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Official Committee Hansard

**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON INDUSTRY, SCIENCE
AND RESOURCES

Reference: Increasing value-adding to Australian raw materials

THURSDAY, 23 SEPTEMBER 1999

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON INDUSTRY, SCIENCE AND RESOURCES

Thursday, 23 September 1999

Members: Mr Lloyd (*Chair*), Mr Brough, Mr Hatton, Mr Lawler, Mr Allan Morris, Mr Nairn, Mr Prosser, Ms Roxon, Dr Washer and Mr Zahra

Members in attendance: Mr Hatton, Mr Lawler, Mr Lloyd, Mr Allan Morris, Mr Nairn, Ms Roxon, Dr Washer and Mr Zahra

Terms of reference for the inquiry:

To inquire into and report on the prospects of increasing value-adding to Australian raw materials. The Committee will start with an evaluation of the current state of value adding in Australia, and how that compares internationally. This will provide a base from which to evaluate the following topics:

- incentives and impediments to investment;
- intellectual property rights;
- national/international marketing factors which may encourage or hinder Australian value-adding;
- government intervention, both nationally and internationally;
- the location of value-adding industries and projects in regional Australia;
- resource licensing/permit arrangements;
- the impact of vertical integration within particular industries; and
- the Australian skills base and any associated impediments.

WITNESSES

**BELLCHAMBERS, Mr Paul Anthony, Manager, Industry Outlook Section,
Department of Industry, Science and Resources 1**

**FERBER, Dr Peter Howard, Assistant Manager, Mineral Industries Section,
Department of Industry, Science and Resources 1**

JONES, Mr Barry Philip, Acting Head of Division, Industry Policy Division, Department of Industry, Science and Resources	1
KAY, Mr Paul John, Acting General Manager, Petroleum Industry Branch, Department of Industry, Science and Resources	1
McDONALD, Ms Therese Colette, Manager, Mineral Industries Section, Minerals Development Branch, Coal and Mineral Industries Division, Department of Industry, Science and Resources	1
SMALE, Mr Donald Charles, General Manager, Minerals Development Branch, Coal and Mineral Industries Division, Department of Industry, Science and Resources	1

Committee met at 11.35 a.m.

BELLCHAMBERS, Mr Paul Anthony, Manager, Industry Outlook Section, Department of Industry, Science and Resources

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McDONALD, Ms Therese Colette, Manager, Mineral Industries Section, Minerals Development Branch, Coal and Mineral Industries Division, Department of Industry, Science and Resources

SMALE, Mr Donald Charles, General Manager, Minerals Development Branch, Coal and Mineral Industries Division, Department of Industry, Science and Resources

CHAIR—The committee will commence its inquiry with the current state of value adding in Australia and later on will take some case studies into certain raw materials.

I welcome you here today and thank you, gentlemen and ladies, for your time. I remind you that the proceedings here today are legal proceedings of the parliament and warrant the same respect as the proceedings in the House. The deliberate misleading of the committee may be regarded as a contempt of the parliament. The committee 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 committee will give consideration to your request. Would you like to make an opening statement to the committee?

Mr Jones—Yes, I will make a brief opening statement. I will start by saying how pleased we are to be able to assist this inquiry. Obviously the department thinks it is a very important inquiry, evidenced by the fact that the minister gave the reference to you in the first place.

Increasing the value added to Australian raw materials has been an issue of considerable policy interest and concern for a number of years. It is evidenced, I think, by the number of reports and inquiries that we have referenced even in our submission and there have been many more than those that we have listed. The reason for that policy interest obviously, is that increased value adding offers the potential for increased employment, growth, exports and living standards for all Australians.

Having said that, the issues surrounding the increase in the value adding are complex. Increased value adding to raw materials may, in some circumstances, be counterproductive if it is pursued in areas where we do not enjoy comparative advantage, and it may even detract from economic growth. So value adding is not a policy to pursue at any cost. For those

reasons I think the department is very much looking forward to the results of the inquiry and to further assisting you in the course of the inquiry. You stated in your opening remarks, as well as in the public documents you let out at the beginning of this inquiry, that you would start with an evaluation of the current state of value adding in Australia and how that compares internationally. To that end, our submission was intended to provide you with some background information on the current state of raw materials processing industries in Australia.

To further assist as you develop your inquiry, we would be only too pleased to provide additional submissions on particular topics of interest, or to contribute to case studies where you see fit. Our submission contains some detailed information on the metals industry, again, just for background, but we are happy to provide that sort of more detailed information if you should require it.

Just very briefly I will go through what we see as the main points in the submission that we made to you. Australia obviously has a long history as a major producer and exporter of raw materials. The agriculture and mining industries currently account for around 8½ per cent of our GDP and around six per cent of our work force. Drawing on that strong raw material base, Australia has also had significant success in developing a range of industries which add value to those products through further processing. The raw materials processing industries, as we have defined them, collectively account for about \$37 billion worth of value added, or around eight per cent of Australian industry output and nearly 600,000 jobs.

We note in the submission that, while the raw materials processing industries have been growing in recent years, and while export growth in value added materials in particular has been growing very strongly, the growth of those industries has been lower than the growth in some cases in mining and agriculture—their base industries—and also lower than service industries. So I think we acknowledge that the growth in value adding in raw materials processing has not perhaps been as fast as it could have been. Again, I think that is a reason for the importance of this inquiry: to look into the factors underlying that and to see whether there is anything we can do about it.

Australia does enjoy a number of factors that are likely to contribute to a comparative advantage in our raw materials processing and, indeed, we enjoy a comparative advantage in some of the factors that would be important in adding value to those raw materials. But as we point out in the submission, whether those factors by themselves are sufficient to justify the outright pursuit of raw materials processing is another matter. Any look at what you can do to increase value adding has to take into account the overall effect of the resource allocation to those value adding activities and whether overall economic growth and overall national benefit would be derived from putting resources into value adding as opposed to other areas of economic activity. That is perhaps where I will leave it, Chairman. I would be happy to take questions on any aspects raised in the submission.

CHAIR—All right. Thank you very much.

Mr ALLAN MORRIS—Mr Jones, I will ask a procedural question. I take your point very strongly about the importance of the inquiry. Has the department considered the possibility of a secondment to the inquiry? Normally we would have raised that privately so

I am not wishing to embarrass you, but some of these issues are going to be very difficult. There will be definitional and judgmental questions about what is value adding and how you measure it in a number of fields, and it may be of benefit to the department to actually have some developed expertise, as well as helping the inquiry itself. You do not have to answer now but it may be something you might—

Mr Jones—Yes, I will certainly take that away. On the surface that sounds like a very good suggestion. I will take it away and get back to you and get an answer to that very quickly.

Ms ROXON—Can I ask a definitional question to start with so that I am actually clear of what you are talking about when we have the discussion as it goes on? When you talk about agriculture, I assume that you include any sort of food production as well as wool, cotton and so on. Just so that I am clear on the different areas that we are talking about, what is in agriculture?

Mr Jones—Agriculture as an industry, generally just relates to the growing of crops. It does not extend into the food processing industries which are technically part of manufacturing. So that is the technical answer to your question. Where the growing of crops stops and the processing of food begins varies obviously from foodstuff to foodstuff. But increasingly, people are talking about the agrifood sector as being the whole value chain really from the growing of crops from the beginning to the production of final foodstuffs ready for consumers at the end of it.

Ms ROXON—The reason I ask this was that we have got people from your different divisions and it is obviously a discussion that we want to be able to have, not focused just on mining, although that is obviously an area where there is going to be a lot of focus. I was unsure whether you included in your response the dairy industry, or some other primary industries, where there is potential for value adding—though there is already a lot happening—or whether you would view that as an area that we would look at as well.

Mr Jones—It is certainly an area that the committee should look at. However it is not part of the industry department's portfolio. All of the agricultural industries, including food processing, are now part of the Department of Agriculture, Fisheries and Forestry Australia. While we can certainly tell you about the significance of agriculture and the Australian economy, questions on adding value to agriculture products, I think, would be better directed to that other department.

Ms ROXON—Thank you.

CHAIR—I will kick off with a question and anyone from the department here can feel free to come and make comments. A lot of these inquiries tend to end up being one on one. I do not really want that; I want as many comments and ideas from everyone, if I can. On page 17 of your submission you nominate transport as a policy area which could benefit from attention of this committee. Transport and infrastructure are, I guess, some of my key interests. Do you want to expand a little bit on that or make some comments on how we could bring transport into our inquiry in relation to this?

Mr Jones—I think all we were trying to do was point out the really obvious in a way, which is that transport is obviously a major input to the production of raw materials and in the processing of raw materials. When you are moving bulky commodities around, transport is a major factor. In fact, transport costs are a major determinant of whether it is worth value adding in a particular location or not. If transport is such a large component of the cost of getting a product to the next stage of processing or to the consumer but the commodity is bulky, then it could be worth reducing that bulk at or near the point of extraction—say, turning iron ore into steel or turning a mineral ore into a metal—rather than shipping large quantities of ore around the country or overseas. So, given the importance of transport in the value chain for producing and processing raw materials, I think all we were pointing out is that transport is obviously a factor that needs to be looked at when you are looking at value adding issues.

CHAIR—Particularly in a country the size of Australia.

Mr Jones—That is right.

CHAIR—So basically you are saying that it certainly has an impact on whether there might be more relevance to value adding on site rather than transporting.

Mr Jones—That is certainly the case. If, for example, there are any impediments which increase the cost of transport in, around or within Australia, that can impact on the decision by a company whether to value add in Australia or to value add outside Australia. If those impediments are there, the government should know about them and examine whether it can do anything to reduce those impediments.

CHAIR—There was a comment in the submission as well in relation to assessing whether it is better to value add on products that can be readily imported into the country. Did you want to expand on that idea? It did not ring alarm bells, but it concerned me to say, 'Isn't it better to try to value add to a product here and compete against something that is being imported?' I guess the economic realities may tend to govern our decisions.

Mr Jones—Yes, I think that was really just an illustration of the basic point we were making: that it is not always advantageous to value add in Australia. You have to take into account the costs of going from the raw material to the next stage or subsequent stages of processing. It may be that in some cases Australia does not enjoy the kinds of advantages in some factors of production that mean it is better to value add here than to ship material overseas, get it processed at lower cost and then reimport the finished product. Obviously there will be cases where it is better to value add here and other cases where it may not be better to value add here. As I said, I think we are just trying to illustrate the basic point that you have to look at the comparative advantage in all of the stages down the production chain.

Ms ROXON—When you are talking about whether it is worthwhile value adding or not, are you looking only at the cost of labour or the cost of doing that value adding, or do you also look at the strategic advantages we might have in a particular area? So do you look at not just how much of a particular resource we have but whether we have some edge on other countries that relates to quality? I am probably talking in the agri-food area, but is there a

strategic assessment of whether we have something that is unique or better quality than elsewhere—so that the value adding, whilst it may cost a lot, is worthwhile in some areas and not in others—or do you look only at how much of a resource we have towards those things?

Mr Jones—No. I think all of the factors you have described should come into consideration. The more important question though is: who should make those sort of decisions? From a company point of view, they do have to consider those strategic issues of not only whether they can process things at lower cost than their competitors overseas, but whether they have to look at if there are advantages to branding something ‘Made in Australia’. They have to look at advantages at the networks and downstream linkages with other industries that exist in Australia. There are a lot of strategic decisions companies have to make in making the decision where to carry out any kind of economic activity.

I would suggest though that, from a government policy point of view, some of those factors do not really come into account. I think the more important things are to try to ensure that the business environment is right so that companies can make those decisions properly. They have to make sure that any impediments that may exist and that place disincentives in the way of companies doing something in Australia, need to be addressed.

In some cases they have to make sure that Australia does not suffer as a location because a decision is made in other countries. They have to try to ensure that market access is available and that any unfair advantages given by other countries are compensated for perhaps. There are also some strategic considerations the government has to make for some activities and goods. There are genuine strategic considerations for government to decide whether to try to influence activity in Australia as well. I would suggest they are more limited than the strategic considerations that companies may make and need to take into account.

Mr HATTON—My interest is really connected to agriculture, but I want to get your view on the broader question. There is a big potential in value adding in processed foods for the declining number of Australian companies that are owned by Australians. We have seen Arnotts go to Campbells. There is less return for Australia.

More broadly, in terms of the ownership of Australian companies across into your industry sector as well, what sort of considerations do we need to take into account, given the overseas ownership of those entities rather than Australian ownership? Should that tilt the way we deal with these problems to encourage Australian owned more than foreign owned entities in the broad industry area? How significant do you see the problem being in government trying to urge forward value adding when a lot of the benefit is going to go off overseas, as it will in the food area, where we have a vast potential to make a big inroad?

Mr Jones—I cannot come in on food specifically so I will confine my remarks to the more general issue. Generally speaking, I think the answer is that it is not usually worthwhile to try to keep Australian ownership per se of a company, industry or factors of production. If it is in a company’s commercial interests to sell to the highest bidder, then that generally will get the highest pay-off to Australia. It is not always the case that foreign ownership per se is bad or means that all of the benefits flow out of Australia.

Foreign owned companies employ people in Australia, they create jobs, they bring in inwards investment. There is a wide range of benefit that foreign ownership and foreign investment bring which are well rehearsed and well-known. However, you do have to take into account the fact that you might want to impose controls on foreign investment and foreign ownership in some industries, as the government has. In some industries you may want to ensure that any kind of foreign ownership or investment does not erode competition. Competition policy is important and foreign investment controls are important.

It is a complex answer. Generally speaking, I would say that foreign ownership and investment are not necessarily bad things, but I think you do have to be careful and have some kind of control and policies in place to ensure that foreign ownership and investment do not erode benefits to Australia.

Mr HATTON—I mention the examples from the pharmaceutical industry. Merck Sharp and Dohme are a significant world company with a base here. In the electorate of Reid there is \$100 million worth of investment under the factor F scheme. They took exports from almost nothing to over \$400 million a year because there was compensating assistance but they could not get the price of the product through the PBS. They have missed out on the PIIP scheme, but they have a new generation product for the control of arthritis.

This raises another question. They are in competition with other parts of that multinational company, so they are in competition with Belgium and other areas. They are in a situation with their new product Viox where they have to put the argument to America as to whether or not they should be allowed to value add here. The potential with this is to take that product from nothing to \$400 million a year. But there is no slot for them to go into in terms of assistance. That is an example. I just want to raise the wider question. One of the things that we need to look at, and probably more than we have before, is how we could assist subsidiaries of corporate multinationals to compete with overseas subsidiaries, so that we get the value adding here rather than overseas, and that would run across the broad gamut of industry.

Mr Jones—Without referring to that specific example, I would agree with your general point. It is increasingly the case in a globalised world that multinationals are assuming more importance. Australian subsidiaries do have to compete with their brothers and sisters outside. You can point to some examples where Australian subsidiaries have been very successful in doing that. There are a number of examples in the car industry that point to that.

The other thing I would say is that, while there are industry specific programs like PIIP designed to deal with circumstances in the pharmaceutical industry, companies are not just restricted to applying for those sort of schemes. For example, a company that wanted to establish a major manufacturing operation in Australia and was possibly competing against its fellow subsidiaries elsewhere might find it appropriate to look at assistance through the R&D Start sort of scheme. It may be appropriate to look at the kind of investment incentives on offer through the strategic investment coordinator. There are a range of mechanisms that may be appropriate even when a particular industry specific scheme is not quite appropriate. That illustrates that the government has support mechanisms in place to try and address some of those issues.

Mr HATTON—An example from before would be Kodak? You either invest in them or they go off and we lose the jobs and we lose the value adding.

Mr NAIRN—A lot of what you have given us is very important on all the components and different aspects of mineral processing and exporting and importing. My feeling out of a lot of the information you have provided is that, generally speaking, contrary to a lot of popular perception, the value adding in our minerals area has been increasing reasonably well over a period of time. I do not think that is the perception out on the ground, because the numbers of people employed in some of these areas has been declining, through technology and all sorts of other reasons. Would you agree that has helped to create this perception that we are pulling our minerals out of the ground and sending them offshore when there is some reasonable growth in value adding? Is that a reasonable assumption from what I have read of all of the various charts?

Mr Smale—Yes, I think you can look to various industries and see new activity that has been put in place over the last decade, for example, in the iron and steel area with the major HBI plant in Western Australia and in certain aluminium operations. The Korea Zinc plant will be coming on stream in Townsville within the next months, I understand. The industry is always on the lookout for opportunities to make more money and, if further processing has potential for that, then that is something that they are going to be looking at on an ongoing basis with whatever resource they have. I think it is true that industries have increasingly identified opportunities to add value as well as to simply export the raw product. There will always be—

CHAIR—Mr Smale, we will have to interrupt you there, I am sorry, we have a division. We will be back as quickly as we can.

Proceedings suspended from 12.01 p.m. to 12.11 p.m.

CHAIR—We will quickly resume.

Mr Smale—I think your observation is very valid. Over that same period mining activity has increased as well, so I guess you have to look pretty closely to see whether in fact the proportion of minerals activity that is going through to further processing is increasing or not.

Mr NAIRN—That is the aspect I could not really get a decent judgment on there, as to whether the value adding aspect of it has continued to increase at the same rate that the overall mineral extraction is increasing.

Mr Smale—We will have a look at that and see if we can shed further light on that for you. I guess the other observation you would make in terms of increased activity in further processing in absolute terms is that the process of microeconomic reform within the Australian economy over the last decade has been very much directed at making the business environment more competitive internationally and more attractive in terms of investment. This has resulted also in an environment where industry is more prepared to invest and to undertake economic activity. I do not know whether Dr Ferber might like to add any general comments in support of those.

Dr Ferber—Yes, value adding certainly has increased in the Australian minerals industry, and as Mr Smale mentioned, the mining has increased as well. On page 38 of the submission we have produced charts of what is called ‘percentage processed’ for a range of commodities. For some commodities the amount of processed product has been increasing relative to the amount mined and for some other products the amount of mined product has been increasing faster than the amount of processed product. Some of those lines in those charts are tending upwards and some are tending down.

There has been an enormous lump of investment in mineral processing over the last few years and some of this is not reflected yet in these figures. For example, there has been over \$1 billion in new nickel smelters and refineries which only came on stream earlier this year or late last year. These will not be reflected in these figures yet. Similarly Korea Zinc, Kembla Copper and those sort of projects are not yet reflected in these figures.

Mr NAIRN—Where do you stop the definition of value adding to try to get some sort of idea of where it is going? Bauxite to alumina is okay, but how much of that alumina is further value added and how much of it is exported? That is almost an impossible task. As much as you can put something on to it, it would be useful to look at where we are going. That’s good. I wanted to be sure that I understood some of the stuff that you provided us with. There are some really interesting numbers there.

Concerning the Major Projects Facilitation scheme, where is that at? Are there any examples that you can give us of what has been achieved and where they have been very much designed to increase value adding?

Mr Jones—There is nobody here from the Invest Australian part of the department. Unless my colleagues from the minerals area can give specific examples, we might have to take it on notice or get somebody to come back at a subsequent hearing.

Mr NAIRN—The ones that I can think of have not really progressed to fruition at this stage. I was not sure whether there were other examples that I did not know about.

Mr Jones—Do you mean the Major Projects Facilitation scheme or the investment incentives part, the strategic—

Mr NAIRN—No, the projects that—

Mr Jones—Do you mean Bob Mansfield’s area.

Mr NAIRN—Yes.

Mr Jones—There are two different processes. The Major Projects Facilitation process is an ongoing program that is trying to expedite the approvals processes for projects. That has had a lot of successes. A lot of projects go through that process.

The Mansfield process, the strategic investment coordinator process, is a separate process which—

Mr NAIRN—That is the second part of what he did. That first aspect I was probably referring to. Which projects have gone through that process and to what extent could you call them very much value adding?

Mr Smale—We might be able to make some reference to—

Dr Ferber—The number of projects which have been assisted through the Major Project Facilitation service probably amount to hundreds, not all of which have proceeded, I should add. Certainly, the three nickel projects that I referred to a minute ago were part of that. There was Korea Zinc, and Comalco Alumina, which has not proceeded yet, and the various magnesium projects are all receiving facilitation assistance.

Mr NAIRN—They are good news stories that often you do not hear too much about unless they are in a particular area that you have an interest in. The Tumut timber project for Pratt Industries, the Visy project, is also one of the ones that went through that, even though there is still a way to go to get it up and running.

Has this department put in a submission to the inquiry into infrastructure that the Primary Industries and Regional Service Committee is conducting? I am on that committee and I should know, but I just cannot recall. I am interested to know, from your department's point of view, where you see the relationship between a lack of infrastructure, particularly in regional areas, and facilitating new value added industries. I thought it might have been useful if the department did have a look at that in relation to that other inquiry.

Ms McDonald—I cannot remember whether it is when resources and energy was part of DPIE or when it became part of ISR that we did make submissions with regard to infrastructure.

On the point of the Coal and Mineral Minerals Division, we are involved with the regional minerals program that looks at a tripartite arrangement between the Commonwealth, state and industries within a specific region that is nominated, usually by the state, in consultation with industry. To look at infrastructure is one of the aspects to look at under that program. There have been a number of them carried out in Western Australia, Tasmania, Queensland and South Australia. There is now one being looked at in the Murray basin. Three states are involved in that one.

Mr Smale—That program does not deliver money for infrastructure development, it delivers money for infrastructure studies. It brings together industry and state and federal government people to identify what lack of infrastructure impediments exist, particularly in relation to the minerals industries. The coverage is getting quite good now in terms of various Australian regions.

Mr NAIRN—I must follow that up with that other inquiry.

Mr ZAHRA—I have a question relating to your submission. On page 16 you talk about how minerals processing is traditionally very energy intensive and often energy costs can constitute up to 40 per cent of variable operating costs. This is a really significant factor and

I do not think it is widely known. It is certainly not widely known in the Australian community.

Has there been any work done in terms of marketing our competitive advantage for electricity intensive industries, not just in the context of Australia generally having a lower energy price—and I note in your report that you talk about how we are listed as having one of the lowest energy costs in the Asian region—but more specifically in the context of globalisation where you have regions in Australia competing against regions in other parts of the world?

My electorate includes the La Trobe Valley and we produce 90 per cent of Victoria's electricity. The electricity which we can offer to electricity intensive users is cheaper again than the general electricity price which could be offered in Australia. Has any work been done in marketing that specific advantage?

Mr Jones—The short answer is yes. There are two things I can say. Firstly, in our general investment attraction strategy, such as through Invest Australia, our low energy costs are put forward as an advantage and a reason why people should locate here. Secondly, in our other investment attraction strategies the existence of things like low energy prices is specifically pointed to.

I do not know whether Mr Kay has anything to add to this, but yesterday an announcement was made about an electric industry export strategy, or something of that kind. The electricity industry is getting together with government to target itself much more directly as an export industry and is selling its advantages internationally.

Mr Kay—As you said, we are working through whatever we can with electricity. It really is one of Australia's competitive advantages. One of the things coming out of this electricity thing is a meeting in Beijing in the week including 11 November. Minister Minchin will be in China during that week and part of the reason for his visit will be to promote this electricity industry thing. That is just one aspect. There are a number of areas where we have a competitive advantage. They include a stable political climate, existing infrastructure, and certainly low energy prices. Hopefully we can maintain low energy prices into the future.

Mr ZAHRA—The point which I am making does not relate to Australia's competitive advantage in electricity, it relates specifically to the La Trobe Valley's additional advantage. Like the Hunter region, the La Trobe Valley has an additional advantage. From what I can understand after speaking to the likes of Energy Education Australia and the private power operators who now dominate the electricity market in Victoria, they are talking about being able to offer large energy intensive users a significant reduction in the cost of electricity of about 10, 15 or 20 per cent if these people collocate or are in a electricity regulatory zone which could be established by the state government.

What I am saying is that we talk a lot about regional development but we need to be wary that, when we are marketing our advantage, we do not sell ourselves short by just talking about this generally cheaper rate. We have actually got additionally cheaper rates in the Latrobe Valley and in Newcastle, which can also be used to generate investment and jobs

in those quite economically depressed areas of our country. Has the department investigated those opportunities which exist in the Latrobe Valley? I am not sure of other parts of Australia, apart from Newcastle. If it has not, why not? It just seems to be a wasted opportunity, if we are going to countries overseas and saying, 'We can offer you 10 per cent cheaper rates in Australia than you would get if you set up in another part of Asia.'

Mr Kay—The short answer is yes. They would be used as prime examples. Out of the national electricity market, the NECA review is looking at transmission pricing. Once transmission pricing is costed more on a market basis, where you site your major electricity consuming industry will become even more relevant. At the moment, it is largely postage stamp pricing: you do not really pay for the cost of transmission. As that is more realistically reflected in the market price of electricity, the relevance of being close to the Latrobe Valley, or the Hunter Valley, or Central Queensland will become increasingly relevant under the national electricity market.

Mr Smale—Could I just make an additional point on that. One of the other ways that the particular strengths of regions would be promoted would be through the very close relationship and cooperation between Australia's investment commissioners, who work out of our department in conjunction with Austrade at various places around the world, and the state government representatives in some of these key countries that are stronger for inward investment to Australia. These investment commissioners, working with Victorian state government representatives overseas, would have the opportunity, when promoting particular investment opportunities, to work in the relative strengths of the Latrobe Valley, for example.

Mr ZAHRA—And there would be documents supporting that, would there?

Mr Smale—I would presume so. It would depend on the extent to which there have been particular projects that they have worked on together that could be located in the Latrobe Valley, as opposed to being located somewhere else.

Mr ZAHRA—If the department has documents which show that they are marketing that advantage of the Latrobe Valley, the Hunter Valley and other parts of Australia that produce electricity, then I would like to see them. I am concerned that we are not marketing our advantage, and that means that my constituency, the Latrobe Valley, is not getting the opportunity where it naturally has an advantage. On another point—I am conscious of the need not to ask too many questions—which department has key responsibility for the carriage of industry policy as it relates to the forests and forest product sector?

Mr Jones—That is Agriculture, Fisheries and Forestry—Australia, not our department.

Mr ZAHRA—So you guys do not contribute to industry policy in that area?

Mr Jones—In that particular area, no. We have responsibility for overarching industry policy settings as such, which are clearly relevant to the forest products industry, as they are relevant to every other industry. But the specifics of what happens within the forest products industry is the responsibility of the other department.

CHAIR—I know the deputy chair has a couple of questions.

Ms ROXON—I was just going to ask you a question in terms of our terms of reference and the types of things that we are looking for submissions on—how we could change any of our regulatory system, or whether the government should intervene in various areas in resource licensing. In your submission you made some pretty general comments that we should go just along with ongoing micro-economic reform and improving productivity, and all of the catchcries that everyone has been uttering for the last 20 or 30 years. But it does not seem to me—correct me if I am wrong—that there is much of a focus yet on any particular impediments that you have identified, either in a particular sector or in a general way, as something that we should take into account and go out and talk to industry representatives about in a detailed way. Maybe that is because we are in an early stage of our inquiry, so do not take it as a criticism.

I was just a little surprised because, to some extent, we have you among our first witnesses to help shape where the inquiry will go. I would like some comments on that and whether it is your intention to give us a little more detail when we pick particular industries that we are going to use as case studies. I find it is not really very satisfactory for us to be given the general comments made that we should go along the further track of micro-economic reform, without anything being said about what it is in particular that you think would have an impact in an industry, or what it is in particular that needs to be changed for a particular regulation.

Mr Jones—I take the point that it was not a criticism as such. As I tried to say in my opening remarks, we did deliberately keep this submission general, as background information. We did try, however, to point to a few areas on the way through that we thought were particular instances that the committee might like to have a look at. We have already discussed the transport example as being an area where we think there are some issues still worth pursuing. We have pointed to labour and skill issues as being important areas of reform that obviously impact on industry costs. There are some—

Ms ROXON—Sorry, my point relates particularly to those types of comments. That is really the micro-economic reform argument, but without any discussion about what it is. I am getting frustrated, not with you but with the debate: if we need to improve skills or we need to improve labour productivity, in what way, where, how? What sorts of things will change it, how can the government drive it, can the government drive it—those sorts of things. I just find we go around in circles with that. I say that again without being—

Mr Jones—I guess we were hoping you were going to tell us that, at the end of the inquiry! If that is the sort of guidance you are looking for, as to areas that can be looked at, we can certainly provide that. One of the important things that are being done and that give pointers to that is the action agenda process, which is currently looking at 17 industries in some depth, examining the impediments to the growth of those industries and looking at specific actions that can be taken to remove those impediments to help those industries grow.

Our thinking was that a couple of those action agenda areas might be good case studies for the committee to look at as well. Naturally, the action agenda process is going to come up with some specific actions for government to take and is going to look at the range of

factors affecting those industries. But, in looking at case studies of an industry to point to themes, to policy issues that may be relevant elsewhere, we think some of those action agenda industries might be worth looking at.

A couple of examples that we have mentioned in our submission are downstream petroleum products and liquefied natural gas. They are two areas where there are particular impediments and in which the government is looking to do some things, but in which there are more general lessons that could be learned, we think. We will suggest to you some other case studies that might be worth looking at as well. Certainly we will come back to you with more specific indications as to where we think the inquiry might head.

Ms ROXON—I might be alone on that. It was just a comment that I wanted to make.

Mr Jones—We did deliberately restrict ourselves in the submission, so I take the point. If you are looking for more than that, it is something else we can give you.

CHAIR—I am sure we can follow up on that. The submission contains very good background information for us all to start with.

Mr LAWLER—My apologies for being late. Following on a little bit from what Mr Zahra said about the role that you guys have or do not have—he mentioned forestry: there does not seem to be any coverage of value added areas in agriculture. Do you see that as not at all your role? Should we be getting AFFA to guide us on this?

Mr Jones—It would be better to get AFFA to do that, yes.

Mr LAWLER—So even when we are talking about very much downstream processes, it is still not your area?

Mr Jones—Since the machinery of government changes last year, for example, all the food processing industries are now part of AFFA's responsibilities. They do not stop with agriculture, they go into food processing, so the whole agrifood sector is their responsibility. Similarly for forest processing, wood and paper areas—that is all now within that department. It is certainly much more the case now than it perhaps was even a year ago that responsibility down the value chain is consolidated in one department.

Mr LAWLER—What about on the textile side?

Mr Jones—That is where it starts to come back into our department. Certainly the textiles industry is ours.

Mr LAWLER—Wool tops and cotton ginning?

Mr Jones—You are getting out of my area of expertise. I am not sure where the boundary between wool growing and textiles is drawn between the departments nowadays.

CHAIR—Just for your information, AFFA have actually promised a submission to the committee. We have not received it yet but there is one coming.

Mr ALLAN MORRIS—So is TCF yours?

Mr Jones—TCF is ours, but I am not sure how far down the chain.

Mr ALLAN MORRIS—Mr Jones, firstly, your submission is useful in the sense that it actually start to pull together a lot of base information. But, like Nicola, I was surprised that there was not a heading for impediments, because I think that is one of our real concerns. Before I go into that in more detail, one thing we should say up front is the point you make, without making it, on page 58 about the Bureau of Statistics' keeping of information on things like imports of metals, gold and so on and possibly double counting. We come across this all the time, where the stats methodology is often behind what is happening in the world. It may well be that what you could do, since you guys confront it more than we do, is try and identify areas where the stats are either misleading or uncertain. That is one of the areas you mention there. Without saying it is a failure, I think it is one of the things the committee should be addressing at some stage.

Ms McDonald—Just a quick comment on that. We do have ABS officers seconded to the department and we talk about these things a lot of the time. We also have the same difficulty with definitions, for example, on exploration stats and also what comes out of the Minerals Council a lot of the time—the fight is over who has got the right definition. We have created contacts within ABS to look at those sorts of definitional problems as well.

Mr ALLAN MORRIS—We may wish to follow that up ourselves at some stage later in the inquiry. It is not something for right now, but it is obviously flagged now as being one of the areas where the actual measurements themselves need to be understood. We may some time later take you up on that and perhaps get you and ABS and others together to try and clarify it. I am sure we would all benefit.

Coming back to the question of impediments, the kind of concerns I have and that I would like the department to think about in terms of some downstream discussion is that there are some perceived impediments—although whether or not they are there is another matter. One is if the owner or the controller of the resource does not want the material in a higher value—for example, a Japanese power station is not going to want to change coal to energy over here; they want it in that form. A second one seems to be to do with the confusion between vertical integration and core business. On the one hand, Rio Tinto and BHP are going back to core businesses of resources and development, yet many of their customers are actually totally integrated. The possible mismatches between our supply systems and the demand systems seem to be generic issues or impediments that we do not talk about very much and we probably need to better understand.

I note in your report that you mention, for example, HBI. Of course, that is a lower value adding than pig iron, in a sense, or than steel that is being reduced. So, whilst the volume is high, the actual value is lower. You also mention Century Zinc, which is processing offshore. Yet Century Zinc caused an enormous national campaign to be run so that we would export more unprocessed zinc. Those kinds of impediments as to who controls that and for what end are going to be important.

The other two that I think are critical are access to capital, which always comes up, whether it be North-West Shelf or whatever, and intellectual property rights. So in a sense we really need to get into those areas with you at some stage and in some depth. I agree today is not the time. That is why it would be handy to have a secondment because on some of the stuff we simply need almost a constant contact for information and understanding, rather than question and answer sessions. We actually need a seamless transfer of understanding, so that we deal with it as part of our process, rather than as a witness and questioner process.

Mr Jones—Yes, I think they are very good points. I note that a lot of those things are addressed in your terms of reference. As I said before, we are very keen to help the inquiry as it goes on. It would be good if we could have a constant exchange of information in some form as we go along. We will take away the idea of a secondment—it is a very good one—and we clearly need to think now about a very quick supplementary submission which possibly gives our thoughts as to where the main impediments are, what kinds of things might be looked at.

Mr ALLAN MORRIS—I can give you a context for that. The value of your submission and other people's submissions is often to test each others, so we would use your submission to test other people's. If you wait towards the end to tell us some of the stuff about impediments then we cannot test them on the way through.

Mr Jones—Yes.

Mr ALLAN MORRIS—We use the information we get from each of you to challenge, to test and to question, and to better refine our understanding. If we have got to use our own views to start with, they may well be not all that well sourced. We may have views which are not as well based, information wise, as yours might be. So the value you give to us is much more than simply information; it is actually the testing material for others.

Mr Jones—I take that point.

Mr ZAHRA—Now that we have determined that you have got responsibility for TCF, where are we at with the TCF 2000 package, which was announced about 12 to 18 months ago? I do not think the legislation has been introduced yet in relation to that package. Can you clarify that point first? Secondly, I recall seeing the information relating to that package when it was released. That set up a range of criteria which shires would have to fulfil if companies located within those shires were to be eligible for any of the funding. It was \$720 million, from memory.

I recall specifically that Latrobe shire, which is in my constituency, was not one of the shires listed as being eligible to apply for the funding. The basis for that was that TCF employment in the shire did not constitute a certain percentage of total manufacturing employment within that municipality. Latrobe shire is the only shire in Victoria which has power production in it—it is the only place in Victoria which produces electricity in that large amount. So we miss out on assistance simply because we have got power stations around us which constitute manufacturing employment. We have also got the Australian Paper's Maryvale plant, which employs some 1,200 people in manufacturing employment.

Whilst our unemployment is very high—in fact, we have the second highest unemployment in Australia—and Rocklea Spinning Mills in Moe, with 110 workers, is the largest full-time employer in the town even though the town has got 17,000 people, we are excluded by the terms and provisions of the TCF 2000 package from being eligible for any of the assistance it should offer.

Could you advise—and you could take this on notice—where we are at legislatively with that, when it is to be introduced and why it has been delayed? Could you also investigate that second point I made about the discrimination against Rocklea Spinning Mills in Moe and the Givoni clothing company, which are the only two TCF employers in my constituency, apart from a few knitting mills?

Mr Jones—We will have to take those questions on notice, I am sorry, but we will certainly get answers to you very quickly.

Ms ROXON—I am not sure whether other committee members are interested, but it would be helpful for me to have some brief information on the action agenda process, whether it is provided by the department or elsewhere through the secretariat. Others who have been around for longer might already be across the detail but some summary that you have already or that may be in existence would be helpful for me.

Mr Jones—Certainly.

Mr ALLAN MORRIS—For many of our colleagues, this is the first inquiry of this committee and so we are all going to have to try and develop our learning skills and so on so that will be very valuable. We would be grateful for your support.

Mr Jones—Certainly we will do that.

CHAIR—I am sure we will be relying very much on department advice and assistance for this inquiry.

Mr Jones—Chairman, can I just mention very briefly two documents that you may not have seen that I intended to table that may help your inquiry. The *1999 Industry Outcomes and Outlook Statement* is something that was released in the middle of this year and gives a broad overview of the prospects for Australian industry and the broad policy settings that apply. There is a more detailed compendium of industry specific information available on the Internet which backs up this statement which also may be of interest.

The second report is a consultancy that we commissioned late last year on what drives Australia's effective advantage. It discusses some of the factors around comparative advantage and where in the processing chain it may be beneficial to produce material. That may be of interest as well.

CHAIR—Are they department publications?

Mr Jones—Yes, they are both department publications.

CHAIR—Can we have enough for all of us?

Mr Jones—I will leave these with you and circulate copies to everybody else.

CHAIR—Is it the wish of the committee that the documents be accepted as exhibits to the inquiry? There being no objection, it is so ordered.

Mr Jones—I will provide copies to the secretariat for circulation.

CHAIR—Thank you very much for that. I would like to thank everyone from the department and also my committee members for their attendance today. This is the first public hearing and I think we had everyone from the committee in attendance so it shows there is a great deal of interest in this inquiry.

Resolved (on motion by **Mr Allan Morris**):

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

Committee adjourned at 12.48 p.m.

