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# Official Committee Hansard

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS,  
DEFENCE AND TRADE

(TRADE SUBCOMMITTEE)

**Reference: Enterprising Australia - planning, preparing and profiting from trade  
and investment**

MONDAY, 26 MARCH 2001

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## JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

### Trade Subcommittee

Monday, 26 March 2001

**Members:** Senator Ferguson (*Chair*), Mr Hollis, (*Deputy Chair*) Senators Bourne, Calvert, Chapman, Cook, Gibbs, Harradine, Hutchins, Sandy Macdonald, O'Brien, Payne and Schacht and Fran Bailey, Mr Baird, Mr Brereton, Mrs Crosio, Mr Laurie Ferguson, Mr Hawker, Mr Jull, Mrs De-Anne Kelly, Mr Lieberman, Dr Martin, Mrs Moylan, Mr Nugent, Mr O'Keefe, Mr Price, Mr Prosser, Mr Pyne, Mr Snowdon, Dr Southcott and Mr Andrew Thomson

**Subcommittee members:** Mr Prosser (*Chair*), Mr O'Keefe (*Deputy Chair*), Senators Chapman, Cook, Ferguson, Hutchins and O'Brien and Fran Bailey, Mr Baird, Mr Hollis, Mrs De-Anne Kelly, Mrs Moylan and Mr Andrew Thomson

**Senators and members in attendance:** Senator Ferguson and Mr Baird, Mr Hollis, Mr O'Keefe and Mr Prosser

#### Terms of reference for the inquiry:

To inquire into and report on increasing Australia's trade and investment through initiatives for economic expansion, in particular:

- The role of development agencies in economic expansion such as the Industrial Development Agency in Ireland and the Economic Development Board in Singapore;
- Reasons for the success or otherwise of development agencies in establishing countries and regional areas as economic leaders;
- The comparative role of such development agencies to existing agencies in Australia;
- Incentives and impediments to foreign investment in Australia such as transport systems, taxation, telecommunications infrastructure, production costs, industrial relations structures, legal systems, federal systems of government and research and development initiatives;
- The adequacy of a skilled workforce in Australia particularly in new growth areas such as, though not limited to, financial services, information technology, E-business, education, pharmaceuticals and health care, and the competitiveness of that workforce; and
- Opportunities for encouraging inward investment and promoting export sales.

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**Subcommittee met at 10.04 a.m.**

**ARMSTRONG, Ms Zena, Director, North and West Europe Section, Europe Branch, Americas and Europe Division, Department of Foreign Affairs and Trade**

**BAXTER, Mr Peter Colin Ernest, First Assistant Secretary, Market Development Division, Department of Foreign Affairs and Trade**

**COURTNEY, Ms Jill, Director, Subsidies and Trade Remedies Section, WTO Trade Law Branch, Trade Negotiations Division, Department of Foreign Affairs and Trade**

**HENDERSON, Ms Jeannie, Acting Director, Philippines, Malaysia, Singapore and Brunei Section, Maritime South-East Asia Branch, South and South-East Asia Division, Department of Foreign Affairs and Trade**

**MORRISON, Mr Adrian Hugh, Acting Director, Trade Liaison Section, Market Development Division, Department of Foreign Affairs and Trade**

**RICHARDSON Mr Jonathan, Director, WTO Regional and Free Trade Arrangements Section, Trade Negotiations Division, Department of Foreign Affairs and Trade**

**CHAIR**—I declare open this second hearing of the inquiry by the Trade Subcommittee of the Joint Standing Committee of Foreign Affairs, Defence and Trade into Enterprising Australia—planning, preparing and profiting from trade and investment. This inquiry arose out of a continuing interest by the Trade Subcommittee in expanding Australia's trade and investment. The successful development of economies like Ireland and Singapore expanding and building their economies from different structural bases and the role of development agencies in their economic expansion may provide valuable information or illustrations from which we can improve our economic strategies.

The Trade Subcommittee looks forward to receiving important and significant evidence over the course of the inquiry to assist it in deliberating on the ability of Australia to plan, prepare and profit from trade and investment to be an enterprising Australia. On behalf of the Trade Subcommittee, I welcome representatives from the Department of Foreign Affairs and Trade. The subcommittee prefers that all evidence be given in public but, should you at any stage wish to give evidence in private, you may ask to do so and the subcommittee will give consideration to your request.

Although the subcommittee does not require you to give evidence under oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same stands as proceedings in the respective houses. The subcommittee has a submission from the Department of Foreign Affairs and Trade, submission No. 4. I now invite you to make a short opening statement, if you wish, before we proceed to questions.

**Mr Baxter**—We are pleased to be asked to make a submission to this important inquiry, as trade and investment make a substantial contribution to Australia's economic prosperity, not least through the creation of more and better paid jobs. The department's view is that the contribution of regional and national development agencies to economic expansion is

facilitative rather than necessary. The absence of clear and measurable performance indicators means that accurate evaluation of the performance of development agencies is often very difficult.

We believe that economic leadership is best attained through government policies promoting economic and regulatory reform, especially strong and transparent legal systems. Investment and other incentives need to be consistent with the World Trade Organisation. We also believe that the high demand for Australian professionals internationally indicates very competitive levels of skills and expertise, as does the increasing number of international students attending Australian institutions. The Department of Foreign Affairs and Trade promotes Australia bilaterally, including as an investment destination and source of goods and services, through its overseas posts and in cooperation with a range of other agencies, particularly the Australian Trade Commission. Thank you.

**CHAIR**—Thanks for that.

**Mr BAIRD**—I would like to start off. It does sound like a bit of a cop-out. I noticed the brevity of what you have to say. If you really regard it as being important, it was very brief and does sound like a bit of a cop-out. You are saying that you provide a facilitative role which means ‘Do not let us get caught up in measuring our performance. We are just there to create a bit of an environment. Secondly, it is inappropriate to put measurements on us because they are subject to many variables’—as I heard you saying—‘do not let us be measured.’

The fact is, it would seem to me, that compared with Ireland or Singapore the role of DFAT in attracting investment in Australia is pretty minimal. Is this not an area in which we really should be focusing attention and looking at what we can do? From what I can observe, facilitation of investment inquiries by DFAT is pretty insubstantial. Should it be lifted or are you looking for a cop-out? In terms of what you have said this morning, it indicates exactly what may be part of the problem in that you do not really see a relationship; you do not want to be measured; and you have not indicated how you assist in terms of providing investment. It is more of an alarming situation, what you just said. Here we are with the dollar going downwards and that is the best that you can offer us in terms of what you are actually into. I am sorry to be so negative but, when we compare what you had to say with what the Ambassador from Ireland said, you have to shake your head and wonder where we are at.

**Mr Baxter**—To respond, Mr Baird, what I actually described as facilitative was our views on regional and national development agencies. I was not referring to DFAT itself. What I was referring to were groups like the Irish and Singaporean investment promotion agencies. We view those agencies as facilitative rather than necessary. In the context of DFAT, we play a very active role in promoting investment into Australia, particularly through our role in multilateral organisations such as the WTO and our work through APEC to try to provide better and more harmonious investment regimes to promote business. We run specific programs through our 83 overseas posts to promote Australia as an innovative, technologically advanced and multicultural society and a good place to invest. At the moment we are running a specific—

**Mr BAIRD**—Let us bring you back on this: on the WTO, the Irish ambassador did not have one word in terms of that being a way that they facilitate investment. Let us focus on what else happens, because I suspect not much. Let us come back in terms of where we are at. We have

the WTO that is really a group that is trying to look at trade-offs in terms of tariff access. That is one aspect of it, but a small part in terms of looking at the Irish or Singaporean example. Now let us focus on the other things that you do to facilitate investment at DFAT.

**Mr Baxter**—The first thing that I should make clear is the roles of the respective agencies in promoting investment into Australia. Firstly, it is the Department of Industry, Science and Resources which has responsibility for Invest Australia, not the Department of Foreign Affairs and Trade. Invest Australia works very closely with the Australian Trade Commission—part of the Foreign Affairs and Trade portfolio but separate from DFAT—on specific programs to target particular sectors where investment is sought into Australia. DFAT, through its role as the coordinator of Australia's diplomatic missions overseas, plays a very active role in that process through our heads of mission which advocate—

**Mr BAIRD**—Can you give us an example of where that is happening? Basically what you have now said is that it is not our role—probably the little note that came through to you.

**Mr Baxter**—No, it is not that.

**Mr BAIRD**—If it is not your role, perhaps we should move on to somebody else. Would you like to give us an example of where your department has facilitated investment in Australia and continues to do so?

**Mr Baxter**—We will work with particular companies in Australia that are seeking foreign investment. We will invite individuals that are important in government structures to that company in terms of getting approvals for particular investments to take place in Australia or vice versa. We will provide a whole range of information to overseas companies that are seeking information about Australia as an investment destination, its particular economic circumstances and the regulatory environment in which they would seek to operate in Australia. We will put them in touch—

**CHAIR**—It is partly a bit like a dog running around the fence barking while the IDB and EDB are in there doing it.

**Mr Baxter**—We are not a similar organisation—

**CHAIR**—I note that, but what we are trying to get at—

**Mr Baxter**—The Irish foreign ministry and trade ministry is separate from the IDB. The Singaporean trade development board and the Singaporean ministry for foreign affairs are separate from their investment promotion agencies. We play a similar role in terms of facilitating investment and working with other agencies which have prime responsibility for targeting inwards investment into Australia.

**CHAIR**—That is what we are trying to get to the bottom of. How did particularly the Irish and their system turn the economy around and how do we compare what we are doing to what they achieved?

**Mr Baxter**—The reason for investment in Ireland is manifold. There is a whole range of reasons, one of which is the role of investment promotion agencies. But we would argue that an equally important role is the fact that the Irish government has established a very pro business legislative and regulatory environment for companies to operate.

**CHAIR**—And we don't have that?

**Mr Baxter**—You are asking me the question on why the Irish have been so successful, and our assessment is that in part it is due to the work of investment promotion agencies. But an equally important, and perhaps more important part, is the general pro business environment which has been created by the Irish government. They have, for instance, a 10 per cent corporate tax rate and a whole range of other incentives which are available to foreign investors.

**Mr BAIRD**—So what you are saying is that you are similar to the Irish foreign affairs department in facilitating—whatever that word might mean. I am not sure how often is this facilitation by Foreign Affairs. Are you dealing with these types of inquiries every week or is it occasionally or what?

**Mr Baxter**—For our heads of mission in countries of key commercial interest to Australia, a major part of their daily work would be dealing with Australian companies who are seeking to either trade with the country in which that person is resident or seeking to assist foreign companies who are wanting to invest in Australia.

**Mr HOLLIS**—Is one of the problems that perhaps instead of not enough effort we are having too much effort but it is diversified?

**CHAIR**—All over the place.

**Mr HOLLIS**—For example, you have all the states and they may have two or three trade portfolios. You have various individuals. In fact, we were having a hearing, I think one day last week, and someone said that in the Middle East they thought we had 12 prime ministers and God knows how many premiers. Is that a problem that maybe Ireland or Singapore does not face? Should we perhaps be compared with Canada which has a similar sort of system with states?

**Mr Baxter**—Coordination of effort is obviously an important thing, but by and large that is not a problem. We have very well-established processes of consultations with the states and with industry. A good example of how DFAT will work with other agencies, state governments and the private sector to pursue trade opportunities for Australia is the work we are doing at the moment to try to secure contracts in LNG in China.

Recently, both the minister for industry and our minister for trade travelled to Western Australia and met with the heads of the six companies that are involved in bidding for those contracts in China with the Western Australian government. Our head of mission in China is very actively engaged in pursuing success for Australia with those contracts with the Chinese government. So at all levels we are working very closely.



**CHAIR**—That is an example when the only state and the only resource that can meet that is the North West Shelf project. I think what my colleague was talking about was that when you go off on trade missions and one after the other there are state ministers, whether it be from Queensland, Western Australia, New South Wales, Victoria and then a federal minister—it is no wonder the foreign markets are totally confused as to who is running the show.

**Mr Baxter**—As I said, we have consultations twice a year called the national trade consultations which involve all the relevant state ministers and we also talk at officials level several times a year with our state counterparts to ensure that the effort to promote trade and investment is as coordinated as possible. We obviously do not have the power of veto over states to undertake activities overseas, but we work very carefully and closely with them to ensure that it is as coordinated as possible.

**Mr HOLLIS**—But what happens when the states are in competition, as so often happens? You might have Queensland being very active competing against Victoria or New South Wales. Surely it must be a bit confusing. Let us be realistic, Australia does not loom that large on anyone's investment horizon. Suddenly you have these various people all going out there speaking on behalf of Australia but, in effect, speaking on behalf of their state and maybe undercutting. What I would be looking for is much more coordination. Is that a role that you people have of knocking a few heads together and having a more coordinated approach to some of these possibilities?

**Mr Baxter**—Mr Hollis, we do do that, as I say, through our regular consultations. A good example of that recently to ensure that we had a very good understanding of the states' views and that we were developing policies that would be supported by all the states is the work that we have done on recent negotiations with Singapore on a free trade agreement. We had a process of consultation where our Minister for Trade, Mr Vaile, spoke to his state and territory ministerial counterparts and, in the case of Queensland and the Northern Territory, the heads of the ministries of state development or regional development, to ensure that they had input into our policy development process, that we had their support. Before we went off and started negotiating with Singapore, we had that unified support among the states as to what particular priorities we would pursue in those negotiations.

**Mr HOLLIS**—In the weekend newspapers, I was particularly struck by lead articles in the *Australian*, in the *Financial Review* and maybe in the *Sydney Morning Herald*—this was the spin-off from the BHP merger—that were very critical of our taxation laws, our investment laws. All the articles were in different papers but they were all basically saying the same thing. It is the first time I have noticed that there has been such a concerted criticism of our whole policy, our investment policy, our taxation regime.

It seemed to me that the articles, because there were three or four of them, were all saying that unless we take some fairly drastic action very quickly, we are just whistling in the wind if we are serious in talking about investment in this country. I do not know if you saw those various articles, but they were in all the papers. It really struck me because it is the first time that I have seen such a concerted view in a number of articles and basically they grew out of the BHP merger.

**Mr Baxter**—There is no doubt that the general economic and regulatory environment in which companies operate is a major factor in investment decisions. That is clear.

**CHAIR**—But this one specifically—tax?

**Mr Baxter**—As I mentioned, a variety of governments will adopt different positions on tax incentives for companies seeking to invest. The Irish have taken a particularly aggressive approach but there are other factors of course that also influence investment decisions apart from taxation regimes.

**CHAIR**—The damaging thing about this is not attracting the investment in. It is when our Australian companies become global—a la BHP and the National Australia Bank—that if they were smart, taxation wise, their option is to move offshore. That is a sad reflection on Australia where it would be better for companies to be based offshore than companies to be based here. What comment do you have with regard to that specific matter?

**Mr Baxter**—I really would leave that to others to comment on the relative attractiveness of Australia's taxation regime.

**CHAIR**—That is an integral part of our inquiry. Who do you have to tell us about it?

**Mr Baxter**—As I say, we are not responsible for taxation policy—

**CHAIR**—Hang on, you are the first assistant secretary, market development division—

**Mr Baxter**—Yes.

**CHAIR**—We go right down through whether it be trade remedies and a whole range of other things and we have a problem here. What role do you play? If you do not play a role, who the heck does play a role?

**Mr Baxter**—We provide advice to the government on the image of Australia overseas as an investment destination and how that is perceived. That is certainly an input into the government's policy making processes but we are not primarily responsible for looking at taxation matters or the international competitiveness of Australia's taxation system.

**CHAIR**—Who do we have to talk to in regard to that matter?

**Mr Baxter**—Treasury.

**CHAIR**—Sounds like we better get Treasury in then.

**Mr BAIRD**—Because it seems to us that you have got a facilitating role here and somebody else has a role there, et cetera, should we be looking at having an industrial development organisation within the federal government whose primary role—just as Austrade is looking at trade opportunities and promoting those in a marketing sense—is to look at investment and to

contact you in terms of where heads of missions are involved and so on, but actually to drive it per se?

**Mr Baxter**—My understanding, Mr Baird, is that is the role of Invest Australia working with Austrade who drive that agenda now and seek to promote inwards investment into Australia.

**Mr BAIRD**—What liaison do you have with Invest Australia?

**Mr Baxter**—With Invest Australia and with Austrade we work very closely. When particular opportunities are identified, then through the work of our heads of mission, the access that they have and their knowledge that they have of the particular countries where they are posted, we work with them to develop a strategy hopefully to achieve success in attracting whatever investment is being targeted at the time.

I will explain more broadly our role in promoting investment. One of the primary responsibilities of the Department of Foreign Affairs and Trade is to participate in international negotiations on the setting of multilateral rules that affect investment. We talked earlier about the WTO. We also work very actively through groups such as APEC on issues which are sometimes slow going and sometimes perhaps not headline grabbing—things like harmonisation of standards and working on developing common financial and investment rules, either through formal agreements such as the FTA negotiations we have under way with Singapore at the moment or more broadly through decisions taken at forums like APEC leaders meetings. All of these mechanisms help to facilitate investment by creating a familiar business environment either in the region or across the globe. Our role is very much ensuring that there is an infrastructure in place at the international and regional level that facilitates flows of investment.

**CHAIR**—It seems to me, though, that we are ignoring a tax matter that will ultimately lead to Australian companies leaving Australia, and no-one is doing anything about it.

**Mr Baxter**—As I said, that is not the primary responsibility of the Department of Foreign Affairs and Trade. You would be better directing those questions to Treasury on the international competitiveness and what the government is thinking about doing.

**Mr BAIRD**—Do Foreign Affairs have a proactive role overseas in terms of direct investment promotion—in other words, having luncheons and dinners which are just predominantly aimed at investment promotion?

**Mr Baxter**—Absolutely. When our Minister for Trade leads trade missions, our heads of mission and senior officers are actively involved in those programs by ensuring that ministers and senior business representatives have access to the right people—

**Mr BAIRD**—But that is a special one-off when the minister travels but I mean on an ongoing basis.

**Mr Baxter**—We do that on an ongoing basis as well, Mr Baird. If there are particular interests that we can assist Australian business to pursue, we will put our resources behind those efforts.

**Mr HOLLIS**—But do we have a long-term strategy? It seems to me that so much of our effort is a hit and miss. The minister might have a desire to go somewhere and will take some business people with him and from that visit some trade might develop. In South America it has been identified, because we have Australian mining interests there, that there is the potential for investment in mining. But are we looking at various parts of the world? Are we working out a long-term strategy? Or is it that we wait for some business person to go there and identify a market and we go in then and support them? It seems to me very much hit and miss, instead of having a long-term strategy identifying various markets and then maybe our seeking out the business people that would go in there with support. Do we think that way or not?

**Mr Baxter**—We certainly do. We work very hard with our missions to identify specific business opportunities for Australian companies and then to put together particular programs and actions which will help them to achieve success in those particular areas. A good example in recent years has been the Middle East where we have put a lot of effort in trying to improve our market access there.

**Mr BAIRD**—But you are confusing, Mr Baxter, the two factors. You are talking trade; we are talking pure investment here.

**Mr Baxter**—I am sorry—

**Mr BAIRD**—To follow on from Mr Hollis's area, what particularly are your heads of mission out there right now? Which industries are you trying to target to develop investment opportunities in Australia?

**Mr Baxter**—At the moment, as I mentioned earlier, we have a program called Innovative Australia where we have produced a kit of information for all of our posts around the world to promote Australia as an investment destination for high-tech information and communication technology industries. That is really to highlight both the skills base in Australia, the stability of our regulatory and legal framework, the access to Asian markets—

**Mr BAIRD**—So you only have two industries that you are targeting?

**Mr Baxter**—That is a particular focus we have at the moment. You are probably aware that there has been some negative publicity describing Australia as an old economy. To counter those perceptions head on, we have developed a program to go out and promote Australia in an accurate way, reflecting our skills in these particular areas.

**Mr BAIRD**—But that is a special exercise again. But on an ongoing basis—

**Mr Baxter**—On an ongoing basis, we have a branch in Canberra, called the images of Australia branch, which coordinates our efforts through our overseas posts to promote Australia as an attractive investment destination at all times. Within that we will have specific targets at particular times. At the moment it is the ICT industries. But we do have ongoing programs to promote Australia.

**Mr BAIRD**—But in terms of Mr Hollis's comment that there is no ongoing view rather than from time to time you will target a particular industry of the broad range of industries that you

want to attract so that your heads of mission are all aware that ‘These are the potential investors we want to get to, these are the people that we are regularly going to entertain and facilitate in terms of travel to Australia,’ et cetera.

**Mr Baxter**—It is an integral part of our heads of mission and senior officers work that they would seek to identify opportunities for Australia, either through trading with that particular country or through promoting investment from that country in Australia. It is an active part of their work. They do identify the key business people, the key banking institutions, the decision makers in those institutions, the people who control the investment funds in their particular countries. They access them, they make the effort to ensure that visiting Australian business people are put in touch with those people. We promote visits to Australia through a program called the special visits program where each year particular posts will identify key decision makers, either in the business sector or in the government sector, and bring them to Australia and expose them to a range of Australian industries.

**Mr BAIRD**—How many people last year did you bring in under that program who were heads of companies who came out specifically to look at investment?

**Mr Baxter**—I would have to take that on notice but there would be quite a number. Of course, last year we had the Olympics as well so we tied in a lot of activity through the Olympics. Austrade in particular had the Business Club Australia activity, which was a major focus of that sort of work last year. But on an ongoing basis, each year we will bring people to Australia who we believe have influence over investment decisions or government decisions affecting Australian business interests.

**CHAIR**—But can you take the Olympics glitch out of that and take it back two years and also forecast what you intend to do for this year on that matter Mr Baird raised?

**Mr Baxter**—Yes.

**Mr BAIRD**—Specifically investment.

**Mr Baxter**—What happens is that our posts will work each year to identify a program of visits to Australia. There might be one or two from each post, depending where the post is. They will then nominate those people back here to Canberra. There is an approval process. We will talk to business about interest in meeting those particular people and then we will put together a program. I cannot tell you off the top of my head the exact figure, but it would be something like 20 to 30 or more people each year.

**Mr BAIRD**—These are people from the private sector?

**Mr Baxter**—Private sector and from government. It depends on the particular country.

**Mr BAIRD**—But why would you put government people in there?

**Mr Baxter**—For instance, in Singapore, the Singaporean government has a major impact on investment decisions because of the dominance of government-linked corporations in the

Singaporean economy. So they may be important players. In China, for instance, investment decisions are made by government officials. So it will be a range of people.

**Mr BAIRD**—So the ones that are specifically investment related we would be interested in.

**Mr Baxter**—Yes. To add something else, Mr Baird, a colleague has just pointed out to me that in a publication DFAT has just released called *From Sheep's Back to Cyberspace*, we have some figures included in that publication which show that in 1999-2000 Invest Australia, the Australian government's national investment agency, attracted and facilitated 72 projects worth \$2.5 billion. I am sure that when Invest Australia appear before the committee, they can give you some details of those particular projects.

**Mr O'KEEFE**—I am not asking you specifically about the issue but more about the process of the issue that the chairman was talking to you about regarding tax policy. When your team in the field runs across a problem that keeps coming up—such as we cannot get visas so what is the point of promoting something if they will not let them in, or whatever—somewhere in the process you send a note to someone saying, 'Hey, are you aware that this is a problem? What are we going to do about it?' I assume that happens.

**Mr Baxter**—We do that all the time, Mr O'Keefe.

**Mr O'KEEFE**—Let us go to the tax issue the chairman was raising. Have your officers perceived a lack of competitiveness in the Australian tax system as an issue coming up regularly in your efforts to promote development and, if so, have there been memos to Tax or the Treasurer or your minister on that issue? Or is it not something that has come up much in your perspective?

**Mr Baxter**—Certainly the general point that if there are issues that we see are impediments to trade and investment we will raise them with the particular government department concerned. You gave the example of immigration and visa issues are sometimes issues that we will raise with the Department of Immigration and Multicultural Affairs to see if we can facilitate access to visas more easily by business people who may want to invest in Australia.

On the taxation front, I am not aware of any correspondence taking place between us and Treasury over that particular issue in recent times. Certainly, if it were perceived that it was a major impediment to investment in Australia, we would be raising it. There are a whole range of factors that contribute to Australia as an attractive investment destination: taxation is one of them. Our stable and transparent regulatory environment is another. Our proximity to Asian markets is another. There is a whole range of things.

**Mr O'KEEFE**—We know all that too. So let us go back to—

**Mr Baxter**—But on the taxation thing we are not actively pursuing it.

**Mr O'KEEFE**—You have answered my question and it has not jumped out at you. So as far as you know, you have not made the point. That is fair enough. Let us develop that a little further. Can you think of some examples in the last five years where something has jumped out at DFAT and you have said, 'You guys are trying to do this and this is standing in the way' and

you have actually sent off memos. I don't want to know the content of them, but what are the broad subject areas where you think DFAT has been proactive in trying to tackle a perception problem or a real problem that is acting as a barrier to investment in Australia? Do you have some other examples? Visas is an obvious one.

**Mr Baxter**—Visas is an obvious one. A good result on that was—

**Mr O'KEEFE**—You have been active on that and we have a good result.

**Mr Baxter**—Recent changes in South America to the way in which we issue visas is going to, we believe, facilitate trade and investment, particularly with Brazil and Argentina.

**Mr O'KEEFE**—Are you claiming benefit for that? We are claiming the credit for that.

**Mr Baxter**—No, we were very appreciative of the efforts of the parliamentary committee to point out the benefits of that. But it was certainly something that we had been taking up as well. On other issues—

**CHAIR**—Just on that point, Qantas have now dubbed that Sydney-BA route as one they are going to flick. What do you have to say about that? Did you write to Qantas and say, 'Look, this will harm our opportunity for greater investment with South America?'

**Mr Baxter**—Firstly, Qantas wrote to us and pointed out to us the harm that the lack of easy access to visas was doing to their particular interests—

**CHAIR**—I am talking about scheduled air flights.

**Mr Baxter**—Qantas wrote to us and asked for DFAT's assistance in trying to resolve the problem of having visas issued quickly to enable those flights to attract business. So we acted very quickly on those representations from Qantas to take up the issue with DIMA at the time. The issue of Qantas flying to any particular route is a commercial decision for Qantas to make.

**CHAIR**—So you did not write to them and say, 'Look, we are disappointed about this'?

**Mr Baxter**—No.

**CHAIR**—We did.

**Mr O'KEEFE**—Go back to my question for a minute: what other areas could you give us a quick example of in the last five years where you have been proactive?

**Mr Baxter**—I will ask my colleague Ms Courtney to fill you in on the work we have been doing in the WTO on financial services.

**Ms Courtney**—I participated as one of the negotiators in the financial services negotiations which took place in the WTO about four years ago. The outcome, though very difficult, was successful both from a trade and investment perspective from Australia, including market

access, but also in demonstrating Australia's desirability as an investment destination. But you asked for specific examples first of where we cooperated with Treasury and, secondly, the kinds of issues that would be raised between Treasury and Foreign Affairs on these sorts of things.

One of the main issues that our negotiating partners consistently raised with us during the course of those negotiations was the foreign investment rules, the FIRB, which most of them find a disincentive to investment. We had to spend a lot of time—we had Treasury colleagues present at all of the negotiations as well—trying to work out ways in which we could explain and comfort people about the nature of the FIRB and so on. Obviously the government of the day was not prepared to get rid of the FIRB—probably still is not—but that is, of course, a consideration. That is one on which we constantly exchange views with Treasury. This sort of thing happens frequently, including in the context of WTO negotiations.

**Mr O'KEEFE**—So we have visas and FIRB. What else?

**Mr Baxter**—On the trading side, there are issues relating to the quarantine regime in Australia and the way in which particular risk assessments are done through there. Sometimes those can be an irritant in our relationships with particular countries. We will often talk to AFFA.

**Mr BAIRD**—That is—

**Mr Baxter**—I mentioned that. On the investment side, I am not aware of any other specific issues that we are raising outside of the ones that we have already mentioned.

**Mr O'KEEFE**—It is not as if you are not listening out there to the people we are trying to attract or the countries we are trying to attract. I well understand that if around the table the perception of FIRB is something that is coming at you, you suddenly get Treasury in and take it up with them. Visas, we all know that. If there were other things jumping out at you, you would have been proactive. So can I assume there has not been other things jumping out at you?

**Mr Baxter**—One of the other things you mentioned going back a five-year period, at a more generic level there has been some concern in particularly the Asian region about the image of Australia as an investment destination as a result of some of the statements by One Nation and the way that those statements have been reported overseas. DFAT as a department has basically tackled that issue head on. We are very active in promoting an image of Australia as a tolerant, multicultural society, as a good place to invest and also to live for people from a variety of cultural backgrounds. Sometimes those images can have a very damaging impact on overall investment levels. We certainly take that responsibility very seriously as a department and are very active and put a lot of resources on an ongoing basis into ensuring that the image of Australia in the international community is as positive as it can possibly be.

**Mr O'KEEFE**—Good.

**CHAIR**—There being no further questions, I would like to thank you for being here today, ask that you send that additional information through to the secretary in due course. Thanks very much.



**Mr Baxter**—Thank you.

**Proceedings suspended from 10.44 a.m. to 11.00 a.m.**

**DEJONG, Mr William Anthony, Director, Regional Adjustment, Regional Development Branch, Department of Transport and Regional Services**

**ELDERTON, Ms Susan Tracy, Assistant Secretary, Cross-Modal and Maritime Transport, Department of Transport and Regional Services**

**HARRIS, Mr Des Keith, Director, Regional Forums, Department of Transport and Regional Services**

**STAMFORD, Mr Christopher Simon Paul, Director, North Asia Multilateral and Regulatory Reform, International Branch, Aviation Division, Department of Transport and Regional Services**

**WHEELENS, Mr Anthony John, Assistant Secretary, Aviation Division, Department of Transport and Regional Services**

**CHAIR**—On behalf of the Trade Subcommittee I welcome representatives from the Department of Transport and Regional Services. The subcommittee prefers that all evidence be given in public but, should you at any stage wish to give evidence in private, you may ask to do so and the subcommittee will give consideration to your request.

Although the subcommittee does not require you to give evidence under oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings in the respective houses. The subcommittee has a submission from the Department of Transport and Regional Services, submission No. 2. I now invite you to make an opening statement, if you wish, before we proceed to questions.

**Mr Wheelens**—Very briefly, I would like to say that, from the aviation perspective, both Australia and the international airlines that serve our markets are becoming increasingly integrated into a global market. Passengers and shippers are demanding better quality of services and more destinations at lower prices. Airlines around the world are responding to the demands for more freedom and flexibility in operating new services and innovative products. The government's policies are directed specifically to achieving those outcomes.

The aim of the substantial change that this government has made to international and domestic aviation since June 1996 have been to allow airlines and the consumers of their product, including airports, exporters, tourists and the community generally, to develop a more direct commercial relationship to deal with the problems that we face in this sector.

**CHAIR**—Thanks for that. In the information you sent us I note the growth particularly in air freight, which obviously is a great benefit to Australia and in exports as well. Can you expand on that for me somewhat?

**Mr Wheelens**—Australia is well served by air freight and it is poorly served by air freight. I will start on the well served side of it. The government's policy is to allow for open skies in international air freight operations, and effectively 22 of our 57 treaty arrangements on aviation

now provide for open freight access to the Australian market. In those treaties where open access is not permitted for freight, we have an extremely liberal approach to it. Off the top of my head, I think since this government has been elected we have negotiated an additional 113 747 or equivalent freighters a week into our treaty negotiations. That is the good side. The government from our perspective has effectively dealt with the supply side of the equation to create the opportunity.

The reality for Australian exporters is that the bulk of the air freight activity occurs in the belly holds of passenger aircraft. About 90 per cent of the total export activity by air is carried in the belly holds of passenger aircraft. The good thing about that is that it gives Australian exporters a comparative advantage in that that capacity can be, and is, marginally costed. For a lot of our exporters access to that facility represents a very important commercial advantage over their competitors elsewhere.

Were they to carry that marginally costed freight on dedicated freighter aircraft, they would have to take the full allocated cost of operating that aircraft. For a lot of our exporters that is an expensive business. That is the benefit of the belly hold capacity. The downside of it is that a lot of horticultural exports occur at the busiest time for passenger operations—the peak season for a lot of our exports is around the November-January-February period. That clashes, quite clearly, with the height of demand for passenger services. So that is a structural impediment on that aspect of it.

**Ms Elderton**—However, a considerable amount of work is being done to use latest packaging technologies to move some of those perishables from air to sea. The CSIRO, and the packaging CRC in particular, have developed new oxygen scavenging polymers which will keep perishables fresh and extend their shelf life for up to two months. As those developments go forward, it may mean there will be less pressure on air freight for perishables in any case.

It is also true that recently there has been some experimentations done by the Australian Freight Council network in trans-shipping perishables which go by air freight to Singapore and then from Singapore by sea to Europe—an opening for new markets. This has been made possible by implementing technological changes in coal chain technology that are Australian invented, if you like. Things are happening to address the problem of belly hold being the main source of getting freight out of the country. At the same time we would have the benefit of the marginal cost or subsidised rate, whichever you wish to consider it.

**Mr BAIRD**—Do you think it is now time that we looked at open skies for all of our airports rather than just just restricting it to those outside of Brisbane, Melbourne and Sydney—

**CHAIR**—And Perth.

**Mr BAIRD**—And Perth.

**Mr Wheelens**—There is not a simple answer to that question. I think the first issue is what is actually meant by open skies. There are 100 different versions of it in 100 different countries. We would like to see more countries interested in open skies. It is not a universal proposition. Of our 57 treaty partners, I would estimate that no more than 15 would be potential open skies partners with Australia. Most of those would be in Europe. If you ran through it by region, you

would find none in North Asia, one in South-East Asia with Singapore, eight or nine in Europe, United States, Australia and New Zealand. And after that I do not think I can find another significant player that would be interested in open skies.

In that environment the first challenge that we have is to do the very best deal that we can for Australia. In putting that package together, we need leverage to do the deal. The government has correctly identified that the leverage that we can extract really exists at Sydney, Melbourne, Brisbane and Perth and not at too many other destinations in Australia. We will continue to prosecute the open skies agenda, firstly with those countries that are interested in it and, secondly, where open skies actually represents the best outcome for Australia in that process. But there is not a simple answer to the question.

**Mr BAIRD**—So do we actually have open skies operating at Melbourne, Brisbane, Sydney and Perth with some countries?

**Mr Wheelens**—We have New Zealand as our one open skies deal. Just to put that into context, most of the open skies deals that have been done at the moment are based on the US open skies model. It is a model that we are uncomfortable with. For example, it does not permit the right of inward investment. So under an open skies deal in the United States Australian firms would not be able to establish businesses in the United States to run in competition with the US carriers, as Virgin does in Australia.

US open skies agreements have antitrust immunity, which is diametrically opposed to the Australian policy of having the Trade Practices Act operate without sectoral distinction. There is a number of structural problems that we have with the US model. What Australia has done over many years is to progressively liberalise our agreements. We have quite a few agreements at the moment that are virtually open skies by virtue of the amount of excess capacity that has been negotiated into those agreements.

**Mr BAIRD**—Which countries would they be with?

**Mr Wheelens**—I can give you a list of those. We actually prepared that for the Productivity Commission review. It changes as demand fluctuates and depending on where we are in our negotiating schedule. But I do not think there is a single agreement that we have where there is a capacity constraint that is affecting demand for the product at the moment.

**Mr BAIRD**—What if we actually had a total open skies policy so that whoever wanted to fly into Sydney could, for example? What do you think would be the result?

**Mr Wheelens**—If we did that unilaterally?

**Mr BAIRD**—Yes.

**Mr Wheelens**—If we did that unilaterally, we would sacrifice a very significant opportunity for us to expand the route rights. As you know, and I know that you know this product fairly well, it is complex. It does not just rely totally on point-to-point traffic. If we did have a unilateral agreement, say with Germany, where we unilaterally gave the Germans unrestricted open skies access to Australia, what we would sacrifice in doing that would be the use of

Germany as a collection and distribution point, the ability of our airlines to operate behind Germany to other markets and to achieve the economic efficiency that comes with some of sector operations.

**Mr BAIRD**—Behind Germany operations, what in particular do you mean by that?

**Mr Wheelens**—If we had an open skies deal with Germany, for example, that was a bilateral open skies rather than unilateral, we could access the Germany-US market, the German-UK market by exercising beyond—

**Mr BAIRD**—But we are not doing that now, are we?

**Mr Wheelens**—No, the opportunity does not exist to do that now because we do not have an open skies deal with them. I was simply contrasting the difference between the cost of the unilateral granting of open skies rather than a negotiated open skies.

**Mr BAIRD**—I understand what you are saying. Could you actually point to an example of a real example because we are not flying from Germany to—

**Mr Wheelens**—Singapore is a case in point, where Singapore is a major collection and distribution point for Australian airlines and for a large number of the foreign carriers that operate to Australia. If we have open access to all of the markets behind Singapore, then the value of Singapore as a destination changes dramatically for us.

**Mr O'KEEFE**—Can I shift away from aviation for a moment. What we are trying to focus on in this inquiry is that we have looked at a couple of examples—for example, Ireland and Singapore—where over a number of years their governments seem to have taken a collective proactive strategy of encouraging investment and encouraging outward bound export development. That has happened in Australia too, and transport has been a crucial factor, particularly as you have shifted to value adding.

The question really is this: are there any projects on the board at the moment that may come to fruition which you think Australia could market as an aggressive investment advantage? If I could give a little example of the Northern Australia Task Force. Obviously it has been hanging around Alice Springs to Darwin. If that gets built and goes ahead, has the department of transport got a strategy for Australia making something decent out of it and encouraging investment off the back of it? Is it perceived as something that could lead to that?

If we leased Sydney airport, is that just a bucket of money for the budget or is there a strategy built in as to how we can actually develop our opportunities off a transport change like that? I guess what I am saying is: what projects is your department specifically looking at that can fit a strategy of proactively pushing these things forward for Australia? Start with the Alice Springs to Darwin railway, if you like.

**Ms Elderton**—I believe that nobody here would be qualified to discuss the impacts of the Alice to Darwin railway. Is that something that we could get another submission on?

**Mr O'KEEFE**—All right, yes, I would love to know. This may not be the brief of the Department of Transport and Regional Services, although I would have thought it would have been part of the brief. Or is your job to get it built and then it is Foreign Affairs and Trade's job to make something of it or what? How does it work?

**Ms Elderton**—If I could move away from infrastructure investment, which I am not sure any of us are in a position to talk very much about—I hope I am speaking for everybody here—I would have thought the department's chief initiative in that area was a freight logistics action agenda which got under way this year where the focus is very much on improving our supply chain performance. As I am sure you will be aware in the context of globalisation, if you want to succeed basically you have to make sure that your product, the way it is distributed and the electronic processes associated with it dovetail with those of major retailers overseas. So in a sense Australian supply chains are competing with supply chains from other countries.

Some people say Transport are up to world standard in supply chain practice; other people say we are appalling. Part of the action agenda is to determine what the real position is and to come up with a program of regulatory training and technological reforms that will make Australian practice best practice in world terms. I would have thought our focus was pretty much in that direction.

**Mr Wheelens**—Just to add to that, looking at the aviation side, we regard our principal obligation as creating an environment where the opportunity can exist. Our policies are directed at that. Where the issue of investment arises, certainly external investment, we would bow to the Treasury and the FIRB on the circumstances where that investment can occur. But, as I said, our principal role is to create the opportunity where it can. It is then for the FIRB and the Treasury to finetune that and make sure it meets the national benefit test that comes out of the FIRB process.

**Mr O'KEEFE**—Take another example then: if some great piece of innovation occurs in the Australian transport sector—there are lots of innovations going on—does the department of transport, which ought to be one of the first departments to see something like this happening under its nose, take any proactive role in impressing other departments or the commerce sector or whatever to understand what is going on here and help develop opportunities off the back of it?

**Ms Elderton**—It has definitely happened in relation to logistics and supply chain issues where we have engaged in the three other departments who have a chief interest—AFFA, DISR and DOCITA. The department is taking a lead in promoting intelligent transport systems in Australia and promoting that overseas. Some of those innovations have to do with traffic management and environmental concerns, but others also have to do with better electronic tracking of freight and the like.

**Mr O'KEEFE**—We were doing all those things 10 years ago. We are still doing them, are we? Has anything new come on the horizon since ITS and enhanced logistics and CSIRO inventions of long-life packaging?

**Ms Elderton**—With respect, we were not doing that 10 years ago at all.

**Mr O'KEEFE**—Yes, we were.

**Ms Elderton**—Certainly not on the scale and with the devotion of resources that is going into it at the moment.

**Mr O'KEEFE**—So ITS is now a major focus for the department, is it?

**Ms Elderton**—Very much so.

**Mr O'KEEFE**—And the freight logistics with the fresh food fast packaging stuff, that is all a major initiative?

**Ms Elderton**—Not just perishables but we are moving beyond that to manufactured and processed food too, yes.

**Mr O'KEEFE**—Anything creeping up on the horizon there that you can see that we can think about?

**Ms Elderton**—Give me an example and I may be able to respond.

**Mr O'KEEFE**—I do not know. You are the people who are the transport experts. You should know what is going on in the country that is innovative.

**Ms Elderton**—As you say, there is a grab bag of initiatives going on all of which can be picked up within major frameworks, such as better supply chain and better environmental impact—all of which can be exported overseas as well and all of which will make Australia a more attractive place to have alliances with or to invest in. But I think basically our major contribution is in terms of developing new technologies which look very small time, such as new packaging technologies, but which have a tremendous impact on the attractiveness of our product overseas and help us overcome the geographical disadvantage of being still a long way away when it comes to getting sea freight to other markets.

**Mr O'KEEFE**—Going back to the terms of reference that we are focusing on, you might be the most proactive department we come across because you are being proactive in some areas here. I might tell you that some of your predecessors are not, in our view. Do you think there is a proactive ethos so that if your people spot things that can help you are actually sending off memos to somebody to tell them to get interested in it? Is it a proactive department in this field?

**Ms Elderton**—We are doing more than sending off memos. We are funding some project development. Again, it tends to be pretty much a whole of government approach because the dollar goes further. So we have alliances with AFFA and DISR to promote, first of all, electronic commerce research but also to fund evolving Australian companies who are going to provide better freight management through electronic commerce. We work very closely with Supermarket to Asia. In our department there is a transport and logistics working group. We use Supermarket to Asia both to bring to public awareness what needs to be done to improve our export performance and also to get funding. Again, it tends to be on developing the new technology side or exploring new ways of moving freight around.

Three years ago now, air and sea freight councils were set up in each state and territory. There is now a national freight council network. They operate at two ends of the spectrum—three really: they advise state and federal government, they do deals for businesses that really do not know how freight rates are negotiated or what their alternatives are in terms of moving freight, and they also undertake some major coal chain studies.

A good example is that through the air and sea freight council network, a national code of practice for carrying perishable goods has been developed. We now have to see how it is to be implemented. Not only does that ensure that our product arrives in good condition but, perhaps more importantly than that, to the extent that a lack of accredited codes of practice of that kind are being used as non-tariff barriers in countries like the US, we now have almost in place—we have the framework anyway—something that will address those issues.

**CHAIR**—On sea freight, it has been suggested that our domestic sea freight is uncompetitive. Can you give us some advice on that?

**Ms Elderton**—I can only say that we find it very difficult to get real freight rates for maritime because all sorts of deals are negotiated according to how large a customer you are and various other permutations. But my understanding is that our sea freight rates are very competitive with most other countries in the world. If we have a problem, again it has to do with our distance from the rest of the world and the fact that fewer and fewer direct shipping services are operating from Australia to the market destination.

**CHAIR**—I am not talking about our inward and outward. I am saying that if you want to put something on a ship in Melbourne and send it up to Brisbane or Sydney or around to Perth, that aspect is very uncompetitive. The stories I have been told is that you can send something from London to Australia cheaper than you can send it from point A to point B.

**Ms Elderton**—So you are talking about coastal trading?

**CHAIR**—Coastal trading—I should have used coastal instead of domestic.

**Ms Elderton**—We do not have a totally liberal regime. Very few countries in the world do. In fact, the only one I can think of is New Zealand. No, it is not as liberal as it could be, in somebody's version of an ideal world. But there have been reforms over the last decade in particular. It is now possible for international ships moving around Australia to move domestic freight if they apply for a single voyage permit from our department, which is an improvement on the situation prior to that coming in.

**Mr O'KEEFE**—Regarding regional development, Mr Harris, I have seen the submission but is there anything going on in your section of the department that is a bit proactive as far as these things go?

**Mr Harris**—One of the things we are doing is a follow-up to the Northern Australia Forum which was held in Katherine in October last year—from 17 to 20 October, I think it was. At that forum the Queensland, WA, NT and federal governments agreed to work together on looking at development of northern Australia per se so that they do it as a joint initiative. The WA, Queensland, NT and federal governments have actually put some money into one pot, if you



like, to look at a couple of issues on industry opportunities and commercial benefits from industry collaboration across northern Australia. It ties in very closely with the work that Ms Elderton talked about a minute ago with Supermarket to Asia and the supply chain work. We are working quite closely on that.

We also are doing a series of seminars with the Committee for Economic Development Australia. The seminars are going to be in Darwin, Perth, Brisbane, Sydney and Melbourne, the emphasis being on the Sydney and Melbourne ones where we are looking to change perceptions of northern Australia and investment opportunities in northern Australia. We are targeting the investment houses, if you like, and we are attempting to change their perceptions on northern Australia and the benefits of investing in northern Australia and whether in fact you should ramp up your rate of return so that you are looking at a higher interest rate in northern Australia or whether you simply look at northern Australia as another commercial opportunity. So you would look at it on the same sort of risk rate as some other industry opportunity.

Those seminars are being run jointly with the Committee for Economic Development Australia and the WA, NT and Queensland governments are also taking part in that as well. We start about the end of April through to about mid May—the five of them. The opportunities there are that we will promote northern Australia investment opportunities. We will provide some background material and a business paper to give potential investors ideas on what are the characteristics of northern Australia and what the potential comparative benefits of investing in northern Australia. We will also be providing some pointers on the sorts of investment opportunities—industries and all the spin-offs from industries in northern Australia.

**Mr O'KEEFE**—That is being done under the regional development hat rather than as 'here are some wonderful transport things that are going on'—regional development hangs off the end of transport?

**Mr Harris**—It is being done in a far broader context, if you like. We also have a Commonwealth working group on regional forums. All federal agencies are a member of that working group, so we did it on a whole of government basis.

**Mr O'KEEFE**—Let us go back to an example of an infrastructure project, very fast trains in Australia. I do not know the fine detail of it, but the government has knocked on the head the one that was hanging around, which as I understand it was about \$1 billion worth of public capital attracting about \$3 billion worth of private capital. My understanding is that your department in particular lobbied against the project.

The decision that has been taken regarding fast trains is that there is going to be some sort of feasibility study about Brisbane to Melbourne. Does your department see fast trains as something that can stimulate the development of Australia, and how would you go about proactively developing it as a thought within government in Australia? Or does the private sector have to come along and do it to get us taking it forward? Where are you in those big infrastructure investments?

**Ms Elderton**—I will have a shot at it. Again I am afraid there is nobody here from rail who could give a better answer. There are two things. My understanding is that this committee's interest is primarily in trade and the export of goods. As far as I know, fast trains do not carry

freight so in that sense I find it hard to imagine how they would have a big impact. A regular freight service from Melbourne to Brisbane certainly would. It would change the whole ballgame in terms of the options exporters had to move their freight. I imagine too that it would change the balance between road and rail to a great extent.

In terms of the model for funding, the model that seems to have evolved over the years is that governments put in a share to pay for the infrastructure and the rest is meant to be attracted from the private sector. I do not know that the formula is very rigidly applied. What tends to happen in practice is that you get a private sector commitment which diminishes and a government sector commitment which of necessity must increase. I think that partnership model is the one we will go ahead with.

**Mr O'KEEFE**—Just to go back to something you said there: we are focusing here on the broad range of opportunities and not just freight. In your submissions about international aviation, you have quite correctly said that the investment and the changes that have taken place in aviation have been dynamic in helping Australia's services expansion and encouraging investment into the country. By saying that you are seeing rail as a freight issue, and you have made the point that there is a bit of legs around for south to north freight investment, do I take it that within the department you do not see much potential—for example, the European model—of fast trains moving people, enhancing tourism and all the rest of it? That is an aviation job in Australia, is it?

**Mr Wheelens**—History will tell you that; that has been the history of it. There is certainly a very high propensity for Australians to travel by air. As a generality we are a middle-class society that has a level of disposable income that makes aviation attractive to it. That has been our long-term history. The long-term history of passenger train operations in Australia does not reflect anywhere near that level of commitment by Australian consumers and I think our geography and population size tend to take us closer to aviation than to the rail systems. I think that will continue to be the case.

**Ms Elderton**—Which is not to say that fast trains may not be attractive for commuting between say Wollongong and Sydney, Newcastle and Sydney, but it is very hard to imagine them supplanting air when it comes to Sydney to Brisbane, for example.

**Mr O'KEEFE**—In the announcement knocking over Speedrail, there was somewhere in it some mention about a feasibility study to look at the fast train route down the east coast—Brisbane, Sydney, Melbourne, Canberra. Is the department at this stage playing any role in trying to get that going or is that statement just sitting on the table at the moment?

**Ms Elderton**—I am aware that the department is involved in the feasibility study but I do not have the details. I can get them though.

**Mr O'KEEFE**—Mr Chairman, I would like to hear from the department at some point in this process on both Darwin to Alice Springs and whatever is going on on fast trains. Perhaps you might take that on notice and we might talk to them later on.

**CHAIR**—There being no further questions, I would like to thank you for your attendance here today. The information that you have been asked to provide should be sent to the secretary.

**Proceedings suspended from 11.37 a.m. to 11.50 a.m.**

**FINLAY, Ms Gail, Assistant Secretary, Regional Strategies Branch, Department of Employment, Workplace Relations and Small Business**

**HART, Mr Denis, Director, Occupational and Skills Analysis Section, Department of Employment, Workplace Relations and Small Business**

**MacDERMOTT, Dr Kathy, Assistant Secretary, Framework Policy Branch, Department of Employment, Workplace Relations and Small Business**

**MATHESON, Mr Scott, Assistant Secretary, Economic and Labour Market Analysis Branch, Department of Employment, Workplace Relations and Small Business**

**CHAIR**—I welcome representatives of the Department of Employment, Workplace Relations and Small Business. The subcommittee prefers that all evidence be given in public but, should you at any stage wish to give evidence in private, you may ask to do so and the subcommittee will give consideration to your request. Although the subcommittee does not require you to give evidence under oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings in the respective houses. The subcommittee has a submission from the Department of Employment, Workplace Relations and Small Business, submission No. 9. I now invite you to make an opening statement, if you wish, before we proceed to questions.

**Mr Matheson**—Just very briefly, Mr Chairman, we obviously made the written submission and we argue there that increasing trade and investment can make an important contribution to Australia's wealth and standard of living. In our written submission we focus on those areas of the inquiry's terms of reference which are directly relevant to the Employment, Workplace Relations and Small Business portfolio, and principally that relates to the role of the workplace relations framework. There we argue that it is critically important to both our trade performance and our image as a favourable destination for investment by foreign companies. I think the bottom line of what we are saying is that while much has been achieved over the last decade there are still some impediments which remain. Dr MacDermott would be the person with prime responsibility for that area of our submission.

Secondly, we discuss the importance of ensuring Australia has an adequately skilled work force in maximising the benefits from trade and investment. Mr Hart would be happy to take questions on that aspect of the submission. Finally, we briefly outline the role of some of the department's programs in promoting regional and indigenous business exports. Unfortunately, there is a fourth member of our group who is not with us yet. Gail Finlay had another engagement at about 11.30 and thought she might be about 10 minutes late. Hopefully, she will be here shortly and can answer any questions that you might have on that aspect of the submission. We would not want to say anything more than that we are happy to take any questions that the committee might have.

**Mr BAIRD**—I was interested in terms of the impediments that you saw. As you know, we are looking particularly at overseas investment and some of the models that have been given in

terms of Ireland and Singapore. What do you see as being significant impediments for investment in the industrial relations area?

**Dr MacDermott**—As the submission indicates, the government really is looking at two particular outcomes from its policy directions: one is increased flexibility and the second is increased stability both for employers in Australia who might be wanting to export and also overseas investors in Australian businesses. The submission outlines some of the changes put in place both by the previous government back in 1994 and in 1996 by the present government and also outlines some of the areas which the present government sees as needing further reform. In particular, it is looking to simplify and loosen up agreement making processes so that agreements will be easier to reach both at a collective level and at an individual level.

It is also looking at areas which have to do with industrial action, with pattern bargaining and with right of entry into the workplace. A final key area the government is looking at is unfair dismissal because of concerns that employers who may be wanting to take on extra employees in order to expand their businesses may have in terms of the implications of the current unfair dismissal arrangements. Broadly, those are the areas. Do you want to delve into any sort of subsection of those?

**Mr BAIRD**—I suppose it is really to what extent do you have an involvement when companies are considering investing and they are pinpointing particular areas as a detriment to investment? Do any of them stand out in particular? What is the most commonly nominated?

**Dr MacDermott**—One of the most common concerns goes to the complexity of the current system, largely because of its basis on the conciliation and arbitration power of the Constitution which means that we have both federal and state jurisdictions and a number of distinct awards which have grown up around them in those different jurisdictions. Some of the employers found the presence of federal unions, state unions, federal awards covering particular groups in a particular workplace and state awards doing the same to be quite complex. We are also concerned not only about possible industrial action which could come out of the intersection of those matters but also about the simple complexity of managing a workplace.

One of the reasons why the government has gone to expand the flexibility of agreement making is to enable employers to try to draw together everyone into a single agreement which covers the entire work force. Nevertheless, the problems raised by jurisdictional issues by the number of unions associated with different awards and by the presence of all those at the workplace is one area that has been identified in my presence as a concern by people seeking to invest in Australia.

**Mr BAIRD**—Do you see then the solution as centralising the industrial agreements and legislation under the federal jurisdiction?

**Dr MacDermott**—That is not government policy although it is looking to encourage debate in that area. The main policy is to encourage as much agreement making as possible so that people, to the extent possible, can overcome that at the workplace level. So there is scope to make union agreements non-union agreements, state agreements, federal agreements, formal agreements, informal agreements under the present system. The government is really hoping to

simplify procedures and enable people to reach those agreements in order to encourage as many people as possible to do so.

**Mr BAIRD**—Do you get involved in discussions with Foreign Affairs, for example or Invest Australia on the IR implications of investing in Australia?

**Dr MacDermott**—We give them overview material on how the system currently works and the changes that have been put into place. They often get in touch asking about industrial action disputes—people overseas seem to want to know what the patterns are and the level of industrial action. I think it is probably fair to say that Australia's representation overseas for better or worse has been affected by industrial disputes. Partly that has to do with the scrupulousness with which Australia collects data on industrial disputes. But it is remarkable—

**Mr BAIRD**—What are you suggesting—that we should be less scrupulous?

**Dr MacDermott**—It seems to be unfair that other countries get away with being less scrupulous compared with us. Nevertheless, the overseas trends have shown that industrial disputes have fallen right around the world and Australia is no different. In fact, at the moment we have a record low number of industrial disputes.

**CHAIR**—Regarding the windback that appears to be going on in Western Australia on IR; do you have any comment on that?

**Dr MacDermott**—I can tell you that the mining industry is very unhappy about the roll-back on individual agreement making. They feel that it will have an impact on their productivity. The government has pointed to this as one of the symptoms of a possible roll-back which may come later on down the track. But I have no more to say other than that.

**Mr O'KEEFE**—I am comfortable with all that. I was telling the chairman and Mr Baird something privately just before you came in that reinforces your comments about perceptions of us overseas. I met a couple of years ago with the head of the McCains Food organisation in Canada. They had just won the potato chip contract for McDonald's for Asia. They were considering where to grow the potatoes and make the chips. He was making a judgment, based on his perceptions of the Melbourne waterfront which came out of the whole MUA thing, that Australia was the last place he was going to grow his spuds so he was going over to New Zealand to do it. I am just wondering whether we still have to deal with these perceptions around the place or have other things overcome them now in the general framework?

**Dr MacDermott**—One thing that is worth pointing out in the framework is that the shift to agreement making was accompanied by a shift to a legislative framework in which it is unlawful to enter into an industrial dispute outside the agreement making process and when an agreement is current. So your agreement has to have expired. There was a great deal of confusion under the previous legislation and no real mechanisms to stop people who did take unlawful industrial action. There is now scope for the commission to issue what is called a 127 order to order that disputes cease or not in fact be put in place if they are threatened. There is also scope, which is important, for the Federal Court to enforce those orders.

It is very difficult to know what impact measures of this sort have because the ABS only collects industrial dispute figures across Australia generally; it does not do it by jurisdiction. So it is a bit difficult to see how measures in particular jurisdictions impact on industrial outcomes. It is worth saying that I think there is a broad perception that that has had an effect on the pattern of industrial disputes, as indeed has enterprise bargaining and the move to bargain on a workplace by workplace level.

**Mr O'KEEFE**—Do you find that potential investors are now more relaxed about the way they would conduct industrial relations in Australia or are they still as nervous as they have ever been or does it not come up in discussion?

**Dr MacDermott**—I cannot speak to that. I really only see them via Foreign Affairs so you would need to talk to them about that.

**Mr BAIRD**—What about the changes in the waterfront? Has that led to greater confidence in terms of investment in Australia, do you believe?

**Dr MacDermott**—We certainly let it be known that that has happened and the impact of the second boycott provisions changes that went through in 1996. My impression is that that is the case, but again I do not deal directly with overseas investors so I cannot speak to it.

**CHAIR**—In the area of Australia's skills base, it has been suggested by a number of employers that the move away from directly indentured apprentices to group apprenticeship schemes has actually lowered the quality of tradespeople in Australia. Can you make a comment on that?

**Mr Hart**—That really would be a question that would need to be addressed to the Department of Education, Training and Youth Affairs. I am not sure whether they have provided a submission—

**CHAIR**—I am aware of that but I am asking you: do you have a comment on that?

**Mr Hart**—We really could not comment on that, except to say that group training companies certainly have improved the flexibility of apprenticeship training. They have provided an extra facilitation of apprenticeship training in Australia, particularly for small business where they can provide backup rather than have a straight employer-apprenticeship relationship. So with group training companies I have not heard the concerns about the quality issues. But certainly group training companies vet applicants for apprenticeships quite well, and possibly more effectively than obviously individual employers can do, because they are constantly involved in the work of recruiting apprentices for employers. I really could not comment on that. I would not see it as a particular issue. I think group training companies have added substantially to the flexibility of the apprenticeship system.

**Mr BAIRD**—One of the things I found interesting in looking at the sun belt states is the specific training that was provided for companies that were considering investing. Do you ever get involved in discussions about providing specific skill training for a potential investor in Australia or not?

**Mr Hart**—We monitor skill shortages in Australia quite thoroughly, possibly more thoroughly than even most other countries. So we are certainly aware of where a lot of the skill shortages across Australia are. That varies across various regions. Apart from education and training, obviously migration is also a potential source of skills. Where necessary, a labour agreement can be negotiated by a company to provide a supplement to the skills available domestically. They are negotiated either with a group of companies or with an individual company.

**Mr O'KEEFE**—Say the government took a national strategy decision—as was taken with tourism a decade or so ago—that the country wanted to develop its tourism infrastructure and skills and go out and aggressively find people and all that happened, what role does your department play in either identifying those opportunities and then communicating them to the people who ought to be aware that it is an opportunity and trying to proactively lay out a pathway as to how we might do it? Are there any such opportunities that you are looking at at the moment?

**Mr Hart**—Through our skill shortage work, we have been actively involved over the last 18 months with six industry-led skill shortage working groups that have been initiated by Dr Kemp. Although DETYA obviously has a much stronger role, we have been participating in those groups. We are focusing on getting industry to look at identifying where the skill shortages are, the nature of the shortages and the ways to address those skill shortages. There were three initial areas of examination that included automotive, electrotechnology and engineering trades. Currently we are looking at building and construction, food trades and also rural skills. So there is a very useful process now, in areas such as rural which picks up some of the regional concerns, and industry is working with government and looking at those various issues. We as a department are providing information and advice as needed on workplace relations issues and other matters that come within the portfolio. But effectively you have an industry and government approach that is looking at issues such as that. Those six working groups now cover most of the trades areas which are probably where Australia has had most of the persistent skill shortages.

We do a lot of information on the information and communications technology skills where there are also widespread shortages. We have recently released a quite extensive list of shortages, not just saying there is a shortage of information and communications technology skills but we have actually detailed about 90 specialisations and we assessed where there have been shortages in each of the states of Australia. We provide a very strong informational role and work with other departments and portfolios, and particularly industry as well, in looking at ways to address skills shortages and particularly emerging skill shortages. Our focus is very much not just on where we are at but what the skills required in the future are likely to be.

**CHAIR**—My question is directed to Gail Finlay. We are all aware of countries that experience the brain drain and the measures that a number of them have taken to get those sorts of people back. But regional areas claim that they have a similar problem of people leaving regional areas and gravitating to major capital cities. I note with particular interest the debate/discussions recently in regard to tax incentives/zone rebates to get people to live and work and stay in regional areas. Can you give us any comment on that?



**Ms Finlay**—Mr Chairman, I probably cannot because it is not something that falls within the purview of our portfolio. That is more likely to be a matter for the Treasury. What our our department does is try to work with—

**CHAIR**—You are the assistant secretary, regional strategies branch. Is that not a regional strategy?

**Ms Finlay**—That is a fair point, Mr Chairman. The strategies that we focus on are strategies relating to generation of employment in regional Australia. Our focus is very much on using one of our major programs, the regional assistance program, to assist communities in developing proposals that will boost regional employment. The wider settings that you are referring to are picked up in a number of other portfolios. Issues about taxation zones are dealt with through the Treasury and the Treasurer.

**CHAIR**—I am aware of that, but as part of regional strategies, you have obviously identified the problems in the areas. I am aware of the program that you mentioned. But even in regard to getting doctors in country areas, the problem always is that once the kids leave home to go to university wherever, in the main they do not come back. What regional strategies have you developed to address that particular matter and do you see any merit in such an incentive as was being discussed recently in regard to tax matters?

**Ms Finlay**—I think that those broader issues that you are touching on have been taken up by the Minister for Regional Services, Minister Macdonald, in the context of the Regional Australia Summit and also the Northern Australia Forum that was conducted last year. I was at the Northern Australia Forum in Katherine when this issue arose about retention of skilled people in the regions and also the questions that you have raised about taxation. The minister made it very clear that the government was going to look at large at these questions. Our portfolio contributes to those larger issues but our contribution is very specifically focused on employment generation and also on some of the small business issues that relate to the health of regional Australia.

**Mr BAIRD**—In terms of employment issues and generating employment, could you say specifically how you do that? What are the measures in which you generate employment?

**Ms Finlay**—Certainly. In our submission we have advised that there are two areas we have identified that may be of relevance to the committee. The first is that within our portfolio responsibility we look after a network of area consultative committees. This is a national network of committees. There are 56 of them across Australia. They consist of volunteers, people who are leaders in their local communities who work across government, whether it be federal government, state government or local government, to try and identify opportunities for regional growth and development. That is one sort of major area in which the portfolio contributes.

**Mr BAIRD**—Is that the Grow scheme?

**Ms Finlay**—Grow is one of those committees, that is correct. I should mention that the committees work in both metropolitan and non-metropolitan Australia and Grow is an example of one that works in a metropolitan area. Through these area consultative committees we try to

work with local communities to identify opportunities for economic development. Through the regional assistance program, which is the second element, we try then to provide some seed funding for good projects within communities that may in fact generate employment.

In doing that, in view of the wider role that the area consultative committees can play, we try to work with other parties. To give you an example which again may be relevant to your terms of reference: if there is a proposal that a local area consultative committee has identified that may have investment or trade implications, then they will consult with other departments like Austrade to make sure that what is being proposed fits with Austrade's overall objectives. I note that Austrade have made a submission to the committee. So that is an example of how we might work with other parties.

**Mr BAIRD**—Thank you.

**Mr Matheson**—Can I just add one thing to what Gail said. In fact, it comes back to a comment that you made prefacing the original question to Gail where you referred to brain drain. While not at all taking issue with what you were saying which was relating what might be seen as a brain drain at a regional or rural level—particular regions and particular rural areas—overall I do not think it would be fair to characterise Australia as facing a brain drain. There has been some recent research—in fact, it is currently being finalised—that our department has contributed to, along with a number of other departments including the Department of Immigration and Multicultural Affairs, conducted by Professor Bob Birrell from Monash University. He has actually looked at this issue at a national level and whether we face a brain drain. In net terms we do not. In net terms, Australia has actually gained from migration. I think the initial results from his research were released at a conference that Minister Ruddock organised just recently on the economic impact of migration. The final results of that will be out fairly soon. But certainly at a national level we actually acquire skills rather than lose skills through people leaving the country. Which is not at all to take issue with your characterisation of particular regional perspectives on that.

**CHAIR**—It is just that we had a submission from the Irish ambassador and, in part, he said the thing that Ireland had to overcome mostly is to get their smart people back. I recall reading something somewhere where the Prime Minister in recent times alluded to the matter of the danger of the smartest and the best leaving Australia. Having alluded to it, there must be some concern there. That is the reason I mentioned it.

**Mr Matheson**—Certainly it is the case that people do leave the country and a lot of the people leaving the country are young and skilled. A lot of them come back. But we also get through our skilled migration program—it has very much a skill focus in it—a lot of skilled people coming to Australia. Certainly Bob Birrell's research has shown that Australia is better off in net terms as a result of that sort of process.

**CHAIR**—Part of your submission talks about Australia's productivity performance. There are several reasons given for it. Has any analysis been undertaken as to why the housing industry is globally at the top of the benchmark in regard to productivity because of the subcontract system and to analyse the fact that the subcontract system effectively is so efficient because it is not caught up in overtime rates and the old award structure? It even flows through

to enterprise agreements or whatever companies enter into and you can extrapolate that through every other area.

**Mr Matheson**—Certainly I am not aware of anything that we have done within our department. I am not aware off the top of my head as to any other research that might have been conducted in that area. I do not know if anyone else here is. We could certainly see if we could turn up anything for you. But I am not aware of anything.

**CHAIR**—Because if you had to build a house the way every other industry basically has to work—with time and a half and double time and goodness knows what else—then not only the average Australian but most Australians could never afford a home, in my view.

**Mr Matheson**—I suppose we come back to the sorts of issues that Dr MacDermott was talking about in relation to the role of agreement making and the flexibilities that that provides.

**CHAIR**—But agreement making, I would suggest, look to what was the past benchmark and try to almost extrapolate that forward. That is part of the problem I see we have.

**Mr Matheson**—Perhaps Dr MacDermott could talk a bit more about that. But certainly when you look at what has happened in agreement making, there has been enormous strides in eliminating a lot of those old impediments that might have been seen to be operating in the award system.

**CHAIR**—There have been some strides. I do not know whether I would call them enormous.

**Mr O'KEEFE**—Some people have a mental black hole about this!

**Mr Matheson**—We could perhaps provide the committee with a copy of a recent report on agreement making—from last year—which is required to be produced by the department under the Workplace Relations Act. It provides a considerable detail on the types of flexibilities that have been introduced through agreements in the federal system anyway, because that is the focus of the report. But issues like hours, penalty arrangements and so on in awards have been one of the key areas where flexibilities have been introduced through agreement making.

**Dr MacDermott**—You probably want to distinguish a bit between home housing and the large civil projects because in fact if we have a look at the data we have on agreement making, the real push for pattern bargains is in that industry. About 26 per cent of agreements we have have been pattern bargained but they only cover about three per cent of employees. Often those are people in those large civil projects where in fact they do make agreements which mirror each other, whereas I think you are quite right in what you are talking about in terms of the home building industry where you have much more flexibility. They are much smaller operations and people move in and out much more flexibly. It might be difficult to get aggregate data that breaks down those two sorts of trends and enables you to distinguish between the two.

**CHAIR**—But even with the very large project home builders, they are producing homes that are very competitive because of the subcontract system. Yet on the civil building areas, they are not able to do that.

**Dr MacDermott**—No, that is right.

**CHAIR**—I am just saying: why do we not face up to it that that part worked really well because of a particular reason, and this does not and we never seem to in Australia want to front up to it?

**Dr MacDermott**—The government, as you know, has a code of conduct in the building and construction industry. But again that tends to operate in the those large metropolitan sites rather than the sort of suburban home building.

**Mr Matheson**—It is directed at that kind of issue which is to stop head contractors on major construction projects effectively locking all the subcontractors on the site into particular arrangements which reflect the arrangements applying with the head contractor.

**CHAIR**—That is only to do with site allowances and that sort of thing. Site allowances do not apply to housing. You never get the site allowance applying to a housing project. The problem with the big projects is that if there is a site allowance for a particular project, which is just rubbish, the costs flow on. I am only just saying if we want to get stuck into productivity, I am wondering when eventually Australians are going to front up—whether it be housing or in the restaurant and tourism trade—and say, ‘If you want to work let the market decide.’ If someone wants to work on a Sunday that is how much the employer is paying. If you cannot get anyone, he has to wake up to the fact that he has to pay more. Why put a penalty regime in place, whether it gets wrapped up into enterprise bargaining or not because the enterprise bargaining only reflects the view that you should be paid more on Sunday than Monday?

**Dr MacDermott**—There is a considerable growth in the number of independent contractors who are around. You may be interested to know that the Productivity Commission is actually looking at where this growth is and trying to get a bit more of a fix on what sectors and subsectors it is in.

**CHAIR**—The trouble is we all know how we can fix it. Do other colleagues have any further questions?

**Mr O’KEEFE**—I have an overall question following all that perceptive discussion, Chairman. To what extent is Australia’s industrial relations environment perceived as an inhibition to investment in Australia at the moment? What would be your general gut feeling? Is it an issue with investors or is it not?

**Dr MacDermott**—The ones I have been exposed to, yes, it is.

**Mr O’KEEFE**—Which industries are those?

**Dr MacDermott**—These were people who were going into the Northern Territory and they were going to do, I think, oil drilling. They were large overseas companies. They had come from New Zealand, so they were looking at choosing between Australia and New Zealand. They were an American company and they were looking at the two IR systems. To what extent they came with a predisposed view I do not know, but our job was to try to make clear to them what the system was actually like. That was some little while ago. They were the most recent group I

have been exposed to. They were very interested to hear about the number of recent changes that have been put in place in Australia. I think there is a need to get that out more than has been done.

**Mr Matheson**—The other perspective we often see on this is the one that comes from international organisations such as the OECD, the IMF and so on. We still get a fairly strong message from organisations like those that while there has been considerable progress in reforming Australia's industrial relations system over the last decade or more, there is still more to be done. You get that perspective from those organisations which are representative of views of governments right across the developed world. I think it is probably fair to say there is still a perception there.

**Mr O'KEEFE**—So in looking at these terms of reference, which are really looking at what needs to be done to make Australia a more attractive investment destination, to the extent that industrial relations reform is part of that strategy, you would feel that it is well and truly on the agenda, that it is being moved forward as fast as it can be and it is moving in the direction that international investors are looking for. You would not describe it as one of our weaknesses, or would you? Do you think we need to be more aggressive in it or is it going okay?

**Mr Matheson**—I think the thrust of our submission is that there is more that can be done. We would certainly agree with the characterisation that there has been some very important changes taking place and there has been an awful lot of progress made. That is reflected, for example, in the very strong productivity performance that Australia has recorded over the last decade compared with previous economic cycles. But that is not to say that there is not further scope for workplace relations reform. That is largely what the focus of the department's submission was about.

**Dr MacDermott**—There are two issues: there is the perception and there is the reality. The government's view is that the reality should be pushed along. You do not stop where you are. But I think it is also important that the perception catches up because it may be doing an injustice to Australia not to see what we have done so far.

**Mr O'KEEFE**—As you said earlier in the piece, the direction that the government wants to go forward with is the one in which it has been going to date and it views, for instance, talk of rollback in Western Australia as a negative rather than as a positive?

**Dr MacDermott**—The key words in the submission are flexibility and stability. I think they are very good ones. But it sees progress, particularly in terms of flexibility, as something which you cannot stop and move back on. Increasing procedural requirements or reducing scope for agreement making would be two things which would constitute moving backwards, in the government's view, rather than moving forwards.

**Mr O'KEEFE**—Thank you.

**CHAIR**—Thank you for your attendance today.

Resolved:

That the subcommittee authorises the publication of evidence taken by it at the public hearing this day.

**Subcommittee adjourned at 12.30 p.m.**