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**Inquiry into increasing value-adding to Australian raw materials**

When the Department appeared before the House of Representatives Standing Committee on Industry, Science and Resources' hearings into increasing value-adding to Australian raw materials on Thursday 23 September 1999, the Committee raised a number of questions for the Department to answer. Please find enclosed our answers to:

- Mr Nairn's question concerning the Major Projects Facilitation Scheme;
- Mr Zahra's questions concerning the Latrobe Valley, its cheap electricity and policy responsibility for the forest products industry,
- Ms Roxon's question on how government can influence microeconomic reform; and
- Mr Zahra's questions concerning the state of the TCF post 2000 package.

In our evidence we offered to provide additional material to the inquiry specifically on impediments. This work is presently taking place and will be provided as soon as it is finalised.

Please let me know if you require any further information at this stage.

Bob Bennett  
Acting General Manager  
Industry Analysis Branch

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## **Question**

**Mr Nairn** - Concerning the Major Projects Facilitation scheme, where is it 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? (Hansard Page 8)

## **Answer**

### Major Projects Facilitation Service

The purpose of the Major Projects Facilitation service is to assist proponents of eligible major projects to achieve timely and efficient government approvals. This is achieved through providing information and advice on government approvals, coordinating approvals between Commonwealth and State jurisdictions and monitoring of proponents' progress through the approval processes.

By coordinating approvals so that, as far as possible, they occur simultaneously and without duplication Major Projects Facilitation is assisting project proponents to minimise costs associated with achieving government approvals and potentially to bring major investment projects on stream earlier than otherwise may be achieved.

Major Projects Facilitation helps project proponents to understand the approval processes through the preparation of comprehensive approval timelines, including approvals being completed by the State or Territory governments. Progress of these approvals are monitored and reported to the project proponent regularly.

Major Projects Facilitation also advises investors how to readily access government programs, which may assist in securing their investment for Australia's benefit.

The Major Projects Facilitation service is provided at no cost to project proponents granted Major Project Facilitation status by, the Industry Minister and is overseen by Invest Australia.

### Major Projects Facilitation - Eligibility Criteria

The Minister for Industry, Science and Resources may grant Major Projects Facilitation status on the basis that the project can demonstrate that the proposed investment project:

- involves capital investment of \$50 million;
- requires Commonwealth approvals in order to proceed; and
- is commercially ready to proceed through the approval processes.

All relevant Ministers are advised by the Industry Minister of projects with Major Projects Facilitation status and asked to provide appropriate priority assistance.

A grant of Major Projects Facilitation status does not ensure that the project will proceed. This remains a commercial decision by project proponents to commit to projects and it is influenced by a number of factors, particularly market conditions and the ability to raise the necessary finance.

### Major Project Facilitation's contribution to value adding

Eligibility for Major Project Facilitation does not require that the project involve a significant value adding component, nor is value adding a specific objective of the service. However, an examination of the projects which are being facilitated, or have been facilitated through the MPF process reveals that most of them do involve a significant value adding component across a range of industries.

There are 35 projects that are currently receiving major projects facilitation assistance and monitoring. The projects involve potential total investment of some \$47.4 billion and could create around 13,250 new jobs, if all projects proceed and become fully operational. 25 of the projects currently holding MPF status are projects which directly involve value adding processes. These projects total around \$29.5 billion in investment and nearly 9,000 jobs. A further 7 projects are planned in the infrastructure sector, which could provide enormous opportunities for new value adding projects, and expansions to existing value adding projects in other industry sectors.

**Table 1. Major Project Facilitation Status Projects - Capital Expenditure and Employment -Current Projects.**

No of Projects/industry	Total Capital Expenditure (\$b)	Employment
25 Value adding projects	29,500	8,900
7 Infrastructure projects	16,800	2,900
2 Other projects	1,100	1,450
Total 34	47,400	13,250

Since the introduction of the major project facilitation service in 1990, 22 projects which were granted MPF status have been completed or are under construction. 18 of the projects involve value adding and accounted for around \$3.4 billion in capital expenditure and provide employment for more than 1,500 persons. The remaining 4 projects were infrastructure projects.

**Table 2. Major Project Facilitation Status Projects - Capital Expenditure and Employment -Completed Projects.**

No of Projects/Industry	Total Capital Expenditure (\$b)	Employment
18 Value adding projects	3,400	>1,500
4 Infrastructure projects	3,600	>3 00
Total 22	7,000	>1,800

The majority of projects with or which had major project facilitation status are located in regional Australia. Most of them are in the minerals and energy sector with some degree of processing from the concentrate stage through to the smelting and or refining stage. There are also examples of projects in the primary production sector providing a significant degree of value adding, including a wool top spinning project, a medium density fibreboard project and pulp mill projects. A detailed breakdown of the destination of the output from the major project facilitation projects, which have been completed, or which will be completed, is not available. However, it is likely that a fair proportion of the output is retained in Australia for further processing in vertically integrated industries.

#### **Question**

*Mr Zahra* - And would there be any documents supporting that [the investment promotion of the Latrobe Valley]? (Hansard Page 11)

#### **Answer**

An aim of the Government is to ensure that Australian regions have the same service in investment attraction and facilitation as the rest of Australia, and that investment to regional Australia is increased. To this end Invest Australia works closely with State and Territory investment promotion agencies to maximise Australia's investment attraction efforts. This is achieved by brokering information on regional opportunities

and available program assistance between potential investors, Regional, State and Territory bodies, the Department and other relevant Commonwealth agencies. Such services boosts the attractiveness of regions to prospective investors.

To date, Invest Australia' has not had any direct involvement in promoting the Latrobe Valley region, so it does not have any documents of the kind sought in the question. In the normal course of events, however, Invest Australia's involvement in the Latrobe Valley would be initiated by a request for support from Business Victoria in relation to a specific project or issue in which Invest Australia could assist.

Invest Australia's commitment to regional Australia was recently acknowledged in the Federal Government's response to the Whyalla forum as part of the Regional Forums Australia Program (RFAP). The RFAP falls under the portfolio responsibility of the Deputy Prime Minister and Minister for Trade and Regional Services. The program seeks to address a broad range of social and economic development issues affecting Australian regions. Forums will be conducted in all regional areas over the next couple of years.

### **Question**

**Mr Zahra** - If the department has documents which show the 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 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? (Hansard Page 11)

### **Answer Concerning Electricity**

The approach of Invest Australia is to promote Australia's advantages at a national level. Consequently, there are no documents which specifically market Latrobe Valley electricity or the electricity of any other particular region. However, it is noteworthy that Invest Australia's promotional document, *A Wealth of Opportunities* (January 1999), contains the following statement about the competitiveness of Australian electricity nationally:

*Deregulation of the electricity industry in the 1990's has resulted in substantial price reductions for industrial uses.*

Over the four years to 1996-97, electricity prices for industrial users fell by 19 per cent in real terms, and according to the World Competitive Yearbook, Australian electricity prices were amongst the lowest in Asia. A more recent international study in 1998 by NUS International found that Australian power costs for industrial users were setting the world benchmark with some of the world's cheapest electricity prices.

This material was sited in the Department's July 1999 submission to the Inquiry.

### **Answer Concerning the Forest Products sector**

During the hearing it was indicated that responsibilities for a number of industries had fully transferred to the Department of Agriculture, Fisheries and Forestry (AFFA). Forest products grouping was mentioned in that regard. In the case of forest products the portfolio responsibilities are as follows:

Department of Agriculture, Fisheries and Forestry Australia:

- growing and-first stage processing eg. logs, sawn timber and woodchips; and

Department of Industry, Science and Resources:

- downstream processing, wood, wooden products, paper and paper products.

The relevant areas of the two departments liaise closely with respect to relevant issues to ensure policy coordination on industry development.

This Department supports industry development and value adding through generally available programs such as the R&D START program and through some targeted programs such as the Wood and Paper Industry Strategy (WAPIS). WAPIS was one element in the package of measures the Commonwealth Government established in 1996 to implement the National Forest Policy Statement. WAPIS is a discretionary grant program which has been allocated \$4.7 million over the four years to 30 June 2000.

Specifically WAPIS was established to:

- Help the development of the wood and paper industry so that it can take advantage of new investment opportunities especially in value adding and downstream processing (responsibility of this Department).
- Encourage the development of more competitive and innovative wood and paper enterprises (responsibility of this Department).
- Encourage the sustainable management and expansion of Australia's native forest and plantation timber resources (responsibility of AFFA).

The industry promotion component of WAPIS sought to overcome impediments to industry development including:

- The lack of innovation and commercialisation of R&D;
- The low levels of new investment in the industry;
- The lack of cluster development and networking; and
- Other identifiable impediments to industry development and value adding.

Consequently, the program has funded 27 projects demonstrating the opportunities for value adding in forest products. Two case studies demonstrating this are outlined below.

*Case Study 1* - Commercialising the preservative treatment process for hardwood sapwood.

Timber has been treated with heavy metal preservatives like copper, chrome and arsenic (CCA) for many years. Due to growing community consciousness of environmental concerns the market is now moving away from using these heavy metal preservatives. The project proponent is experiencing a reducing market for its CCA treated timber because of these market pressures. CCA treated timber is now banned in Japan. The project aimed to determine the processing parameters and the performance characteristics of the non-CCA preservative on Australian wood and under Australian conditions. This non-CCA preservative has market acceptance in Europe and Japan.

The results have shown that it is cheaper to use this more environmentally friendly preservative and the treated wood has superior performance against CCA treated timbers. The company, as a direct result of this project, has increased domestic sales and exports to Singapore and Japan are increasing.

*Case Study 2* - The comparison testing of timbers to identify species suitable for the production of charcoal to be used in silicon production.

Silicon is produced in Western Australia and the existing facility uses waste jarrah as a source of charcoal. However, this source is at its supply limit and alternative sources of such high quality charcoal are required. Silicon is used in high value added uses like computer chips and industrial abrasives and the market pays a price premium for high quality silicon. Silicon produced from high quality charcoal meets those specifications whereas silicon produced from coal, coke or low quality charcoal does not.

A number of species of eastern Australia sourced wood have been trialed to determine their suitability for the production of high quality charcoal. Four types of wood have been found to be suitable. These woods currently have no alternative commercial usage and are available in significant quantities to support a silicon production facility. The decision to invest in charcoal and silicon production facilities is being further investigated.

### Question

**Ms Roxon** - Sorry, my point relates particularly to those types of comments. That is really the micro-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 sort of things. I find we go around in circles with that. (Hansard Page 12)

### Answer

The first submission states that there are many ways that governments can contribute to value adding by effectively addressing market and institutional impediments, that is, through the promotion of microeconomic reform. These activities are important because they advance the transformation of the economy, leading to productivity improvements, greater competitiveness and higher national income.

It is noteworthy that Australia's significant productivity gains over the 1990's can be linked to the last couple of decades of microeconomic reform. A recent study by the Productivity Commission *Microeconomic Reforms and Australian Productivity: Exploring the Links* (12 November 1999) showed that productivity growth from 1993-94 to 1997-98 was 2.4 per cent, **the best it has been** over the 33 year period the measurement has been taken. This growth in the 1990's was well ahead of nearly all other high income countries. The Productivity Commission argued that much of this growth was the direct result of microeconomic reform.

In addition to the areas discussed in our previous submission, innovation policy can also be used to overcome market and institutional impediments and to promote productivity growth. This is one of the key purposes of the R&D programs for which this Department has policy and program responsibility.

One of these programs is the Co-operative Research Centre (CRC) program. CRCs are selected on the basis of competitive merit and there have been six selection rounds since the program commenced in 1990. The specific objectives of the program are to contribute to national objectives, including economic and social development and the establishment of internationally competitive industry sectors, through supporting long-term cooperative R&D which is supported, driven and utilised by industry/users. Industry support for the CRCs in the mining and agriculture sectors has increased since the first selection round in 1990. A seventh selection round will be held in 2000. Commonwealth support for the CRC program is currently \$140 million annually.

The CRC program covers six industry sectors - manufacturing technology, information and communications technology, mining and energy, agriculture and rural based manufacturing, environment and medical science and technology. There are currently 65 Centres and by far the largest sectors, in terms of resources committed by the participants in the CRCs including the Commonwealth, are the sectors concerned with raw material processing - agriculture and ruralbased manufacturing, and mining and energy.

The CRCs in these areas are collaborating on research and development and education programs which are adding value to Australian raw materials. For example in the minerals area:

the CRC for Australian Mineral Exploration Technologies is developing core technologies for the discovery of new ore bodies;

- the A J Parker CRC for Hydrometallurgy is investigating more efficient and effective ways of extracting metals from minerals; and
- the CRC for CAST Metals Manufacturing is developing technologies to reduce costs and improve the quality of products and processing for the light metals industry.

Similarly in agriculture, the CRC for Quality Wheat Products and Processes is focusing on R&D to increase the value-added at all stages from wheat production to the sale of wheat and wheat-based products and services:

- the CRC for the Cattle and Beef Industry is researching ways to improve the quality and consistency of meat quality suited to new international markets and diets; and
- the CRC for Viticulture is researching more efficient techniques for growing and processing higher quality, contaminant-free grapes.

### **Question**

*Mr Zahra* - Could you advise - and could you take this on notice - where are we at legislatively with that [the TCF Post 2000 package], when is it to be introduced and why it has been delayed? Could you investigate the second point 1 made about the discrimination against Rocklea Spinning Mills in Moe and the Genoni clothing company which are the only two TCF employers in my constituency, apart from a few knitting mills? (Hansard page 16)

### **Answers**

1. The Textile, Clothing and Footwear Strategic Investment Program Bill 1999 was passed by the House of Representatives on 23 March 1999 and is currently awaiting resumption of debate in the Senate. The Program details required by the Bill are currently being developed in close consultation with industry.
2. The firms of Rocklea Spinning Mills and the Givoni Clothing Company are not discriminated against. The scheme provides for five different types of grants, three of which have no geographical restriction, while the remaining two grants are specifically for supporting restructuring activities in a TCF dependent community. In addition, using the methodology proposed in the scheme, Moe would qualify as a TCF dependant community.