



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON ECONOMICS, FINANCE AND
PUBLIC ADMINISTRATION

**Reference: Australia's manufactured export and import competing base now and
beyond the resources boom**

THURSDAY, 7 DECEMBER 2006

CANBERRA

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to:
<http://parlinfoweb.aph.gov.au>

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION
Thursday, 7 December 2006

Members: Mr Baird (*Chair*), Dr Emerson (*Deputy Chair*), Mr Ciobo, Mr Fitzgibbon, Ms Grierson, Mr Keenan, Mr McArthur, Mr Secker, Mr Somlyay and Mr Tanner

Members in attendance: Mr Baird, Mr Ciobo, Dr Emerson, Ms Grierson, Mr Keenan, Mr McArthur, Mr Secker, Mr Somlyay and Mr Tanner

Terms of reference for the inquiry:

To inquire into and report on:

The state and future directions of Australia's manufactured export and import competing base, focusing on, but not limited to:

- Australia's dominance in commodities exports and the impacts of this on the economy following the resources boom;
- The state of the country's manufacturing sector (and the goods and associated services) including opportunities and challenges from the expansion in global trade (in particular by China); and
- Policies for realising these opportunities.

WITNESSES

**JOHNSON, Ms Loretta Frances, General Manager, Policy, Australian Electrical and Electronic
Manufacturers Association Ltd 1**

**ROBINSON, Mr Angus Muir, Chief Executive, Australian Electrical and Electronic
Manufacturers Association Ltd 1**

Committee met at 9.38 am

JOHNSON, Ms Loretta Frances, General Manager, Policy, Australian Electrical and Electronic Manufacturers Association Ltd

ROBINSON, Mr Angus Muir, Chief Executive, Australian Electrical and Electronic Manufacturers Association Ltd

CHAIR (Mr Baird)—I declare open this public hearing of the House of Representatives Standing Committee on Economics, Finance and Public Administration inquiry into the state of Australia's manufactured export and import competing base now and beyond the resources boom. The inquiry was referred by the Treasurer, the Hon. Peter Costello, on 3 May 2006. The inquiry has authorised more than 40 submissions to date from various parts of Australia from a broad cross-section of interested parties. Copies of these submissions are available on the committee's website.

Australia's resources sector is currently experiencing an economic boom in resource commodities. The manufacturing sector has experienced benefits and challenges arising from the boom. The committee is inquiring into the robustness and preparedness for the future of our manufacturing sector and the impacts of or synergies from the resources boom. Today we will be hearing from representatives of the Australian Electrical and Electronic Manufacturers Association Ltd. I remind witnesses that although the committee does not require you to give evidence under oath, it still has the same standing as proceedings of the parliament.

I welcome representatives from the Australian Electrical and Electronic Manufacturers Association Ltd to today's hearing. We have received a written submission to this inquiry from you. Do you wish to make any additional submissions or would you like to make an opening statement to the committee?

Mr Robinson—Yes, I would like to make an opening statement and also, if I may, table for the committee's benefit two documents, one of which is a document for the Electronics Industry Action Agenda. The action agenda is an Australian government program led by AEEMA. Minister Macfarlane has recently extended that action agenda for two years. It sets out a direction for our industry for the next two-year period. Also, for the committee's information, there is a capability brochure of a new Australian industry, called the Australian telematics industry, which is one of the initiatives that is related to that action agenda. I have copies for each of the committee members.

Thank you, Mr Chair and committee members, for making the time available to hear our representation. As I mentioned, I am the CEO of AEEMA, a position I have held for the past six years. I am also chairman of the Australian Materials Technology Network, now known as Future Materials. For the past 13 years I have worked in high technology industries, during which time I have also been the general manager of the Warren Centre for Advanced Engineering at the University of Sydney and inaugural general manager of the Australian Technology Park in Sydney. Prior to 1994, I held commercial management positions in both the tourism industry and my industry spanning over some 20 years. I maintain my professional accreditation as a chartered professional and fellow of the Australasian Institute of Mining and Metallurgy.

We welcome the opportunity to provide input to the committee's inquiry from the companies that are in the business of producing bundled manufactures and product-related services. AEEMA represents three sectors in that manufacturing industry. In fact, it represents Australia's ICT—that is, the information, communication and technology industries—electronics and electrical manufacturing, comprising some 400 infrastructure providers. We look after those areas, we have industry forums—some 16 in total—and we also support industry-led regional and project based clusters linked to national strategic development.

Our policy platform as an industry association is based on adherence to competitive market principles; removal of trade barriers, including non-tariff barriers; reduced red tape; regulation only where required; equitable tax treatment for business; and the removal of impediments to Australian manufacturing that harm its international competitiveness. As mentioned, we are leading a national strategic plan—the Electronics Industry Action Agenda—which has just been renewed by industry minister Mr Macfarlane for a further two-year period and is aimed at developing further Australian innovation in contract electronics manufacturing of complex products, integrated systems for home networking and telematics, medical electronics and devices, defence electronic systems, photonics and optoelectronics.

Our sector faces new challenges and opportunities arising from heightened global competition, but the opportunities relate to global integration into major supply chains which increasingly emanate from the greater China-North Asia region. We believe that Australia's competitive advantage is the ability of its engineers to integrate technologies sourced locally and globally and then apply them to new products which can be trialled locally and marketed offshore. We see that the current high exchange rate, the variable but increasingly higher oil prices, the rise of China and India, the everyday issues of market access, skills shortages, logistics, the need to innovate and overall product trade promotion have been important to the future of the industry.

We see that opportunities for trade have never been greater for Australian manufacturing. We must increasingly gear our innovation system on market facing opportunities. We believe that too much of the nation's public expenditure is being devoted to pure science and technology development, much of which is increasingly being replicated elsewhere in the world. Australia only produces about two per cent of the world's R&D. Our focus as a nation must move from technology development to technology integration, from pure science more to market facing product realisation and production.

When we look at the history of manufacturing since the 1950s, we see that at that stage it only contributed six per cent of Australia's total exports. Progressively it has increased and it is now at around 28 per cent. We have seen the decline of the manufacturing sector as a share of the total economy, but this is characteristic of all developed nations. It is not unique to Australia. We see that manufactured exports from Australia have grown at a rate of more than 10 per cent during the last 20 years, significantly faster than exports from other sectors in Australia. It is the largest sector of the Australian economy, accounting for some 13 per cent of annual value-added activity. We can look at other countries. It is 20 per cent of the Italian economy, 14 per cent of the US economy and 17 per cent of the UK economy. It is 39 per cent of the Chinese economy and growing. It is interesting to note that the growth rate in GDP in China in the electronics ICT area is between 25 per cent and 35 per cent. That is part of that overall growth rate, which we know to be in the order of nine to 10 per cent.

Our real concern is that the balance of GDP assigned to manufacturing is too low, particularly in circumstances where it has been anticipated that the GDP contribution from other sectors, such as mining and agriculture, may be reduced in the near future. Hence the purpose of this inquiry. Put quite simply, our overall GDP mix is unbalanced and, from a risk management perspective, we need to review it. We can draw comparisons with other countries, and I cite specifically Singapore. Singapore has quite a clear understanding of keeping its GDP manufacturing in the range of 20 to 25 per cent.

I make the statement that Australia appears to have no similar strategic parameters. We do not focus on altering that mix as circumstances change, and I believe that we should. Manufacturing is the largest employer, it makes up the largest component of business R&D and it accounts for a significant contribution to Australia's capital stock. The challenge is, in short, that Australia maintains and grows both local and overseas investment commitment to manufacturing to enable the country to create new wealth when other sectors of the economy weaken.

I refer you to the recent announcement by the New South Wales transport minister, John Watkins, explaining why the contract for the 600 rail carriages had been awarded to an Australian company, which would arrange for them to be manufactured in China. He said that whilst unit cost was a consideration, the New South Wales government's concern was that Australia had neither the resources nor the infrastructure available to undertake this work. I think that in itself is a statement we should seriously consider. We are losing the capability to manufacture when we need to manufacture, and we cannot always be guaranteed that we can access those manufacturers when circumstances in the future might prevent that.

We remain concerned—and certainly our members remain concerned—that, notwithstanding these recent opportunities, the manufacturing sector in Australia continues to face unrelenting competition from emerging economies where costs are lower and the investment environments are more attractive than that offered in Australia. Australia cannot afford to allow key strategic manufacturing capability to move offshore.

When we look at the role of government, we think it is important that government focuses on creating the right investment environment—focusing on export market development, reducing regulation, liberalising market access and facilitating skills development. It is important that government, at both the federal and state level, really articulate the critical place that manufacturing, particularly high and medium level manufacturing plays in the overall economy mix. Some states, particularly Victoria, South Australia and Queensland, are outstanding examples of states that have that clearly in mind.

We need to ensure that governments articulate the view that manufacturing does have a future and is not a dying industry, because elsewhere in the world manufacturing is increasing and becoming an important part of the overall mix. We need to ensure that there is financial and resource support for marketing Australian capabilities, and I refer to the tourism industry where it was recognised that industry is an important contributor and where the government stepped in and provided support to marketing that capability. It is a way in which government can get behind the industry sector, and the government has done that in the past in the agricultural sector. There is no reason why we cannot look at better marketing our industry capability. We are very pleased to see that there is the opportunity for the Industry Cooperative Innovation Program

administered by AusIndustry, called ICIP, to provide for this need, and we recommend that be done. If that is undertaken that would be a very welcome measure.

We also understand that unlike other major industry sectors which have a strong global trading presence, small companies involved in Australian high-tech manufacturing, with the exception perhaps of the defence and automotive industries, do not have integrated, well-developed global chain relationships all distributed through other trading houses' arrangements. So you have the situation where you have small Australian companies trying to find their way in the world and with no supply chain relationships available for these companies to operate. That really signifies a market failure situation and is a way in which government can assist our small SMEs being more effective in global marketplaces. I think that is a very important point.

Australia has one of the most open economies in the world with average tariffs hitting around about 3.5 per cent. However many of our trading partners maintain high tariff and non-tariff protection. Offshore markets for our manufactured products and services must be further liberalised so manufacturers can compete. The recent failure of the Doha Round of trade negotiations has delivered a blow to hopes for such liberalisation.

We believe that regional and bilateral negotiations must continue so that market access is more readily available and the range of non-tariff barriers currently preventing or limiting successful trade should be addressed. Key amongst these is intellectual property, protection in foreign markets as well as technical and standards barrier, and this, I must assure you, is a key point in the negotiations with China in the proposed Australia-China free trade agreement.

In the current climate of industry self-help, which is effectively the situation that confronts most of our SMEs, export development assistant is crucial and in that regard we would like to see the EMDG—that is the Export Market Development Grants scheme—further reformed. We think that there are a lot of disincentives for companies to access the program and I might allow Loretta to explain to you her own experience in this regard, after I have finished this statement. It is an issue that is important.

Business regulation must continue to be reviewed. The administration of grants and programs, I can assure the committee, are complex and are difficult for SMEs to comply with. They are very onerous and we find the situation where many of our SMEs say, 'It is all too hard. We would rather do it ourselves than try to cope with the onerous requirements.' From my own perspective, having been responsible for the oversight of a major grant for the Australian materials technology network over the past three years, I can assert that the grant's short life, that is, for three years, and the quite onerous administrative burdens and reporting requirements—ticking boxes, meeting a whole list of KPIs etc cetera—stifled innovation and hindered the ability of the network to grow. From my own personal experience, it is a real issue.

In conclusion, Mr Chairman, and in summary: Australian medium and high-technology manufacturing is the future generator of wealth in the post-mining boom environment but only if Australians, that is, industry and government working together in partnership, develop the clear, strategic focus on the product and product-related service systems where Australia can develop a niche position in global markets. This can only take place if Australia's science and innovation system infrastructure is recalibrated to support market-facing opportunities that can be identified

in global markets through, may I suggest as a strategy, industry and specialist teams scouring the world to identify these opportunities.

Our friends the Taiwanese have taught us that an integrated and not a linear approach of focusing on R&D technology development, ICT manufacturing, strategic alliances, investment attraction and trade development is the way to create new industries. Moreover, we are learning from Taiwan that real new wealth can be created by industrialisation strategies as the step beyond commercialisation strategies. Commercialisation alone at best leads to the development of cottage industries. Our goal is to create new industries underpinned by a vibrant and globally relevant medium and high-manufacturing industry increasingly responding to technology convergence and that is across nanotechnology and biotechnologies and of course impacted on by the digital revolution.

It is worth noting that in 1974 Taiwan's electronics industry was smaller than that of Australia. Thirty years on, with inspired strategic planning, this tiny island of Taiwan, population size similar to that of Australia, now sits as one of the global leaders in ICT production and in economy size, close to that of Australia. Taiwanese leaders have told me that they are lucky they do not have mineral resources. Their wealth has been created by the education and the acumen of their people. Taiwan is one of the world's exemplar knowledge economies.

Mr Chairman and committee members, we have much to learn in Australia but not much time to waste if we are to maintain and grow the standard of living for our fellow Australians. Plan we must and act soon whilst we have the resources available from our mining wealth. There has been much talk about a skill shortage in Australia. In my view the real shortage is in strategic planning skills. Our mining wealth has made us complacent and lazy. AEEMA awaits Minister Macfarlane's much anticipated new global integration industry policy. Our industry is keen to engage and to lead, and we will do this with continued enthusiasm and commitment to the future of our nation. Thank you, Mr Chairman and thank you, committee members.

CHAIR—Ms Johnson, would you like to make a statement as well?

Ms Johnson—I can certainly talk about the EMDG, Chair, if you would like me to now, or we can take it in questions.

CHAIR—Okay, perhaps we will take it in questions. Firstly, I would like to congratulate you on the submission and also on your opening statement, which I think does tend to grasp what this committee is on about. We may disagree with you but we certainly admire your claims. From what I gather, and as my critique of what you see, even though there was a lot of merit in what you said in terms of strategic parameters as you talk about 'market-facing opportunities'—and it may be a new word for Lindsay to use—it seems to be that you are trying to say that the government should pick winners and go out with those as you see the opportunities. Secondly, are you just another one of a line-up of rent seekers with their hand out to the government, saying, 'Support us in terms of our sector'? I could invite you to make a comment to respond to that.

Mr Robinson—All I can say is that we look at our example of what we have achieved. We have gone out there and looked at a market-facing opportunity by finding out what is happening in the world. We have worked back from that opportunity in the telematics sector, working with

an existing industry base like the automotive industry and started to build in industry capability. That is one example. We would claim that looking at the experience of economies that have been successful, like the Koreans or the Taiwanese; they do pick a basket of areas in which they want to be successful. If you talk to the Taiwanese they said that they did not know in 1974 that they were going to be world leaders in the eight areas in which they are now first, second or third. But they picked a bundle of them and they ended up, as it now happens, being the number one in the world in four key hardware capabilities. They made that strategic decision to do that as a nation.

CHAIR—So you are all for picking winners?

Mr Robinson—In the context of a sector saying that industry and government ought to work together strategically to do that. A government responding to industry needs. I always find it amazing that that argument is raised in this situation. In the post-war example, the Australian mining industry said to the Australian government, ‘We need to be prominent in these areas of mineral development’. We picked winners. The government said, ‘Yes, we backed the industry advice’. What has happened over the last 50 years: we have become a leading industry in the mining industry because we picked that as industry sectors.

CHAIR—It is a lot do with our resources, though, and natural advantage. The problem is that government bureaucrats and government people do not have the expertise of industry. If it is a combination of both, maybe you will be subject to the best-paid lobbyists getting their message across but you will ignore some important sectors the market might throw up.

Mr Robinson—I would argue all countries have mineral resources. I have worked in that industry sector, but what had to happen—

CHAIR—Not all of them.

Mr Robinson—Most countries have mineral resources. The industry asked the government to commit to railway lines, ports and infrastructure and work to develop supply chain relationships—exactly what happened in New South Wales, with the Hunter Valley supply chains—and address the issues of getting mines to market. I was involved in that sort of exercise. We can be world competitive. They picked winners in the mining industry, but that required industry leadership saying to government, ‘This is what we have got to be good in,’ and the government standing behind it. We have done that well. We picked a winner in the Olympic Games. Australia said, ‘We want to be a winner in that,’ and industry and government worked together over 12 years to get the games, strategically plan and deliver the world’s best games. That was partnership.

CHAIR—The other question is: how much is enough? In what areas do you want assistance? Is it R&D? What types of things is it?

Mr Robinson—I think we have got plenty of R&D, but what we have to do is to get out in the world marketplaces, work out what the world wants and think like the Taiwanese do about global market opportunities. Too often our thinking is focused on an Australian or a local market opportunity, not looking at global markets. We should work back from that and then recalibrate development in our R&D sector to meet those opportunities.

I will give you an anecdotal example. A few months ago I was in Taiwan. I took four researchers from organisations which are very hooked into industry. We are now working for our strategic framework agreement with ITRI, which is a CSIRO equivalent in Taiwan—industry and government working very closely. The presentation was made by a professor about the technology area he is involved in. The people from Taiwan—and we are dealing with people who are in the project team—said, ‘What are you going to use that for?’ There was dead silence. They said, ‘What product systems are this technology for?’ The fellow’s response was, ‘It is very good science and technology.’ That is a change of thinking.

The Taiwanese look at global markets and how they can convert their science and technology to meet specific commercial opportunity in those marketplaces. We need a change of thinking. We are spending a lot of money on biotechnology and nanotechnology. Has anyone asked the question of all those scientists and technologists to whom the government is channelling all that money: what is it going to be used for; what market is it going to meet?

CHAIR—But I thought you did not want us to pick winners.

Mr Robinson—No, but what I am saying is: it is winners in science and technology per se, not looking at what the world needs, and that is the difference.

Dr EMERSON—One of the concerns you expressed was red tape and, in particular, the filling out of forms when you can receive government financial assistance. But if government financial assistance is going to be targeted, or winners are to be picked, or whichever way you want to put it, how on earth can we avoid filling out forms? It cannot presumably be through friendships or great oral presentations. Once you get to a targeted scheme that is merit based, it seems to me it is unavoidable that there be a lot of form filling.

Mr Robinson—I do not disagree with that at all. It is about the extent to which those forms and processes have developed and the extent to which they meet the objective to be achieved. One could say that the processes that have been put in place with the form filling and the KPIs that are created to check it make the programs very inflexible and make it very difficult for people. So at the end of the period companies say, ‘Thank goodness that is over; we can now do what we really need to do, rather than the box-ticking exercise that was set by the public servants.’ I am not saying that is across the board, but a lot of the programs are based on that and a lot of the companies do not have the resources to be able to administer that level of detail.

Dr EMERSON—Putting aside form filling or regulation relating specifically to that, you and most other witnesses in this inquiry say we have got to cut red tape. Everyone agrees with that, but is it not true that most of the red tape is at a state and local council level?

Ms Johnson—Most of the bad red tape is—the occupational health and safety and those sorts of state based issues. There are also a lot connected with business tax. That is an ongoing argument. Yes, you are right; it is mainly at the state level. All the bad red tape is at state level. Federal efforts to address it in the recent report are welcomed. We are working with the New South Wales government, for example, on reducing their levels of business-oriented red tape. Yes, that is true.

Mr Robinson—Dr Emerson, if I could put it this way, our members see it as important from their perspective. From our perspective we see the major issue to be finding customers and becoming globally relevant. Find the customers, get industry sectors that are starting to work and expand and we can address the red tape issues along the way. We are arguing, ‘Look at the big strategic issues because that is what is needed.’ We need to create industries which will generate large volumes of money. This is what it is about; it is the country being far more strategic. When we sit down with the Chinese on an Australia-China free trade agreement, or with the US, we need to sit down as a country that has some clear strategic wants from these agreements. At the present moment we do not. The Chinese do, the Americans do, they all do but we do not. It shows a lack of strategic thinking that we go into these negotiations not knowing what we want. Perhaps the farmers do, but I am saying in the context of the high-technology manufacturing sector, if that is the focus of our inquiry, that we really need to get some top-level strategic things. If we are going to deal with the Chinese, what can we get from the Chinese? They are becoming world leaders in technology development and they want our resources, so what can we extract from their industry sectors which will benefit us? They are the sorts of things that are important. Red tape is important to small companies.

CHAIR—Shadow Treasurer?

Mr TANNER—Very funny!

Dr EMERSON—That is official; it is on the *Hansard*.

Mr TANNER—Thank you for putting the mozz on me. When I do not get the job there will be a couple of blokes in dark shirts and purple ties with violin cases coming around to your house!

When I did a function with your executive about 15 months ago there was one point that was raised which I thought was quite significant—it certainly does not take us down the path of massive government assistance or picking winners but I think it is quite an important issue—and that was the extent to which the dialogue and cooperation between academic institutions and companies is productive and effective. Concerns were raised about the extent to which the culture in universities is adequately adapted to being able to assist companies or to partner with companies, particularly in your sector. Is this still a problem, in your view, and do you have any specific thoughts about how that might be addressed?

Mr Robinson—I chaired the Australian Materials Technology Network, in which six universities plus Industry Capability Network plus the Materials Australia professional societies were given a three-year job to provide that interface of enabling the technical services available in universities to be used by the industry for advanced materials. I can say from that personal experience that it is a hard yard. It is a continuing problem. We are all aware of the problem. Our industry association does what it can to engage effectively with the universities and the research institutes. It may mean a different way in which the universities and government and industry interrelate into the expenditure of funding. For example, the British set up these research councils where they have a trifecta of government, university and industry deciding on winners, or areas they want, and then they allocate funding and create a relationship with a university that they deem might be the best way to interact with industry. It is done that way rather than the money being shovelled in from universities. It is a more customer focused approach. It may need

some structural adjustments to provide for client-client relationships and that might address the problem.

Mr TANNER—Are you suggesting that the problem really is insufficient central overview of research funding decisions and connecting that with wider industry needs? Is that basically what you are saying?

Mr Robinson—At the present moment, in very simple terms, the funding comes down through the ARC and is dished out to research capabilities. Then the researchers go out and try and get industry partners. By and large, the things that the industry is interested in may not necessarily be the things that the researchers have their funding for. The opportunity to get the interest level up is difficult.

I am suggesting we may need to look at different ways of dispensing funding through collaborative arrangements which enable there to be a collective decision on what we need to focus on as national strategies, albeit addressing market-facing opportunities, and then to collectively determine what universities are actually assigned the task of working with which industries to achieve that strategic objective.

Mr TANNER—It seems to me you are saying that industry input into that process should occur at an earlier stage in the decision-making process.

Mr Robinson—I think so, yes. I also think, Mr Tanner, that there need to be more researchers working with industry out there in the global marketplace, looking at the opportunities and then coming back into the research situation and saying: ‘We need to be working together on this area. There is a real opportunity out there; let’s work on that,’ but relate that to a global market need. There is not enough of that happening.

Mr TANNER—Thanks.

Mr McARTHUR—I have been interested in Taiwan over the years and I have visited that country to see the basis of their economic revolution. You make the comment here about the six C strategy: computing, communication, consumer electronics, the channel, content and the car. I would be interested to know who actually drove the so-called Taiwan revolution? Was it the government or was it senior business people or was it a commitment to the electronics industry by bureaucrats? Who actually developed the concept and made it happen?

Mr Robinson—It was government and industry working together. There is a very strong partnership level through their principal research institutes. The Chinese business community through Taiwan, which works right through the Chinese mainland, is driven by Chinese business. Taiwanese business has got the support of government and has helped develop their industry. In the same way that the Australian mining business sector got the support of government and worked together. We have learned how to do it, but we have forgotten how to do it in terms of our high-technology areas.

Mr McARTHUR—How would you transfer that model to Australian conditions if it has worked so well in Taiwan?

Mr Robinson—I seriously believe that we need to set up mechanisms where the government is actively engaging with the industry leaders beyond just the action agendas. This could be through consultative measures, some strategic planning exercises and one thing or another, so there is a shared understanding, a game plan, if I can use that expression, in our key industry sectors of what we are trying to achieve. Then together, in partnership, we look at—

Mr McARTHUR—Let us be clear what you mean by ‘the government’—‘the government’ covers a multitude of sins. Who is ‘the government’? Is it the minister or is it a department? Who really drives it?

Mr Robinson—At the present moment that would need to come out of Minister Macfarlane’s portfolio. At the present moment industry policy is being directed out of industry engagement through the action agenda process. The action agenda process is a good policy because it says: ‘Industry leadership, you convince us this is a good sector to work in, and we will work with you and support what you are doing.’ I think that that model can be evolved to be some high-level strategic thinking across the whole of government, working—

Mr McARTHUR—They are all good words, but what actually happens? Do you get some tax incentive? What encourages the industry to get into these high-tech areas? You can have all those discussions and talks, but what actually pushes the industry to do more and get into R&D et cetera?

Mr Robinson—Various things. I am trying to answer you in terms of where your question was originally coming from. Perhaps if we had something like the Singaporeans or the Taiwanese or the Koreans have—economic development boards, beyond just Treasury and Finance, looking at industry development. At the present moment DITR have these bureaucrats working through strategies in limited discussions with industry, and certainly you wonder about the extent to which there are discussions between them and Finance and Treasury, the central agencies. What I am suggesting is that there needs to be some high-level mechanism for bringing together the best of industry thinking and the best of government thinking, setting some high-level strategic goals for Australia in this area and working on some high-level national plans. We do need to do that. The other countries we compete with do.

Mr McARTHUR—Some of us remain a bit sceptical about national plans and all that sort of stuff, in Australia particularly. I come back to this argument: what is the manufacturing plan, or whatever it is? Some of us who have seen these schemes over the years have a worry about what you actually mean, what it actually does to the individual companies on the ground and why they perform better because some government agency is suggesting the grand plan.

Mr Robinson—I am not suggesting that would be directed by government coming up with those plans. I am saying that industry needs to work with government to develop what are the real opportunities. We have that higher national plan worked through and then we collectively agree on the strategies across a number of the industry sectors to achieve it. As I said before, being personally involved with the involvement of our chairman in the Sydney Olympic Games, I saw what could be achieved as a nation when industry, business and government work together—

Mr McARTHUR—That was run by government. Government provided the money and said, ‘Get on with it.’

Mr Robinson—There was a hell of a lot of industry and commercial included.

CHAIR—Half of it was provided by the private sector.

Mr Robinson—That, I believe, was a great example where government went out to get the bid. We got it and then we worked over a decade to deliver the best games. It shows what Australians can do when they work together strategically.

Mr McARTHUR—The government provided the resource.

Mr Robinson—Yes, but the government got behind the industry and what there was a lot of interest in doing. It is an example of what can be done if you have a strategic goal. I am making the point that I do not think nationally we do have. I do not believe we have it.

Mr SECKER—You said you felt Australia does not have a plan for manufacturing, and that is what we are talking about here. You have picked a figure—you believe manufacturing should be 20 to 25 per cent of our GDP. Why do you pick that figure?

Mr Robinson—I am just saying that at least it is a figure that somebody works on. The Singaporean government went around the world to find the best benchmark. They believed that was the correct setting—whether it is the correct setting for them now, I don’t know. But we do not go through that process. We just bungle along as a country saying, ‘We can let our services sector run out—it should be 80 per cent, it should be 85 per cent. Can our manufacturing drop down to 10 per cent?’ We do not have a strategic understanding. We do not even have a strategic—

Mr McARTHUR—It is a great democracy in Singapore, though. They just put the plan on and to hell with everyone else.

Mr Robinson—Taiwan is one of the world’s great little democracies and they have undertaken a lot of good strategic planning.

Mr McARTHUR—Taiwan?

Mr Robinson—Taiwan certainly has.

Mr McARTHUR—It is not without its problems politically.

Mr SECKER—Taiwan has really only been a democracy in the last few years.

Mr Robinson—But that is the way they work. They have a clearer understanding of where they want to be. All I am saying is that we need to have those kinds of clear national goals. We do not even have a national goal as to what our standard of living should be in 10 years time. The Koreans do, the Taiwanese do, the Americans do; we do not. All we focus on is what the CPI—inflation rate—should be or productivity.

Mr SECKER—The Lowy Institute said that in the 1950s manufacturing only contributed six per cent of Australia's total exports; now it is almost 28 per cent. I thought that was a good move. You really have to concentrate on exports because we have a certain size home economy so exports are important. In 2004-05 there was a seven per cent increase in the value of manufactured products.

Mr Robinson—That has been underpinned by the good growth we have had in our automotive and manufacturing industries. Things like telematics actually add to that. If you wiped out the work the auto manufacturers are doing, that would knock that figure about. Also, as a country we are right down the bottom of the list in terms of our exporting SMEs. We do not have an industry sector right across the country which is export focused. It is a big issue.

Mr SECKER—Agriculture is very—

Mr Robinson—In manufacturing, basically.

Mr SECKER—export oriented. I think it makes up 13 per cent in Australia. Look at some of these other countries: it is 20 per cent of the Italian economy—I am not sure we would want to copy the Italian economy; 14 per cent of the US economy; 17 per cent of the UK economy; and 39 per cent of the Chinese economy. Where would you rather live, there or Australia? I am being a little bit critical here because you said you have picked this figure of 20 to 25 per cent but you have not explained to me why that is such an important figure.

Mr Robinson—The example was, as you are saying, that is what the Singaporeans have done. What I am saying is that we do not have any understanding as a nation as to what that figure should be. We just let it all drift out. You are absolutely correct—I cannot disagree on whether the Americans should be 14, or 15, or 20 per cent. No-one sat down and said, 'Is the mix we have, in terms of the GDP mix, the right mix now?' In the context of the resources boom, if we lose the two per cent of the five per cent, where is that going to come from? Is it going to come from manufacturing or services? Can the services sector afford to diminish? We just need to have a mechanism which actually has a better understanding of what the setting should be.

Mr SECKER—How do you think we can actually increase manufacturing in Australia above and beyond what we already do?

Mr Robinson—By being globally integrated. What we have in this country is an enormous amount of public expenditures built on science and technology. We have a wonderful science and technology base, it is not working well enough. The capital that is being spent. The rate of return from that is because the strategies we are adopting to use that to build new industries are not the right strategies. What I am suggesting is we need to have a global focus. We need to go into the global markets and recalibrate the money we spend and how we spend it and the strategies we use in industry development to build new industries. The focus is to a large extent on commercialisation of individual firms, which is good—it creates a lot of little companies. What I am suggesting is that we look at what the Taiwanese do and say, 'How can we go beyond the next step to build new industries,' and that is a step well beyond commercialisation of technologies.

Mr SECKER—You are really saying that government should have a greater role in directing industry in Australia?

Mr Robinson—What I am saying is that government ought to be more working more closely with industry and helping to develop the right strategies. I think that the minister's approach in this regard and his anticipated statement is a really good step in the right direction. Individual firms will not do that because they cannot build industries. Individual firms have no capacity to build industries. Industry associations are limited because we only have limited resources. It is only governments that can make strategic decisions about what industries are going to create wealth for the country.

Mr SECKER—In the end, you are really saying that as a government we should be picking winners? That is what you are really saying, aren't you—that we should as a government decide, 'We think this is the track to go down,' whether that be electronics manufacturing or whatever. You are saying that the government should decide that and perhaps increase incentives or whatever?

Mr Robinson—I think that other governments around the world have had to because they have not had any alternative. We have been very lucky—our mineral wealth and agricultural wealth to date has provided us with the luxury of not doing that. But, as we know, the agricultural sector is under a tremendous strain. It is now arguably an unsustainable industry. We know that the mining industry boom will come to an end at some stage or other. What happens when they go? Where are we going to get the future wealth from?

Mr SECKER—Why do you say agriculture is unsustainable?

Mr Robinson—It is unsustainable. Even the *Financial Review* was saying it is unsustainable.

Mr SECKER—I do not believe everything that is said in the *Financial Review*.

Mr Robinson—Environmentally the industry is unsustainable. If you take account of the cost of environmental maintenance—

Mr SECKER—I have very strong disagreements with you. We are the most efficient agricultural producers in the world. If we are not sustainable, no agricultural—

CHAIR—In terms of the global shift and climate change, perhaps that may be, but I do not think they are saying that it is overall. It is a very efficient industry. Ms Grierson has been waiting very patiently.

Ms GRIERSON—I would like to move away from what you are saying about strategic priorities and move to escalating this export and global success. You said that your sector had been successful—it had gone out and looked for what is happening in the world, and I think that is very important. I really wonder if you have any very specific examples of how SMEs can be assisted in going out in the world and looking for those opportunities and what they can do best. Is it websites or better trade tour type approaches? How do we connect them better? Some small SMEs have said, 'We limit our focus because we just have not got the resources to be searching and looking,' and others just employ people to do it all of the time. Are there specifics, do you

think, that would actually interconnect them globally—enhancements to our current ways of doing things or policies?

Mr Robinson—All of the things you have mentioned are all relevant, but what we do need are resources applied to that market development approach. I think the innovation needs to take place more in market development than arguably in science and technology at the present moment because we have to find innovative ways of being able to find the right market opportunities. That means, as I said—

Ms GRIERSON—But we are looking for the ways. Our committee is trying to find the specific ways that we can enhance it.

Mr Robinson—The PMSEC report on supporting SMEs—the Prime Minister’s science engineering report—specifically recommended high tech teams, and that is in that report.

Ms GRIERSON—That is interesting.

Mr Robinson—They did look at that. They said we need high tech teams. We have seen that happen when technical specialists have gone out into the world to talk to the markets, the various technical labs and the customers in the world and come back and say, ‘We have to work in that area.’ We need ways of being able to fund that happening. There needs to be some resources applied to that and resources applied to marketing our capability. As an association we are working with Austrade to have next month in the US, for the first time, an Australian pavilion of Australian technology under the new brand. We have never been there as a country. We have had to devote our resources to be able to do it and it has been a lot of hard work. If there had been a program which would have made that happen, it would have been a lot easier to do.

Mr SECKER—Did you have an export market development grant to do that?

Mr Robinson—No. It has just been too hard to get it.

Ms GRIERSON—That is interesting.

Mr SECKER—I wanted to explore that because they mentioned that very early on and I think Ms Johnson was going to make a comment about that.

Mr Robinson—Yes.

CHAIR—Maybe we can explore that later but Ms Grierson has to go soon.

Ms GRIERSON—The only other thing I was going to say is getting into global supply chains is a really successful approach. Some have done it in all different ways. Ampcontrol have set up in China so that they can improve the quality of the products. They can actually import the componentry they need and find some tax advantage in doing that because they can use a different currency. CCI Pope are into the Rolls Royce engine supply chain through Technological Solutions. I think the way ahead for our manufacturing industry is to place themselves in big global supply chains and be part of that.

Mr Robinson—Exactly.

Ms GRIERSON—Do you see that AusIndustry, et cetera, have an understanding of that or success in that? Most of these people have done it themselves. They have not done it with AusIndustry.

Mr Robinson—AusIndustry currently does not have any funding programs to assist companies wanting to collaborate. We have been arguing that the new ICIP program ought to be restructured to enable international collaboration to help companies do it.

Ms GRIERSON—That is important.

Mr Robinson—Austrade does not have any specific funding other than EMDG which, as we explained, is an onerous program. The point being, as I mentioned before, the government has provided support to the tourism industry in terms of marketing.

Ms GRIERSON—That is true.

Mr Robinson—One of the creative things we have done is that we are using the tourism industry branding. But other industries have had that kind of support. There is just not the supply chain so to get small companies into North Asia is very, very hard.

Ms GRIERSON—The other thing I would like to float by you is that I also believe we should have capacity statements for this country—for our technological capacity and our ability. We do not have them by region, by sector or by anything. You do not want people just doing that as an exercise. You want to do it as part of projects, as part of global opportunities. You do not just build up a capacity statement for the sake of having one because it is too fluid. If you know that there are major infrastructure contracts or major opportunities coming up in a newer emerging economy, then you might do a capacity statement. Even down to entrepreneurial skills and marketing skills.

Mr Robinson—Just on the point you mentioned about a portal, we are working with the Taiwanese on an internet portal so that we and the Taiwanese groups have actually set up an internet portal. We are going to do that on a shoestring; there is no funding available to do it. It is unique.

Ms GRIERSON—That is good. A portal is a good idea.

Mr Robinson—The telematics industry is part of that, but that is work we have done.

Ms GRIERSON—As a peak group for your sector?

Mr Robinson—Yes. So you can do anything if you have resources.

Ms GRIERSON—Thank you.

CHAIR—Mr Secker, would you like to finish your question on that?

Mr SECKER—You have made some criticisms of the export market development grants. I have had quite a few in my electorate and they have been quite successful; they have not complained to me too much about the paperwork. Obviously, we have a constraint with transparency of government.

Mr Robinson—I understand all that.

Mr SECKER—How would you fix it up?

Ms Johnson—We applied as an approved body status in 2004. We are an SME ourselves. We have 15 employees in three capital cities and we have maybe \$2 million a year in turnover. There is a section under EMDG—as you know, we are not exporters ourselves—where we get a status called ‘approved body’ and that means that as the peak body in the country representing exporters we can facilitate programs for their export and then slip into the same threshold that a normal exporting company would get. We get 50 per cent back of any expense after the first \$15,000.

I can fill out forms very well and write very good submissions. I spent something like four months in 2004 explaining in writing, attached to the application form, what we did for the industry capability mission we ran in 2004 to Taiwan where we took 20 companies to Taiwan and introduced them in a sort of bull-pit arena to all the market players over there—

CHAIR—Speed dating, was it?

Ms Johnson—Yes, speed dating. We took them on tours and exposed them to, as Angus was saying, the springboard into the greater China region. As I said, the application form did not give me any trouble; it was trying to explain to the approval person in Austrade how we facilitated the exports from that mission. What I had to do in the end—as I said, at the end of four months, to be frank, I gave up—was that I had to give them a detailed quantum analysis of how Australia’s exports would increase as a result of the industry capability mission and how many more people would be employed as a result of the industry capability mission. To be honest, I could not do that because I did not have the data—nobody had the data—so we did estimates, and that was not good enough.

I would have thought what we did, and what we are doing in Los Angeles in January next year—putting Australia in a stand on the World Electronics Forum—would qualify us for approved body status. As I said, I am not frightened by forms or dealing with paperwork or dealing with government people at all, but for this 2007 one I have said to Angus, ‘I am sorry, I haven’t got four months to spend on trying to convince Austrade that we should get approved body status,’ so now we are spending money on a consultant to do it. Really, it should be that I could sit down with Austrade and say: ‘We did all this. I can’t tell you how the exports are going to increase but could you take it on faith, as we’ve taken 20 companies to Taiwan and about 10 of them have got contracts.’

CHAIR—Couldn’t you just charge the participants for your time in doing it and then they, of course, are well able—

Mr SECKER—They could actually qualify.

CHAIR—They would qualify.

Ms Johnson—They could have qualified, yes, and some of them are going ahead with that.

CHAIR—Anyway, we take your point on board.

Mr KEENAN—I want to pick up on some of the points you are making. Personally I think it would be a profound mistake for us to sit around and dictate what the economy is going to look like in 10 years time or something. In your submission you have come up with things that I would be more attracted to, in that you say your policy platform is based on competitive market principles, removal of trade barriers, reduced red tape, regulation only where required, equitable tax treatment for business and the removal of impediments to Australian manufacturing that harm its competitiveness. Could you expand a little more on that?

You have used the example of Singapore, but one of critical keys to its success is that it has a very low company tax rate and it is very easy for foreigners to invest in Singapore. It is also very easy for foreigners to go and work in Singapore and they get to keep a lot more of their money than they would if they were working in an economy like Australia. I know friends over there who will never return to Australia because they would never pay the rates of tax that we have here. What about things like that for making Australian industry more competitive as opposed to the government sitting around and saying, ‘We think this one looks better than that one and we’re going to invest there’?

Ms Johnson—In relation to tax only?

Mr KEENAN—In relation to any of the things you have mentioned in your submission that are hampering our international competitiveness, as opposed to government assistance.

Ms Johnson—Certainly lowering the corporate tax rate would be *prima facie* a great incentive for growth in this country. I think our members would, to a man and woman, agree with that.

Mr SECKER—I think every man and woman in Australia would.

Ms Johnson—Every man, woman and child on the planet—yes, exactly.

Mr SECKER—But you would have to reduce it quite substantially to make it anywhere near competitive—

Ms Johnson—Yes, and comparisons are always dangerous. When you consider where Singapore came from, the economy is very different, the culture is very different, the politics are very different—we accept that. The other aspects in the policy platform are to take away all the barriers, to the best of our ability, that harm international trade. Obviously we are not talking just tariffs, because we at least have a fairly low tariff wall. Our members are doing business in countries all around the world. Chile has a 35 per cent tariff on radio antennas, for example, and we make the best radio antennas in the world.

CHAIR—We were told yesterday we are about to start negotiating a free trade agreement with Chile.

Ms Johnson—That is why I raised Chile, because I wondered whether a decision had been made on that or not. We had not heard.

CHAIR—Yesterday we were told that.

Ms Johnson—We had not heard whether you had or not. Certainly non-tariff and behind the border barriers are the things that really hurt. China is a classic example of that. America, unfortunately, is a classic example of that too. By ‘behind the border’ we mean opaque legislation, opaque regulations in these countries that you do not actually find out about when you are negotiating, until you sign and then someone goes in and tries to do business there. Regulations and standards themselves can be used as a barrier to trade and a barrier to foreign products coming in, and there is a lot of suspicion that China is using the standards system to do that. They are the sorts of barriers—I guess you would call them opaque barriers—that we are trying to work on as well with DFAT and other agencies involved in that. They are hard to get a grip on because they are so slippery. It is not like just saying, ‘We’ll reduce the corporate tax rate and everything will be hunky-dory.’ It is really very difficult to address opaque barriers like that. Tariffs are easy—you just take them down.

Mr KEENAN—What about things that we can do, specifically the Australian government—what regulations do we have that hamper business competitiveness? That is what your submission has foreshadowed.

Ms Johnson—Certainly at the state level we are, as I said earlier, working on those occupational health and safety regulations that differ from state to state. As you would know probably better than I do, they are huge impediments to small industries and small businesses in particular. Without wishing to be small ‘p’ political, the changes to the IR by taking it up to the federal level and making it one system: there is no reason why you cannot do that with occupational health and safety. That should be the next one, in my view.

Mr KEENAN—That is an excellent suggestion. We could put that in our report.

CHAIR—Yes, that is a very interesting recommendation.

Ms Johnson—And you can use the same constitutional power to do it.

CHAIR—Very interesting.

Ms Johnson—So do it.

CHAIR—Can I encourage you to look at the Treasury appearance before this committee and their submission, because they are very much more free market—instead of the government directing and injecting funds, it is up to industry to take opportunities in the marketplace. They quote their research that has shown that investment in R&D has not necessarily paid off. You are coming from a different perspective in the debate, and you have been clear on it, so I am sure

you will find yourself quoted in the report. So it might be quite interesting for you to look at that—

Ms Johnson—Thank you, we will.

CHAIR—and then respond to us on that. I invite you now to make a final summary and then we will close the meeting.

Mr Robinson—Mr Chairman, just picking up on your last comment, I would not like the committee to be of the view that AEEMA as an organisation is anything other than supportive of free trade. We are very aggressively pursuing those policies. The point that we wanted to make is that there is a role for government to be working to support industry led initiatives. There seems to be an inherent fear of picking winners, as has been stated often. But we make the point that at times in a nation's development it is important for government to recognise the opportunities that are available, in the same way the minerals industry has recognised the opportunities in the post-war situation, in the same way that the Australian government recognised the opportunities available in the agricultural sector, and that at those times in the future government can work creatively with industry to support the development of industry sectors.

We make the point that the world situation, as it relates to us, will change. The resources boom at some stage in the future will come to an end and the circumstances will change. We believe it is important for our industry and government to be thinking strategically, do the 'what if' analysis, look at the SWOT analysis for country, look at the economic settings, critically evaluate where we are now and where we ought to be, look at those industry sectors where we can have leadership opportunities in global markets and then collectively make decisions as to what extent we actually go out and pursue those opportunities. That is a collaborative approach where industry is backed by government on the basis of what industry believes is the way forward. Our position is that there are some wonderful opportunities in the global manufacturing sector because of the digital revolution, biotechnologies, nanotechnologies and so on. But we do need to adopt a different state of mind and start being strategic, because the countries that we are competing and trading with are very strategic in the way they go about their business.

I make the point that I do not believe we are strategic enough; nor are we, through our trade liberalisation initiative for free trade agreements, particularly with the Chinese, extracting some value for our manufacturing sector. We ought to be thinking about what other things we want from the Chinese, or from the Koreans, or from the Japanese. For example, the Japanese are looking for food security and resources security. They happen to be at the top of the value-add chain in the high-technology area. What can we extract from the Japanese?

CHAIR—We are about to go into a free trade agreement with Japan so that is the next one.

Mr Robinson—One of the people I most admire is Sir Charles Court. I spoke to Sir Charles Court 15 years ago and we talked about the way in which he had strategically extracted out of Japan a future for Australia because he took a strategic viewpoint. He worked with the industry leaders in the mining sector to think strategically. I am just pleading for some more strategic thinking. Look at establishing mechanisms where we can tap into the best and brightest of industry. Try and get some strategic game plans which we can all agree on so that when we go into world marketplaces we have some understanding as a nation of what we want to achieve.

That is the message I want to leave with you. There are some wonderful opportunities out there in the manufacturing sector. When you look at electronics, at the ICT sector, it is the fastest growing, largest industry sector in the world. Why would you not want to be part of it? We certainly do, and that is why we are very much behind the electronics action agenda. We want to kick some more goals for the country. Thank you.

CHAIR—Thank you very much for coming today. Is it the wish of the committee that the documents titled *The Australian telematics industry* and *Enabling a smart electronics industry for Australia: the electronics industry action agenda* presented by AEEMA be taken as evidence and included in the committee's records as exhibits? There being no objection, it is so ordered.

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

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

Committee adjourned at 10.42 am