you what, General, what about when my son is one of those people on the submarine and he comes to me and says, "Dad, can't you get the paddle right? We've got guys out there getting hurt trying to put them together and none of them fit. There are four different bloody black paddles in the system." General, you tell my son you can't get the paddle right.' I hope it has changed.

**CHAIR**—Okay. Thank you for that.

[2.27 p.m.]

**AIZENSTROS, Mr David, Marketing Manager, Australian Paper**

**WILLIAMSON, Mr Arthur William, General Manager Marketing, Australian Paper**

**CHAIR**—Welcome. We have received your submission. Do you by chance have a brief opening statement you would like to make before we ask you questions?

**Mr Williamson**—Yes, I do. Before I begin, though, I would like to confirm that we have made arrangements to respond in camera today to questions put to Mr Cribb of the Pulp and Paper Manufacturers Federation of Australia regarding specific examples of cheapest price purchasing considerations by government, rather than value for money.

Thank you very much for this opportunity to elaborate on our submission. We welcome this opportunity because we are the sole manufacturer of printing and writing papers in this country. We are under enormous pressure from imports, many of which are dumped and are subject to dumping penalties. It needs to be said that Australian Paper is not surrendering to this pressure. We have invested some \$600 million in the last few years in modernising equipment and new plant and machinery. We have negotiated enterprise agreements with our work force and achieved significant productivity gains. We have taken the hard decisions in industry restructure and rationalisation and we continue to improve our product range and promote that with strong Australian brands. We are doing all of this with virtually no purchasing assistance from our governments.

Government purchasing represents a very significant part of expenditure on goods and services in Australia. As such, government purchasing has a critical role to play in Australian industry development and to help provide the critical mass of activity necessary for sustaining and further developing international competitiveness, so important in generating long-term economic benefits for Australia.

The very real benefits of government giving preference to domestically produced goods comes in the form of job maintenance and generation, government incomes derived via the usual collection methods such as taxation, reduction of welfare payments to the unemployed, and environment enhancement. With respect to paper, it is purchases of paper from the domestic producer that facilitate the reduction in landfill via the collection and recycling of paper waste in Australia.

The above examples of benefits are currently not considered by government purchasing and which, when added together, result in a large economic multiplier which would swing many contracts that have gone to imports on the basis of lowest price only considerations back to local producers. Therefore, it is in our view incumbent upon government to take advantage of its unique position as Australia's largest purchasing body to leverage its position to get the best long-term outcomes for Australia and to facilitate this by reinforcing its procurement policies and providing its purchasing officers the necessary tools, information and training to enable efficient and effective purchasing decisions.

With respect to sales to government, we simply make the point that, to our knowledge, there are no real reliable estimates of paper purchases by government. While our submission provides some information, we are in no position to be more definitive than we have been. Unfortunately, the lack of record keeping prevents any meaningful appraisal of the Commonwealth's performance in using procurement policy as a lever for industry development.

Our comments with regard to the Commonwealth's performance appear on pages 7 through 11 of our submission. I do not intend to canvass further our comments in relation to the implementation of the Bevis report's recommendations. However, it is pertinent to elaborate further on the enactment of the Financial Management and Accountability Act, particularly with regard to two of the six core principles which underpin the procurement activities of government agencies—namely, value for money and industry development.

With respect to value for money, this is too often interpreted as the lowest price. The guidelines with regard to the interpretation of value for money are often not adhered to. Given the devolution of purchasing, the required complex evaluations of value for money are made more difficult, if not impossible. This is best explained by referring to the core principle of national competitiveness and industry development.

As we ask in our submission: how would a government purchasing officer know of and measure for each contract the rationale and state and regional economic value of the Australian pulp and paper industry? If I can give you an example of this by way of another question: what consideration would a purchasing officer in Melbourne give to the value of the economic input made by our Shoalhaven mill in New South Wales when purchasing coloured papers from a stationer in Melbourne? Surely policy direction must be augmented with execution strategies, the simplest achievement of which would be via a centrally determined direction. In the absence of such policy, execution strategies and industry development outcomes cannot be achieved effectively.

Having spent some time articulating the procurement system's shortcomings, I would like to conclude on a more positive note. On pages 11 to 14 we recommend two initiatives that the government could adopt which we believe would be major leverage mechanisms for industry development. The first suggested initiative we refer to calls for government entering into medium- to long-term strategic alliances with the domestic industries where government predetermines the social and economic benefit, or value, to Australia from each industry alliance, taking into account matters well beyond just lowest price considerations.

For example, purchases of domestic paper, quite apart from impacting on the Australian economy, have significant input to supporting paper collections and recycling with the consequential benefits to the community of landfill reduction and resource reuse. The second initiative is a preference margin system where the margin is derived centrally by rigorous economic input-output models which would take into account broader policy outcomes. Such an analytically derived margin or economic multiplier could be industry specific and, accordingly, be relatively easy to apply by a purchasing officer at the time of purchase.

We are extremely disappointed that Australia dropped its preference system when the major trading nations in the world—namely, the USA, the UK and countries of the European



Economic Community—continued to afford their domestic manufacturers and suppliers with a preference scheme. As the Bevis inquiry found, the preference schemes that operate in these countries have resulted in the overwhelming majority of contracts for goods and services being awarded to domestic suppliers.

In closing, I would like to reiterate that government procurement needs to be an effective lever for industry development. But, to achieve that, objective purchasing officers need rational rules that recognise the current purchasing environment which are specifically targeted with measurable outcomes. After all, if you cannot measure it, you cannot manage it. Thank you, Mr Chairman. Perhaps we should now take open questions before responding in closed session to the questions put by Mr Brough to Mr Cribb.

**CHAIR**—Thank you very much for that. You said in the summary of your submission:

The company believes that imported papers continue to make up the bulk of government purchases—

that is, the bulk—

and that a significant opportunity exists to address an annual \$713 million trade deficit in printing and writing papers.

With all due respect, your pulp and paper manufacturers association told us the same thing last month. So far, every government department that has reported back to us or answered on the day bought nothing but Australian paper. Can you give us some evidence that there is any fact in this statement, or is it simply emotion?

**Mr Williamson**—We are submitting in camera examples of requests for tendering quotes that do not include any question that would facilitate value for money deliberations. Indeed, in camera we can supply you with substantial examples of where Australian manufacturers, particularly Australian Paper, have lost contracts to overseas suppliers of paper.

**Mr GEORGIU**—To government?

**Mr Williamson**—To government, yes.

**CHAIR**—The Australian federal government?

**Mr Williamson**—Yes.

**CHAIR**—The second question derives from that same issue. You say that there is a trade deficit of \$713 million a year. If we cannot make all the paper that we need—you cannot make the paper that we need—what the heck difference does it make as to who buys it? If you are selling what you make and we cannot make all the paper that Australia needs, I am at a loss to understand this huge problem, unless what you are saying is that you want us to give you a 20 per cent bias so that you can make another 20 per cent profit on paper that you sell to the Australian government.

**Mr Williamson**—We are not suggesting that we can supply 100 per cent of the Australian market. We are suggesting though that we should be encouraged to invest more to be able to—

**CHAIR**—But if you cannot supply what we need now—

**Mr Williamson**—What I was going on to say is that we should be encouraged to invest more. Recently we have expanded our capacity to supply paper. In fact, Mr Kennett opened on Wednesday of this week a new paper making facility of ours at Maryvale.

**CHAIR**—I have been through it.

**Mr Williamson**—Good. We invested some \$330 million there. What we are saying is that we could supply more. We certainly could not supply all. We are not suggesting that we should be supplying all. We are not suggesting either that we should be the sole supplier to government. We are suggesting though that value for money decisions are made by government. Our concern is that they are not.

**CHAIR**—Let us go to that issue. This committee has some concerns about that issue too in some areas, but let us talk about your specific case. You have presented a paper that knocks the former government's reduction in tariffs—you are still talking today about tariffs, notwithstanding that we have all got to live in a world in which they exist, and the world is not how it was 50 years ago and it is not how we might wish it to be to help our own particular rent seeking case—and then you knock the change by the former government in purchasing policy that gave 20 per cent preference margins to manufacturers of Australian products in preference to overseas supplied products. Are you really just asking this committee for more rent?

**Mr Williamson**—No, what we are asking this committee for fairly simply is that value of money decisions are properly made when purchasing officers are making decisions about whom they should award a contract to—no more or less.

**CHAIR**—What do you mean by value for money?

**Mr Aizenstros**—We are talking about things that go beyond the lowest price and we talk about some of things we mentioned. For example, there are economic input factors that are provided by the fact that we run production facilities in Australia. Those things do have an impact on maintenance and increasing of employment, on reducing welfare payments and on facilitating taxation collection. All these add up to a multiplying factor which is not provided for by the imported product.

**CHAIR**—Absolutely.

**Mr Aizenstros**—So that is what I mean by value for money. There is the other facet—

**CHAIR**—Then what are you asking? Value of money to you means we give you a price preference—is that right?

**Mr Aizenstros**—For a specific industry that it is possible—and we do give two options. What we are saying is that for specific industries—for example, the paper and pulp industry, our industry—a centrally determined multiplier will be determined in a very analytical and rigorous way which says that the value our industry offers, vis-a-vis an import, is 1.X and that X ought to be determined centrally because a purchasing officer in a regional environment or in a transaction based situation cannot make that judgment. Once the centrally determined multiplier is in place, then any purchasing officer can go about making a decision by applying that factor. We are not saying that we determine that factor or that it is determined by some nebulous method. We are saying that it ought to be determined by input-output economic modelling by a high level modelling person whom the government may choose. That currently does not happen.

**Mr GEORGIU**—Can I just pursue one point? Mr Williamson, is there a situation that you know about where with similarly priced paper, Australian and non-Australian, the preference has gone to the non-Australian paper?

**Mr Williamson**—Absolutely. We have asked today to give you examples of that in an in camera session.

**Mr GEORGIU**—You are actually asking for preference in a macro-economic sense—

**CHAIR**—In a micro-economic sense, too.

**Mr GEORGIU**—by feeding in the macro impact of economic decisions. But you are actually saying that we are disadvantaged even when we have got like with like, price with price.

**Mr Williamson**—Absolutely.

**Mr GEORGIU**—We will come to that in the in camera material. I am puzzled about why, if that exists, instead of a level playing field, you actually want to skew it.

**Mr Williamson**—What we are really saying is that value for money decisions need to be made. The contributions that our organisation is making, and has made in past times, are in many ways social decisions. For example, there is waste paper collection and the fact that we are one of Australia's two recyclers, the only one in the fine writing and printing paper sector. We do that at great cost to ourselves. Separately we can provide information to show that it is cheaper to buy pulp than it is to make pulp from waste paper. It costs us something in the order of \$200 more per tonne to make pulp from waste paper. The product that we sell when we sell it in the marketplace, because it is made from wastepaper, fetches a lower price. We are making these contributions and our competitors are not. They do not recycle at all. The government has objectives with regards to the reduction of waste in landfill and has set the objective of reducing paper waste going to landfill by 50 per cent. We are asking that government considers these things when making purchasing decisions, as an example.

**Mr GEORGIU**—That is more significant than getting a level playing field in which similar quality products, and similarly priced product sales actually go to overseas suppliers rather than yourselves?

**Mr Williamson**—That is more significant. Both issues are relevant in this instance. We are losing contracts when we quote the same price—we can give you examples of that. We are claiming that value for money decisions should consider more than just the cost of the particular paper product. They should consider the contribution that our organisation makes in the Australian context.

**Mr GEORGIU**—Just getting a level playing field would not resolve your particular concerns.

**Mr Williamson**—No, it would not.

**Mr GEORGIU**—Do you compete in all components of fine paper? We see \$730 million worth of trade balance in paper. Can you match all the supplies from overseas in paper?

**Mr Williamson**—I am sure there are instances where we cannot, but they would be few.

**Mr GEORGIU**—You know your business: you can or you cannot? If you cannot, tell us how significant the cannot is.

**Mr Williamson**—We produce a range of papers that basically span the whole spectrum of fine writing and printing paper ranging from the bottom end—publishing papers—through to the top-end, high value, watermarked papers.

**Mr GEORGIU**—What do you not produce that is produced overseas?

**Mr Williamson**—We do not know of anything that we are not producing that the government would require.

**Mr GEORGIU**—What don't you produce that the community would require? There are a whole range of papers that you simply cannot produce, so why not tell us?

**Mr Williamson**—There are some examples. We are not producing a paper for stamp production, as an example.

**Mr GEORGIU**—There are lots of areas where you simply cannot get Australian paper.

**Mr Williamson**—We are not producing the paper for directories, but we do not regard that to be a fine writing and printing paper. You prefaced it by saying fine writing and printing paper. By and large, we are supplying most of the products that are consumed by people who need fine writing and printing paper.

**Mr GEORGIU**—Of that \$750 million deficit, how much simply cannot be supplied by the Australian paper industry as it currently stands? You are holding that up as a significant number and I want to know what proportion is simply not substitutable?

**Mr Aizenstros**—I think the issue is that we ought to be supplying a lot more.

**Mr GEORGIU**—No, I am sorry, I want to know. You say \$750 million—lots of money. Of that \$750 million, how much at the moment can we simply not supply?

**CHAIR**—All of it.

**Mr Aizenstros**—If you take the current market for premium writing papers at one million tonnes per annum, we have currently the capacity to supply something like 400,000 tonnes.

**Mr GEORGIU**—Which translates into?

**Mr Aizenstros**—It is about 40 per cent. We currently have a market share of roundabout 33 per cent. The point we are trying to make is that the difficulty is that we would like to expand our facilities—this is all part of industry development—and without the leverage that government can provide in that activity it is going to make it very difficult because of the purchasing power the government has.

Perhaps I can go back to a previous question that was asked and expand on it a little bit. The market is extremely competitive and we compete and are priced to compete. As an Australian manufacturer, we take on a whole raft of responsibilities, some of which Arthur outlined in terms of recycling and landfill, reduction, and all those sorts of things, obligations not shared by our competitors. We would like the level playing field worked out in such a way that it does take into consideration those sorts of factors.

The other key issue is that it is government that says that it has got six core principles which underpin the procurement activities: firstly, value for money, and, secondly, industry development. We are saying, ‘Where is this happening because we cannot see it.’

**Mr Williamson**—Maybe your question was directed also at the market for paper, and what percentage of that market, by product qualities, could we not supply. It would be a guess in the fine writing and printing paper sector, but it would be something of the order of five per cent or six per cent.

**CHAIR**—Do you include photocopy paper?

**Mr Williamson**—Yes. At the bottom of the quality scale there are publication grades and at the top of the quality scale are watermarked papers, and everything in between, including offset papers, coated papers and copying papers—white, coloured, coded and uncoded—

**CHAIR**—Are you familiar with the changes that are occurring with common use contracts?

**Mr Aizenstros**—Yes.

**CHAIR**—Are you happy with those?

**Mr Aizenstros**—What would satisfy us is to see a request for tender or a request for quote ask us questions that show that there is some consideration given for some of these six core principles. When someone says, ‘We want X tonnes of this type of paper. Give us a price and tell us if you can deliver,’ quite frankly, I cannot see how, on the basis of the information that is supplied in response to the quote for tender, how anyone could make any sort of consideration on any of those six core principles in the procurement policy. Maybe that happens in certain contracts which we are not involved in in other industries but certainly, in our industry, that seems to be the case.

**CHAIR**—I would have thought it would be fairly difficult to consider service as a consideration or a long-term life support when I was buying paper. Quality should certainly be a consideration—product for product—in getting what I paid for. That is why I ask for a certain quality paper and that is what I get. You do not really need to maintain paper, do you? These are normal things that are taken into account with service supply, or manufactured goods supply. It is such a common product that it would make it pretty difficult to fit you in unless we engage in rent seeking and give you the equivalent of tariff reductions, preference or price consideration because you meet tough environmental guidelines. Every industry in Australia needs some kinds of guidelines. Some of them frequently are tougher than they are overseas. Everybody is faced with problems of distant supply lines for a medium sized economy. Do you want to take that into account, too?

**Mr Williamson**—Some of those things, yes. You talked about all manufacturers in Australia being responsible for managing themselves in an environmentally sustainable way. We are the only Australian supplier in Australia of fine writing and printing paper. Our competitors are overseas and our competitors do not need to meet these rigid, costly requirements imposed by governments in Australia—and quite properly imposed.

You mentioned service. Security of supply is a consideration in the land of paper. Certainly it has been a major consideration in government purchases of paper only over the last few years. It is a very cyclical industry that we are in and we take a long-term view to supplying our customers here in Australia. We do not try to maximise profit when paper is in short supply. We go out of our way to be a good supplier. Our competitors do not. They come and they go. We can give you examples of where government have not been able to get paper that is sorely needed and we have filled the breach.

**Mr GEORGIU**—Let alone political parties.

**Mr Williamson**—When contracts reoccur—the same contract might reoccur two years later—no consideration is given to the value of security of supply.

**Mr Aizenstros**—Short memories.

**Mr GEORGIU**—I am not sure that is true. It may not be reflected in price considerations but people have fairly long memories.

**CHAIR**—Have you had any experience in using Transigo? If you do not know what it is, you have not used it.

**Mr GEORGIU**—Let us go into in camera. Some of this is only answerable once we do that.

**CHAIR**—No, Transigo is—

**Mr GEORGIU**—No, but the larger issue.

**CHAIR**—It is a Telstra web site that gives you information on government contracts. Anything over \$2,000 is notified on Transigo.

**Mr Aizenstros**—I think we should explain. We are not in direct sales; we are the marketing team. We have got sales people who probably do know about this.

**CHAIR**—Let me ask you this question: do you sell direct, or is it all through distributors and wholesalers?

**Mr Williamson**—With the devolution of government purchasing, more and more the purchases of paper are small and very frequent. So, increasingly, we have had to rely on middlemen to get our paper to market. We are very interested to supply government directly but the devolution of purchasing is taking that away. Some large single-use contracts are supplied by us on a direct basis. Wherever possible we would like to supply on a direct basis. We find it very hard to react to the increasingly small volumes and there we think middlemen can play a role for us.

**CHAIR**—What percentage of your sales would be to the federal government?

**Mr Williamson**—It is pretty hard and we cannot substantiate how much the federal government actually purchases. I think our estimates are better than most. I think we would say that, with regard to government in Australia, it would be around 20 to 30 per cent.

**Mr Aizenstros**—It would be in the mid-20s, we think. I do not have the sales to go on, but the previous Bevis inquiry tried to estimate that and we provided some information. We have not updated that but we would think that government overall would represent about 25 to 30 per cent. That would include federal and state.

**CHAIR**—That does not help me at all. We will go into in camera.

**Mr Aizenstros**—Could I just add to that? One of our issues in that is that, if we are talking about government purchasing being an instrument of policy, despite any attempts we have ever made to find out what the government purchasing has been we have not been able to.

**CHAIR**—Quite frankly, I was in an industry for over 30 years and I never depended on my clients to tell me how much I sold them.

**Mr Aizenstros**—Mr Chairman, we have tried to explain that we do not sell direct to the government. We sell via distributors.

**CHAIR**—You have got a lot more control through your distributors and wholesalers than you do over us.

Resolved (on motion by **Mr Georgiou**):

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.

*Evidence was then taken in camera—*

**Committee adjourned at 3.14 p.m.**



