COMMONWEALTH OF AUSTRALIA

Proof Committee Hansard

SENATE

JOINT SELECT COMMITTEE ON THE AUSTRALIA FUND ESTABLISHMENT

Establishment of a fund to support rural and manufacturing industries

(Public)

THURSDAY, 5 FEBRUARY 2015

MELBOURNE

CONDITIONS OF DISTRIBUTION
This is an uncorrected proof of evidence taken before the committee.
It is made available under the condition that it is recognised as such.

BY AUTHORITY OF THE SENATE

[PROOF COPY]

INTERNET

Hansard transcripts of public hearings are made available on the internet when authorised by the committee.

To search the parliamentary database, go to:
http://parlinfo.aph.gov.au

SENATE

JOINT SELECT COMMITTEE ON THE AUSTRALIA FUND ESTABLISHMENT

Thursday, 5 February 2015

Members in attendance: Senators Kim Carr, Wang and Mr Laming.

Terms of Reference for the Inquiry:

To inquire into and report on:

The establishment of a fund to support rural and manufacturing industries, with particular reference to:

(a) the need for a fund to assist rural and manufacturing industries in crisis and support communities affected by natural disasters, including the following assistance:

(i) emergency or ongoing financial relief,

(ii) a loan to such a business,

(iii) act as a guarantor for all or part of a loan or proposed loan to such a business,

(iv) purchase all or part of an existing loan to such a business,

(v) capitalise or waive interest owed by such a business,

(vi) assume control of such a business for a particular period,

(vii) grant funds to an appropriate industry body, and

(viii) grant funds to such a business for the purpose of purchasing new technology to make it more economically viable and competitive or restructuring it; and

(b) whether:

(i) existing bankruptcy and insolvency laws should be modified or temporarily relaxed for businesses in times of crisis, and

(ii) any foreign bankruptcy or insolvency laws should be adopted as laws of the Commonwealth.

WITNESSES

KIWAN, Mr Mounir, General Manager, Federation of Automotive Products Manufacturers

REILLY, Mr Richard, Chief Executive Officer, Federation of Automotive Products Manufacturers

Committee met at 10:04

CHAIR (Mr Laming): Good morning, everyone. The committee now commences its third public hearing on the establishment of an Australia Fund. I welcome Mr Richard Reilly and Mr Mounir Kiwan from the Federation of Automotive Products Manufacturers. Information on parliamentary privilege and the protection of witnesses and evidence has been provided already. The committee has your submission. We invite you to make a short statement.

Mr Reilly: I will make a short statement to get some information on the record which I think might be useful for the committee, if you are happy for me to do that. On behalf of the FAPM board and members, I would like to thank the committee for the opportunity to appear before it today. The federation is the peak industry body representing Australia's automotive component manufacturing sector. The federation was formed in 1958 and has about 85 member companies employing many thousands of people. Our organisation has members in all sizes of companies—from multinational companies to larger Australian companies to many small- and medium-sized enterprises. We are the only body that totally and only represents manufacturers.

Australia's automotive sector is currently undergoing significant structural change. The committee is fully aware that all three domestic vehicle manufacturers have announced their intentions to cease vehicle manufacturing in the years ahead. Ford Australia will cease making cars in Australia in October 2016, while both GM Holden and Toyota Motor Corporation have indicated they will cease vehicle manufacturing operations by the end of calendar year 2017.

Our industry is currently on a path of contraction. Local vehicle production was down 21 per cent in 2014 from 2013, from 211,529 vehicles produced in Australia by the three vehicle assemblers down to 174,508 vehicles in 2014—a reduction of 21 per cent of local production. As you would expect in an industry that relies on volume production, this contraction has created, and continues to create, enormous stress on the component manufacturing side of our industry. Vehicle production continues to decline, flowing on to the component sector. This sector is, itself, altering production schedules to meet reduced demand from the vehicle assemblers, and this is impacting on employment and cash flow within the sector.

The automotive supply chain is pursuing opportunities of diversification and globalisation in both automotive and non-automotive manufacturing. This is a hard and long road. The suppliers are experts in making automotive components. Trying to design and develop new components in new industries and pursue sales opportunities takes time, effort, cash and management commitment. It is a hard, long road. I should hasten that some suppliers are doing better than others in the implementation of their diversification strategies. We are, in effect, an industry in distress. So where do we go from here?

FAPM considers that the Australian automotive industry is well positioned to be a global centre for automotive new manufacturing, as outlined in our submission. However, steps need to be taken while the local supply chain and associated infrastructure is still largely intact. We need to continue to work on the state of our supply chain and work with it to assess what changes companies can make in regard to diversification or export activity to become sustainable, determining whether any alliances in the form of merger or acquisition activities can create the required scale to drive success and, given the state of our companies at the moment, understanding the detail of their legal and commercial obligations.

FAPM strongly recommends that government support for diversification activities by automotive suppliers should continue as a key industry strategy. We have flagged in our submission to the committee some key areas we think the government should be supporting—which I will not go into here. We would argue that this support is vital to ensure an orderly transition to a future environment with no large-scale volume manufacturing existing in this country. The decisions by the vehicle manufacturers to cease manufacturing by 2017 make it even more imperative that the government accelerates its support for automated supplies to diversify their activities into new markets and innovative products. The benefits of automotive suppliers diversifying into these new markets for non-automotive products include: minimising the adverse impacts of adjustment on the community, particularly the loss of high-value jobs; retaining key automotive capabilities in Australia; disseminating automotive industry technology and expertise into other advanced manufacturing and service industries.

We have presented a number of views on how the Automotive Transformation Scheme might be altered to best cater for the diversification, investment and research and development plans of supply chain companies in the coming years. FAPM believes that it is imperative that the ATS program must continue through to 2020 as planned.

You may be interested to know that work is currently being sought in global supply chains by companies in Australia, but the uncertainty surrounding the longevity or otherwise of key government programs makes quoting for business problematic, to say the least. Governments of all persuasions have contributed funds to the automotive sector to assist in transition to a new era. FAPM considers that the Automotive Diversification Program should continue, even after the scheduled closure of the vehicle manufacturers, as the remaining automotive suppliers adapt their operations to a business environment that will have changed dramatically within a short time frame. We do have concerns, however, as to the limitations of its eligibility criteria and what constitutes eligible expenditure.

Post 2017, some automotive suppliers may potentially be providing components to local niche businesses or contract manufacturers. It is also envisaged that, with the support of the Automotive Diversification Program, the Automotive Transformation Scheme and other federal and state programs, more local automotive businesses will be accessing global export markets. A number of Australian based component manufacturers have already recognised that their business viability depends upon them becoming integrated into global automated industries and markets and/or diversifying into non-automotive business sectors. The establishment of the Australia Fund provides an opportunity to structure support that ensures innovative initiatives for a vibrant industry based on automotive principles. Thank you, Chair. We are happy to take questions as you see fit.

Senator KIM CARR: Mr Reilly, you indicated that the industry is in distress. Is it your view that the industry is finished?

Mr Reilly: No, it is not my view. Obviously, vehicle manufacturers will be leaving at the end of 2017. That creates a whole new paradigm for our industry. But I am not here to be pollyanna. We are in absolute transition at the moment and we are very clear: I do not think all components manufacturers will be in business in the coming years. I do not think that is a statement that is true. So we are in a period of transition. As you know, there are about 128 recipients of the Automotive Transformation Scheme. I say that because they are the ones that are topmost in our mind that are supplying the automotive vehicle manufacturers. There will not be 128 in the next couple of years. The multinationals will make their own decisions. A number have already publicly said that they will provide components to the customers out to 2017, and after that they will make exit plans. There are larger Australian companies and then the SME base, and I do not think the SME base will have the numbers of companies that they have currently in the next couple of years.

Senator KIM CARR: So there are 128 registered for the ATS—

Mr Reilly: Yes.

Senator KIM CARR: They are the major suppliers. Underneath those companies there are very significant number of businesses and significant numbers of employees. How many businesses, individual companies, do you think are engaged in the automotive industry and how many people do you think they employ?

Mr Reilly: I will take the people one first. Our submission to the Productivity Commission indicated that there were approximately 33,000 direct jobs in the automotive component manufacturers, notwithstanding the vehicle manufacturers, which is another factor of probably 9,000, 10,000 or 12,000. So all up potentially maybe 45,000 direct jobs are employed in the automotive industry in Australia. But of course I am very confident that there are multiplier effects in the automotive industry as well. I know we can debate what those are. But I know that the English government and bureaucracy has said that for every direct automotive job in the English automotive industry there are another 10 jobs created as a result of that job. We have not quoted that number. We generally quote four to six indirect jobs, and I know we can debate that. So you are talking about up to 200,000 or 300,000. The Bracks report quotes that as well.

Senator KIM CARR: How many individual firms do you think would be engaged to employ that number of people?

Mr Reilly: We think about 700.

Senator KIM CARR: Would you describe the loss of the industry as an economic and social disaster?

Mr Reilly: Yes, I would. I think it absolutely would be. The fact is that automotive is the king of manufacturing. A whole range of skills, capabilities and engineering capacity are developed in the automotive sector that diffuse out to the rest of the Australian manufacturing industry. There is no doubt that we are living through, I think, a deindustrialisation at this stage—where we are going at the moment with the three vehicle manufacturers announcing their departure. We know the reasons that they have announced, and we can debate that, talk about that, but there is no doubt that, once the vehicle manufacturers leave, prior to that and after that there will be an associated loss of skill, capability and jobs within the automotive manufacturing sector, which will have a dramatic impact on the Australian economy and community, in my view.

Senator KIM CARR: But you would put it into the category of economic and social disaster?

Mr Reilly: I am happy to use those words. I have said publicly that I think that the loss of the automotive sector will have an enormous, dramatic effect on the Australian economy and the Australian community going forward.

Senator KIM CARR: The reason I raised that is that there is natural disaster. There is a cyclone that devastates a regional economy. There is a flood. There is a bushfire. People perceive that there is a role for government in dealing with that matter. Do you think there is a role for government in dealing with the sorts of circumstances that you are facing?

Mr Reilly: I think that there absolutely is a role for government. Government has played a role in the automotive sector in the past. In our period of transition and the looming impacts of this loss of jobs, capabilities and skills in our industry, there is certainly a role for government going forward.

Mr Kiwan: Just to pick up on your comments, Senator, I believe that it is regional, as you were indicating earlier. You are talking about the communities in northern Adelaide, northern Melbourne and south-east Melbourne suburbs, so the impact if you localise it will be very significant in those areas. People might not feel it in Western Australia or Queensland, but they will surely feel it in the states of Victoria and South Australia.

Senator KIM CARR: Yes. It will be said that of course the private sector can fix this; the normal banking system is there to assist people. What do you say to that argument? How have commercial lending institutions responded to this type of crisis?

Mr Reilly: Our view is very clear that the commercial banking fraternity has been very poor in liaising with our industry over quite a number of years, particularly on the issue of access to capital, and our members have reinforced that. We surveyed our members on access to capital a number of years ago now, about 4½ years ago now. It was very clear that banks have essentially turned off the lending tap to the automotive sector and have done so for many years. They have made the commercial decision that they have not seen the automotive industry as an industry that they want to bank.

Senator KIM CARR: If you do say that there is a role for government, and the private sector cannot because of this market failure in regard to access to capital, what is the role of the Commonwealth versus the role of the states?

Mr Reilly: I think the Commonwealth has a very important role to play from a leadership perspective but also from the perspective of encouraging banks to get involved in the industry. We are talking about diversification. Our industry need a great relationship with their banks to try and enter these new markets and develop new products, because they cannot do it without that lifeblood of capital coming into their businesses. The role, I think, that the federal government plays is crucial to the success of any access-to-capital drive.

The states obviously play a role as well, given that they are perhaps closer on the ground to individual firms. There is no doubt that access to capital is a crucial issue that needs leadership from the federal government going forward—through an Australia fund, through some sort of fund that firms within the automotive sector and associated industries can actually access going forward—because the banks have made it very clear from their commercial decisions over the journey that they are not looking to lend to the automotive sector.

Senator KIM CARR: In terms of FAPM's analysis, how adequate are existing sources of support? That is clearly what will be argued to counter your proposition: there is plenty of support. How adequate do you regard that support as?

Mr Reilly: There are a number of things to say there. An existing program, the Automotive Transformation Scheme—we think that is a vital scheme, which has been put in place for quite a number of years, as is its antecedent scheme, the ACI Scheme, as well—continues to play a vital role within our industry. We know there are issues associated with that scheme, which we can or do not have to go into today. But that particular program, I think, needs to continue to be available to firms to access to encourage them to undertake research and development and invest in new plant and equipment.

There are other funds as well, like the federal government's Growth Fund. Our view is that the actual quantum of funds available to be accessed by the automotive sector is inadequate given the size of the sector. It is a $3 billion industry, and yet, in this global fund, I think the quantum of dollars that are available for firms to access under a variety of programs is manifestly inadequate. I am very happy to put that on the public record. That is FAPM's stated view and has been since it was announced, essentially.

But, as you know, there are a number of programs to assist in workforce restructuring as part of the Growth Fund. It is just the quantum of the dollars that I think is inadequate given the size of our industry and the employment ramifications of the cessation of vehicle manufacturing in 2017.

Senator KIM CARR: Are you aware, though, of any investment proposals that have arisen to maintain capabilities in automotive manufacturing in Australia?

Mr Reilly: Yes, we are. We have had a number of firms, consortia, organisations and individuals come through our doors to speak to us about our views on their particular business plans or ideas and the input or the effect that their plans may have on the automotive industry and seeking our support, essentially, from the perspective of supporting our members. As you would probably expect, I am not at liberty to say who they are, from our perspective, but there are a number of firms and organisations that have come to us—I can think of five—as well as the international people. I know that a number of countries to our near north are very interested in our automotive capability and looking to garner that strength and that capability and to transport that or at least merge that to an extent with their automotive sectors as well. So, yes, domestically we are aware of a number of people that are trying to, or have some ideas to try to, continue vehicle manufacturing, potentially, pre and post 2017.

Senator KIM CARR: What would it take to get those types of proposals off the ground?

Mr Reilly: One thing that we have discussed ourselves is potentially through an Australia fund, for example. It is the feasibility issue that these guys, particularly some of the smaller ones that we have seen, have struggled with—to get together a viable document, a robust, capable document, which they can put in front of financiers, potentially, as well as government. So I think feasibility funds, a potential arm of an Australia fund, would assist companies and perhaps individuals with robust ideas to get a fair dinkum, robust plan created, and that can be put in front of people to see whether their plan is viable.

Senator KIM CARR: Are you concentrating on the business case for investment?

Mr Reilly: I think so, yes. It is all very well to have an idea. People will come to politicians or to financiers and say, 'I've got this great idea; I want to rescue the Australian industry; I want to start up a new car company.' They say, 'Well, that's all very well; what have you got?' 'Well, we've got—not much.' We need to get these robust documents together. We put one group in particular that I am thinking of in front of six or seven senior ex-automotive executives to pull apart their plan and the feasibility of a potential venture. They needed to go back and put together a fair dinkum document because the guys who they were put in front of said, 'Listen, you've got a lot more work to do.' So I think there is a real opportunity there for government to make a difference, to provide some funds for a feasibility option for companies to go to and apply for funds to put together a feasibility plan if they have a particular plan in mind.

Senator KIM CARR: Your submission draws our attention to the road map that was developed in terms of the industry capabilities in the country.

Mr Reilly: Yes.

Senator KIM CARR: How important is that document?

Mr Reilly: It continues to be a very important document, with the key areas that were identified under the 2020 document.

Senator KIM CARR: For the *Hansard* record, can you outline what they are?

Mr Reilly: I can outline what they are. There are four key plans. There is vehicle-to-vehicle information. There is electrification. What are the other two?

Mr Kiwan: Lightweighting.

Senator KIM CARR: Gaseous fuels.

Mr Reilly: Lightweighting and gaseous fuels—correct, thank you, Senator. There were four key areas that the industry essentially identified ourselves as the areas that we as an industry saw going forward out to 2020 as a road map. They were the four key areas that we should be looking at as an industry to try to differentiate ourselves going forward.

Senator KIM CARR: The reason I ask this is that the critics of the industry—and there are very powerful critics of the automotive industry; there is deep hatred of the automotive industry, I would put to you—would say that it is throwing good money after bad, as I read in the *Financial Review*. It is a term that is used quite regularly. What is the international experience—for instance, in the United Kingdom? What is the experience there? Is it the case that it is good money after bad?

Mr Kiwan: To answer your question, just before Richard answers it exactly: I do not think that is true, just based on the example of Australian companies and Australian executives who started their careers in Australia and have become global automotive players—people such as Kevin Wale, who ran General Motors China and saw them go from 500,000 units a year to three million units a year, and Richard Kenny and obviously Jac Nasser as well, who were both very senior Ford executives. All these guys started their careers in the Australian auto industry at Broadmeadows or Port Melbourne and had the capability and the teams around them to push themselves up into global positions. So I think the Australian automotive industry is very well respected amongst the global auto industries. The opportunity really here is to concentrate on the high value add that we can deliver, and I think South-East Asia is ready for that engineering, design and R&D capability that Australia can provide. But I will hand over to Richard now to answer.

Mr Reilly: Thanks, Mounir. On the 'good money after bad', firstly, we are very supportive, and historically there has been a bipartisan approach to support for the automotive industry. I know things have moved on, but it is certainly not good money after bad going forward. The vehicle manufacturers have made their decision, so where are we going to go now? Well, going forward, if we are not going to produce vehicles, we have to look at the high-end engineering capabilities and ensure that we retain that capacity to sell our resources and sell our services to other countries that have an automotive sector. The irony is that global automotive production is going gang busters. China is producing 17 million vehicles a year or more. America is now at 15 million vehicles a year. The Europeans are a bit softer, but certainly South-East Asia and Japan are still going well. But we are not at the moment, because of our history and where we have played out.

Mr Kiwan: I will just add that obviously almost every South-East Asian manufacturing country wants an auto industry, whether it is Indonesia, which is looking to have a domestic car maker; Malaysia, which is effectively experiencing the first stages of its own Button plan; Thailand, which is attracting every single global car maker to its country; Vietnam, which wants to move from bikes into cars—I can go on. Every single country—

Senator KIM CARR: Sure, but they are all relatively low-wage countries. Give me your experience in—

Mr Reilly: The UK.

Senator KIM CARR: all right—the United Kingdom. Tell me about the United Kingdom.

Mr Reilly: In answer to your question: I think the United Kingdom is very instructive for Australia. Certainly through the late seventies and eighties the UK automotive industry basically contracted, and a lot of their indigenous brands were sold and moved offshore—Jaguar, Land Rover and a whole range of other companies as well. Eventually, they got down to, I think, about a million or a million and a half vehicles a year of local production, which is still a lot, but it is a very big market, as you know. But it is still a lot more than we had, for example.

But then they realised what we in particular—and others—have been talking about for three years. They realised that the capacity, the capability and the skills that are generated within an automotive industry are diffused throughout the whole economy. They realised, and what they did was that they said: 'Hang on, this is ridiculous. We need to bring that vehicle manufacturing capability back into our country, which will then generate supply chain companies, which will then generate skills and engineering capability.' What the government did in the UK was that they supported their industry, dare I say it, through a whole range of initiatives—through cash injections, through programs, through incentives—to incentivise or to entice, whatever word you want to use, vehicle manufacturers back to the UK to physically produce cars in the UK. They did that over a good number of years, because the government realised that they were losing capability and skill and that that was going to have a detrimental effect on their economy and their skill base. And the UK is now a poster child for global automotive production—the factories are coming from eastern Europe and Europe, for example, back into the UK.

Mr Kiwan: To your points earlier, Senator, I would argue that they also chose competitive advantages to concentrate on. So the UK, in terms of electrification, enticed Nissan and Nissan LEAF to be manufactured out of Sunderland and invested a significant amount of money. Nissan LEAF is a global pure electric vehicle, so it is a future technology. They chose to concentrate from an engineering perspective on low-emissions combustion engines. The UK are world experts in powertrain and low-emissions petrol engines. They chose where they wanted to invest and they invested in those complex areas that the low-wage countries cannot invest in, and they did very well out of it.

Mr Reilly: Interestingly, though—and I am not necessarily advocating this, because I know the whole situation—the UK government, I think, spent about 400 million pounds to entice Nissan to come into that country and develop that new vehicle; as a straight cash incentive to come back into that country to produce that vehicle.

Senator KIM CARR: Was it a Conservative government?

Mr Kiwan: I believe so.

Mr Reilly: Yes, it was. That is correct.

Senator KIM CARR: Thank you very much.

CHAIR: I wanted to ask about the high-end alternatives to a vehicle industry. Could you tell me more about what might be a reasonable prospect of alternative job opportunities for those who are losing jobs in the vehicle industry and the parts industry.

Mr Reilly: It is a diversification issue, which I mentioned in my opening statement. It is very hard to do, but people are doing it—so I am just letting you know that. These guys have been making componentry for 40 years, they are tooled up to make automotive components and they have got their contracts, but they realise—and have done for a number of years, I can assure you—that things are changing, and things are changing fast. And then the vehicle manufacturers made their decision. There has been a scramble—I will use that word—because they have realised that they have to look at new industries. So there are opportunities to diversify, and not only to diversify globally. FAPM, for example, have led trade missions internationally to China, Thailand, Malaysia, the US and Indonesia, taking groups to these markets to try to show their skills and capabilities, whether that means getting some sort of joint venture together or exporting—which is a bit more difficult these days, but certainly JVs with other countries. So that is in the automotive space—actually looking into the global market to try to sell their wares or to sell their skills and capabilities in the global market.

But we have identified other industries and we have done a lot of work in this space, as I know all three governments have, really. The Victorian and South Australian governments and certainly the federal government are looking at other industries—for example, prefabricated construction; I think that is a real opportunity going forward. There is a huge dynamic going on in the building industry at the moment—new and innovative ways to build apartments, particularly in Melbourne, I see, and new construction methods. And the skills and capabilities that are being developed in automotive—like lean and just-in-time delivery and all those waste reduction initiatives, which were all developed in the automotive sector—are being brought into other industries, so it is not only banging out a widget; the skills, technologies and the capabilities are being developed as well. In answer to your question, ultimately we have identified things like mining, med-tech and prefabricated construction, amongst others. There are a couple of others of well.

Mr Kiwan: Food production is a national imperative as well, which would benefit from the efficiencies in the automotive industry. As Richard said, I would say mining efficiencies as well as the global commodity price comes off—there need to be more efficiencies put into that industry. Effectively, the auto industry has been dealing with cost-down supply in its whole existence; so for every reiteration of a product the price goes down, not up. This is something that has been drilled into these suppliers ever since they were created, and it is something that they can transition into other such industries.

Senator WANG: Australian car manufacturing is diminishing for a number of reasons—probably high labour costs and high energy costs, for example. How do you think parts manufacturing could survive, given that those reasons are still there?

Mr Reilly: I do not think the whole industry will survive, as such. We will have losses within my side of the sector. Obviously three vehicle manufacturers are going. By definition I think we can cease making cars, which is really the senator's point about whether there are any other opportunities, particularly from potential new vehicle manufacturers. We certainly have not let go of that option and opportunity for another vehicle manufacturer to come down, or a contract manufacturer, for example. But there is no doubt that not everyone in my sector will survive the loss of the vehicle manufacturers. I think that is a truism. We are preparing for that as best we can. We think the 2015 calendar year will be a watershed year in the industry, given the volumes that are currently being produced and given some of the announcements by vehicle manufacturers in the last couple of days. So it is going to be a very difficult year for the sector in total, but certainly for the supply chain.

There will be changes. There are changes and there have been changes. We are encouraging consolidation within our sector. The guys realise they have to consolidate. Two car component and precision component companies in Adelaide merged last year. Two fabricators of metal. They realised that they both could not survive. Inherently, that is a great result.

Mr Kiwan: They are diversifying.

Mr Reilly: Yes, they are diversifying as well. We have manufacturers who have batteries in Thailand, for example—Futuris, MHG, Harringtons. That is part of the diversification. They are not just sitting on their hands punching out widgets to supply Ford, Holden and Toyota. They said that they have to globalise and try this. Not everyone can do it. Not everyone has the skill, the management capability, the cash flow and the wherewithal to do it. They are probably on a path.

Senator WANG: In your view, what is the best way to make sure we retain our skills, particularly smart minds and the research and innovation capability within Australia? Obviously they can play a part in the global supply chain. What is the best way to retain that expertise.

Mr Reilly: It is a very good question. We see that as a really vital part of this whole equation and where we are as an industry. It is a matter of retaining the engineering, design and construction capabilities developed within the automotive sector. Our automotive engineers have a very good global reputation for their designs. As you would be aware, the Ford Ranger was designed up in Broadmeadows by the Ford engineers. They had global design lead on the Ford Ranger vehicle. So there is no doubt that we have to try to keep those skills as best we can. It is a very difficult task, because if you are an automotive engineer and you were ceasing manufacturing, yes, you can be on a global platform in Broadmeadows, but I think in the medium term there will be some changes there as well going forward. I think there is a role for governments to play in encouraging what we are saying—diversification, encouraging engineers to look at other areas, and using their skills to diversify into other areas. Because ultimately when the vehicle manufacturers go—depending on what happens—those capabilities are in jeopardy of being lost.

Mr Kiwan: One example that has come across our desk is the Fraunhofer model, which is a number of engineers being placed in an organisation that utilises university networks and undergraduate students and delivers not research but actual development and commercialisation of products to SMEs throughout the economy. That proposal actually came across our desk. I think it is very attractive from an FAPM perspective. To your point earlier, a number of SMEs will give it a real good shot. Something like that would not only ensure that the brains and engineering smarts remain but actually provide a home for them to develop these kind of projects.

CHAIR: Has that been applied overseas or here in Australia?

Mr Kiwan: It was pioneered overseas. I think it is from Germany originally.

Senator KIM CARR: This wage issue keeps coming up. The average cost of an annual wage for a worker in one of your member's plants is about $58,000 per year. As a percentage of production, how do Australian wage rates compare, for instance, to Germany or England? We know roughly people's minds—in Malaysia and others—where there are no minimum wages to speak of, so there may well be one set of figures. What is it like in terms of our competitors internationally in other markets? In the United States, what are the wage rates? How do they compare in a production plant?

Mr Reilly: Australian production is comparable with those. It is not high and it is not low. I think that certainly the German wage rates are certainly higher in the Australian rates. The Germans have very much gone down to the higher end. There are very high amounts of robotics in the German plants. The actual guys on the floor are more highly skilled, because there are less of them. I do not think wage rates are necessarily the issue. There is a whole range of issues within the automotive sector that have put us where we are, rather than wage rates. I think that is a much lower issue.

We talked about competitiveness. Australia is competitive; it is absolutely competitive globally on how we produce cars and our wage rates. There is a whole range of exogenous factors that have come into place and that have put us in the position where we are now: the competitiveness of the global automotive industry, our low tariff regime compared to our competitors in the other countries we are competing against and the number of models that are in Australia. There are 66 models. You can get any brand. There are a whole range of issues.

Senator KIM CARR: Currency?

Mr Reilly: Currency, of course. The Australian dollar killed us over quite a number of years.

Mr Kiwan: And the type of cars that we build here and the non-tariff barriers that have exported those vehicles here—these are all factors that have contributed to the current situation.

Mr Reilly: Rather than wage rates, as such—like consumer preferences. There are a number of things that the senator was alluding to before.

CHAIR: Thank you Mr Reilly and Mr Kiwan. We appreciate your testimony. You have been of great assistance.

DETTMER, Mr Andrew, National President, Australian Manufacturing Workers' Union

SKLADZIEN, Dr Tom, National Economic and Industry Adviser, Australian Manufacturing Workers' Union

[10:42]

CHAIR: I would like to welcome Dr Tom Skladzien and Mr Andrew Dettmer from the Australian Manufacturing Workers' Union. You have both been provided with information on parliamentary privilege. The committee has your submission as well, which we appreciate. We invite you to make a short opening statement.

Mr Dettmer: We have made a submission in writing and we simply seek to amplify upon those points today and respond respectfully to questions from the committee about the issues that we are confronted with. We have provided the usual background information about the AMWU. As you would understand, not just from our name but also by our nature, we are heavily involved in manufacturing. Nearly 90 per cent of our members work in manufacturing or manufacturing-related areas. On that basis, I would say that we have a very close and abiding interest in the future of manufacturing in this country and have had that interest for over 160 years.

The AMWU believes that there has to be a role for government, especially in the evening out of the economic cycles which we are confronted with. We also know that there has been a massive hollowing out of Australian manufacturing as a result of not only the high Australian dollar but also a variety of government decisions on non-decisions which have led to the closure of major manufacturing establishments, such as the vehicle industry. As I am sure the committee would understand, the AMWU has taken a very dim view of some of the decisions or non-decisions that have been taken by the current government with respect to manufacturing, especially with respect to the vehicle industry. We say that the vehicle industry can and should have had a future in this country, and unfortunately it did not. Had there been an appropriate suite of policies which could have supported the vehicle industry with its up to 230,000 jobs affected in some way, not to mention the tens of thousands of workers directly employed in the vehicle industry, we believe that the vehicle industry could have had a future in this country, as it had had for the preceding 60 to 70 years.

We believe that the Australia Fund can and should be created. We believe that would assist to even out some of the harsher effects of the economic cycle and various investment decisions that have been made elsewhere around the world. We also believe that, if the form of such a fund were to be modelled on the export finance corporation and also the Clean Energy Finance Corporation, that would be a good policy decision and that would enable Australian manufacturing, especially in the advanced manufacturing and elaborately transformed manufacturing area, to be supported.

We say that there is a very dismal future for Australia if we simply rely upon rocks and crops. We say, further, that there should be, and has to be, a situation for Australian industry where it is not just simply a branch of overseas companies' economies. We believe that the Australia Fund, and especially a manufacturing finance corporation, were it to be set up, would enable those peaks and troughs to be evened out, and would also 'lift the floor', if you like, of manufacturing in this country and provide manufacturing with a stronger base so that all would benefit and it would not simply be a matter of rent-seeking; nor would it be a matter of the capacity of larger companies to game the system.

We also say that, in turn, there needs to be and must be a process of rational industry policy development and industry policy application, and this could be an adjunct to proper tripartite forms. We say that they have been destroyed under this current government. I say from personal experience that, for instance, the destruction of the Australian Workforce and Productivity Agency and the absence of advice on that are indicative of the lack of concern on the part of this current government about the processes of social partnership and providing significant sources of advice beyond the ken of the Public Service.

With those opening remarks made respectfully to the committee, I now turn to my colleague Dr Skladzien. We would be happy at the conclusion of his remarks to answer questions from the committee.

Dr Skladzien: I do not think I have too much to add to that, actually.

CHAIR: Okay. Were there any economic elements that you wanted to provide us with to possibly back up some of those comments about the—

Dr Skladzien: The general point that Andrew was making, I think, is essentially: it is very good that we are looking at an Australia Fund; it is very good that we are looking at bringing back some type of industry policy, because what we have seen in the last year and a bit is the wholesale dismantling of industry policy, with predictable consequences. It is a good sign that we are talking about it, but it would be much better if we actually started to do something. I would leave it at that.

Senator KIM CARR: Would you describe the current situation facing Australian manufacturing as a social and economic crisis, and would you compare it to a natural disaster—for instance, in terms of the effects that might follow a flood or cyclone, or a drought perhaps?

Mr Dettmer: Tom will no doubt provide the committee with some detail on the economic underpinning of the argument, but the problem that we have in manufacturing at the moment is that there is a perfect storm. The perfect storm is described first of all and most prominently by the wholesale closedown of the vehicle industry. As I said, there are up to 230,000 jobs affected. Some of those, of course, are going to be the local newsagent selling newspapers to workers, but the vast majority are people who will actually lose jobs which cannot be replaced by jobs as consistently well-paid as the vehicle industry provides. On top of that, we have a problem in defence procurement in this country. The committee is probably aware, and the Senate is absolutely aware of, the submarines issue. There are many thousands of Australian manufacturing jobs tied up in the submarine contract but more generally in naval shipbuilding. They are in crisis because of a variety of non-decisions that the government has not made, as well as the attacks they have unfortunately had to wear from the former Defence minister. That really had a savage effect on morale and sent very strong signals to overseas manufacturers that indigenous manufacturing in Australia had a real problem.

Then there are other industries such as food in which the AMWU is involved where our competitive advantage has been eroded by, for instance, the dumping of tomatoes by the Italian tomato industry. There are also a number of other manufacturing industries which have simply been hung out to dry—not just in Defence or vehicle or shipbuilding, but also in other industries such as the mining equipment industry, where overseas manufacturers have been able to steal a jump on Australia. Even though we have some niche manufacturers in mining equipment and despite the fact that we are a significant resources player, those mining equipment manufacturers are having great difficulty weathering that. On top of that we have a series of procurement decisions taken in many instances by state governments: in the rail industry, for instance, where rail wagons, rolling stock and locomotives which previously were supported by a very strong indigenous Australian manufacturing capacity—one that in fact goes back to the 1880s but one that has been dismantled. It is not over-egging the pudding to say that it has been destroyed by a series of decisions that have led to the demise of companies such as EDI in Maryborough, where I was intimately involved as the state secretary for Queensland. It has been a major regional employer that has been cut back and cut back until finally it will almost certainly close, although I would hope there is some future for it there. I know that Bombardier, which provided the electronics and signalling equipment in Queensland, has closed.

To describe it as the perfect storm or to suggest this is by way of a man-made natural disaster—if that is not an oxymoron, Senator—I do not think is not over-egging the pudding. We believe there is a whole range of things that with good government decisions and/or policies supporting them would in all likelihood help manufacturing to thrive. Unfortunately, the reverse is the case, as I am sure the committee is aware. Manufacturing in Australia is unfortunately confronted by wholesale closedown. Our future in transport manufacture is quite dire, and we believe that unless there are some significant decisions taken here we will indeed simply become a quarry, a farm and a nice place to visit.

Senator KIM CARR: Did you want to add anything?

Dr Skladzien: Returning to the weather analogy, the way I would think about manufacturing over recent decades is that there is an underlying, long-term climate problem and that is the result of a whole bunch of things. These are largely structural problems in how our sector adapts to new technology, how it innovates and the links between the innovation system and the manufacturing system. When we benchmark managers in our manufacturing firms against the way managers perform around the world, they have performed poorly for decades. We have been referred to as the trade Taliban, because of our support for a fundamentalist free trade doctrine. All of those things have produced a long-term underlying trend.

On top of that we have seen the resources boom, the Australian dollar go through the roof and, recently, the tearing down of what few industry policy supports there were. The result does look like a perfect storm but it is a longer term thing with a shorter term thing on top and poor approaches to policy all throughout.

Senator KIM CARR: The neoliberalist theorists would tell us that if one industry dies another will grow in its place, that there is a natural selection process underway here. What is your experience in terms of a response to that suggestion? I would like you to think about the terms of the question you raised on page 4 of your submission, where you say, 'additional barriers to financing'. Can you explain to me: won't traditional manufacturing just be replaced by other types of manufacturing, and isn't the banking system adequately dealing with the problem?

Mr Dettmer: To deal with the larger objects of the point you raise, the problem with that social Darwinist point of view, of course, is that it replaces Darwin's very strongly thought out theory rests popular notions and nostrums which are more akin to the law of the jungle than to the theories of natural selection. Of many of your colleagues, you would know that government policies have a crucial role to play in ensuring that there is a proper mix of decisions being taken by governments but also by employers and businesses around the country and internationally and that that they respond to that mix appropriately. We as a union, for instance, are aware that productivity in manufacturing has not been improving to a level commensurate with what we believe it should be, in part because there are, as Tom has said, a whole range of decisions which have not been taken by government and which could and should have been taken by government. But there is also a situation where productivity based on skills is really something which has been done in the neck, if you like, because we have a situation now where young people are actively discouraged by various policy decisions and funding cuts from undertaking training and developing the skills that they need for them to be more productive, both in the workplace and in the community generally. We see that simply saying that there is some form of bogus natural selection going on here is not only to deny Darwin but also to say that we can simply take our hands off and allow the so-called market to provide and to prevail. No other country that I am aware of has this same fundamentalist point of view enunciated as government policy, yet that seems to be the way that this is happening. It is almost as if it is like a magic trick where we will say, 'Abracadabra,' and suddenly we have ourselves an industry that is somehow going to re-create the same value as the industry, such as the vehicle industry, that is facing its demise

Senator KIM CARR: Dr Skladzien, what is the evidence that you can draw upon to defend the proposition you have made in your submission that manufacturing businesses face additional burdens in financing?

Dr Skladzien: The Australian Industry Group conducts surveys of its members and asks: 'What are the barriers to growth that you face?' Access to finance is one that comes out on top for manufacturers. In addition, the ABS collects data, also through survey form, where, again, access to finance pops out as an issue. And if you go around and talk to both experts in the field and business people, they will admit that access to finance is a problem, especially for new technology—for the deployment of new technology type projects.

It is relatively simple to see why they would face an access to finance problem, because if you are a bank manager and you have an option to lend to an SME that wants to deploy some novel bit of technology into some market, or you can lend to somebody who wants to buy a multimillion-dollar bit of property, then it is a no-brainer, really. So, as to the due diligence required to be able to properly assess the risk and the reward profile on an advanced manufacturing project with an SME manufacturer, in a context where the broader manufacturing sector is portrayed in the media as being at its death knell, and manufacturing generally is portrayed as being an old industry, it is almost as though the effort and the time required to do that are just too much, relative to the other options of property or of mining or of a sector where you do not need that.

Senator KIM CARR: I think the evidence is very clear on what you say; I think that is a fair summary of the situation. But then you seem to be implying that manufacturing has a special role to play in our society and therefore requires additional public intervention. Why shouldn't we just go through the casino of life—

Mr Dettmer: One of the reasons is that manufacturing has a much longer lead time for the realisation of profit, especially when it comes to the innovation cycle and the learning curves that were required to ensure that there is a return on capital, whereas a major mining project can provide a major return on capital within three years of the first sod being turned, and oftentimes in manufacturing you are talking about a lead time of eight years to 10 years before there is a substantive profit.

Senator KIM CARR: Sure, but is there something special about manufacturing that requires this country to ensure we have a vibrant manufacturing sector?

Mr Dettmer: It provides much higher skills. There is a much higher skill-need from manufacturing, and on that basis you would have to say that it is very special because, whilst the technologies required to dig the ground are of course substantial, manufacturing has—

Senator KIM CARR: Sure, but why should we be a country that makes things?

Dr Skladzien: The question of whether manufacturing is special is now generally settled, and manufacturing is special. The reason why manufacturing is special is the amount of human capital, if you will, or the amount of knowledge and technology, that goes into manufacturing, as opposed to other sectors. In other sectors there is technology, of course, and there is human capital, but the intensity is not anywhere near as much.

You can look at this from the macro point of view and you can see that manufacturing is responsible for a quarter of the R&D that the business sector does, yet it is responsible for much less—less than 10 per cent—of actual output. So it is a very knowledge intensive area, and that is not surprising because manufacturing is the transformation of basic goods into much more valuable goods. That is not what mining does. That is not what services do. So the links between manufacturing and technology and science are links that do not exist with other sectors, and it is the technology and the science that make us advanced.

Senator KIM CARR: I am sure you are not confused, but, just in case there is any doubt, it tells us something about the sort of society we want to be—

Dr Skladzien: Yes.

Senator KIM CARR: and that, to me, is why it is critically important. But the issue remains: why should we have a finance project, or a project that provides capital to business? The Australia Fund has been discussed as a way of helping struggling businesses. How does your proposal for a manufacturing finance corporation differ from the creation of an Australia Fund?

Mr Dettmer: The Australia Fund, we believe, has a much broader remit than a manufacturing finance corporation. That is the first thing. The second thing is that manufacturing's special role and the fact that it is under threat, especially in the trade exposed sector, mean that, if we have a belief as a nation that we need a manufacturing industry in this country—and I am talking here specifically about elaborately transformed manufactures, something that engages significant levels of skill but also provides us with a higher level of intelligence and a need, through our universities and educative processes, to do that—then I believe, and indeed our union puts forward, that we need to have these special arrangements, not because there needs to be some form of special treatment because it is a delicate flower but simply because of the differences between manufacturing and those other industries. After all, if one of the largest problems facing us is the sustainability of our environment and the fact that a low-carbon future is absolutely essential if we are to meet the challenges of global warming, then the only way that we can deal with that—unless we are taking a view that we need to go back to the trees, which I do not think would be the majority view across Australia or indeed the world—is to manufacture and engineer our way out of it. By manufacturing and engineering our way out of it, we need to show significant leadership as far as government and business and trade unions and community organisations are concerned. To do that, there need to be specific measures undertaken and specific programs and financial support provided to enable that to take place. As it stands at the moment, there is not a lot supporting it—simply exposing those companies to the vagaries of the market and the harshness of international trade deals which remove any sort of industry policy initiatives. We think the proof is there. Photovoltaic cells in this country used to be manufactured. Now they are imported. Solar hot-water systems used to be manufactured. Now they are imported.

Senator KIM CARR: So how big would this fund be under your proposal—what sort of size? Would it be self-supporting? Would it actually be self-sustaining?

Dr Skladzien: The model that we have in mind would be self-sustaining. It would be roughly based on the Clean Energy Finance Corporation.

Senator KIM CARR: Perhaps you should explain your model in a bit more detail.

Dr Skladzien: The Clean Energy Finance Corporation is based on a $10 billion equity injection from the federal government over 10 years. Its role is essentially to take an investment promotion role, through provision of concessional loans, loan guarantees it can provide—and it can just provide a facilitation role, where it takes project proponents and it takes financiers and it sits them around the table.

Senator KIM CARR: Investment attraction—is that part of it?

Dr Skladzien: That is right. Investment attraction is part of it. Due diligence is part of it. We see a very close parallel with the Clean Energy Finance Corporation, because that is about creating, promoting, a new area of technology, whereas what we envision the manufacturing sector needs to essentially move up the value chain, become more modernised—whatever term you like—is that same type of support to implement, to deploy, new technologies and access new markets and the rest of it. There is a very clear parallel between the two. There is no reason why, with a commercial-like mandate, a manufacturing finance corporation could not be self-sustainable and could not provide substantial support to manufacturing across the board. In terms of what quantum of equity injection it would require, we would propose that it would start with an equity injection that is half of the Clean Energy Finance Corporation, so $5 billion, and then see whether there is a need for more or not. We know that there is this problem in terms of accessing finance, but we do not have a great idea as to its depth and its scope.

Senator KIM CARR: Is there any international experience to support your submission?

Dr Skladzien: There are various international models that are similar. Different countries do these things different ways, but one thing that is clear is that all countries that have an interest in having and maintaining an advanced economy status do this in some form or another.

Senator KIM CARR: What happens in Europe, for instance?

Dr Skladzien: In the UK, for example, they prefer models based on venture capital. So essentially the government sets up venture capital funds and they have mandates to go out there and support SMEs and technology deployment. They operate as private venture capital organisations would, except with public funds.

Europe has a whole raft of different policies, as you can imagine. The Germans, in particular, have more of a push approach to policy, rather than a pull approach. They really support their innovators and their engineers, and they really support getting them out of the lab into businesses and getting businesses and labs together through their Fraunhofer organisation and various other forums.

The United States has variations on the theme. They have strong import-export bank support for SMEs. Different states have different measures.

Just to take a step back, the important thing is to make a decision. Do we want a strong and advanced manufacturing sector? We argue that we need one. You cannot be an advanced economy without one. People say, 'What about Singapore?' Twenty per cent of the Singapore economy is advanced manufacturing.

Senator KIM CARR: That is right.

Dr Skladzien: If you make the decision that, yes, you want an advanced manufacturing sector—you need an advanced manufacturing sector—then there is a question of what we do to get there, because we are not there. We are not there because, over many years, we have pulled down, clawed away, ignored and let die a whole raft of policy measures that have not died around the world—we pretend that they have but they have not—then we sit back and we say, 'We can't manufacture because we're too expensive,' or not smart enough or whatever. That is all rubbish. What we need are clear policies that support the deployment of new technology and the advancement of the good plans that we have. We also need to stop the rot, in a sense, in the regions. SPC is a great case to point to.

There is the impact of the auto industry. If the government sits by and does nothing after pulling auto support and then seeing the sector collapse then that is a massive amount of capacity, skills and capital that just goes to waste. There is no reason for that. Even if you do not want an auto industry, those resources and those skills should be channelled to be deployed somewhere else to save that capacity, save that value.

Shipbuilding is an obvious thing that would come up in that context. Our point is that we cannot just sit by and not do anything. Both the long-term trend and the storm that we are facing right now will mean that we are no longer an advanced country. We do not need to look any further than the economic history of Nauru to see where that gets us.

Senator KIM CARR: I just have one more question. How do you see the role of R&D in this arrangement? Would that be separate from the development investment proposal you have here or would it be funding innovation and R&D?

Dr Skladzien: It would be funding the deployment of R&D. So it would be, in a sense, indirectly funding R&D, because if you are going to engage in R&D you want to know that if this R&D works out you will be able to deploy it profitably. It would make that profitable deployment much more likely.

Senator KIM CARR: You have listed here, on page 3, innovation, technology, new products, capital and processes, new innovation by business through investment, adaption of business high performance management organisation approaches, integration into global supply chains. Now, all of those things require investment.

Dr Skladzien: Yes.

Senator KIM CARR: I presume that you see this, effectively, development bank as funding those types of activities based on a return at a commercial rate but at a subsidised commercial rate.

Dr Skladzien: That is right. It is supporting all those types of activities based on meeting, say, the average weighted five-year bond rate. Essentially, the corporation itself will not be making a profit. It will not be a for-profit—

Senator KIM CARR: But it would be self-sustaining.

Dr Skladzien: It will be self-sustaining and the profit that it would generate, in a sense, goes to the businesses, because it is that discount that they get. That is where the support comes from.

CHAIR: Thank you. You have given us a fascinating insight and lot of recommendations that will be of great use to the committee. Thank you for your testimony.

Proceedings suspended from 11:15 to 11:37

TALBOT, Mr Simon, Chief Executive Officer, National Farmers' Federation

CHAIR: The committee is commencing its third public hearing today on the establishment of an Australia Fund. I welcome Mr Simon Talbot from the National Farmers' Federation. Information on parliamentary privilege and the protection of witnesses and evidence has been provided. The committee has your submission, which we appreciate. We invite you to make a short opening statement.

Mr Talbot: I am the CEO of the National Farmers' Federation, representing a 35 agricultural member base, 135,000 farm businesses and 300,000 farm employees and agribusiness employees in the farm sector. It is certainly a unique time for Australian agriculture. This year we will produce a record amount of food: 70 million people will be fed on the back of Australian agriculture. However, the full potential of Australian agriculture over the next 10 years should be 150 million people for us to realise it as underpinning the Australian economy as one of the major pillars.

This potential, as we see it, is fuelled by five factors: a new generation of Australian, young, skilled farmers are coming through across the country; increasingly there is the adoption of new technologies across the rural sector, resulting in increased productivity; we have infrastructure step changes and more needed, particularly in inland rail, for us to continue with our momentum; we have exciting new market access with free trade agreements, particularly in north Asia, South Korea, China and Japan; and we have interesting productivity and brand intersects with those markets with Brand Australia, with which we can build high gross margins and, ultimately, better farm gate income.

However, despite this optimistic future, famers, more than any other sector in Australia, face the hardships of climate change. When you take what farming is about, it is an interesting tripartite between soil, water and obviously the sunshine. Increasingly, the variability of the climate and the inability to predict makes it very frustrating for farmers to derive sustainable income sources and to meet the market needs moving forward.

To that point, this hearing is of vital interest to us and to the farmer base. We have a situation in which natural disasters are occurring more frequently across our member base. They are occurring with greater scale and more viciousness. And we have drought, in particular, existing in about 35 per cent of Australia's agricultural land. If I were sitting here 50 or 60 years ago, I would look at those natural disasters and I would call them an anomaly—isolated incidents. However, increasingly we are having to work with our farmer base to ensure they are increasingly prepared for drought, in particular.

We definitely support a fund that is consistent and robust in helping both to make us resilient and to alleviate the impacts of natural disasters. But we do not support drought being bundled into the natural disaster relief fund, whatever it looks like. The main reason we do not support drought being bundled in is because we think drought is quite unique. Drought is directly correlated with climate change and climate variability. Drought is increasing. It is a special case. It is not a natural disaster. It is something that we in this great nation of ours need to get used to. Frankly, the support over the last 10 years in terms of drought has been sporadic and it has been hard to access the money. It has been very difficult to give farmers not a handout but a hand-up to ensure that when the next drought comes they are more able to cope with it.

We certainly want to see a natural disaster mechanism and we want to see a specific drought mechanism. We do not want to see it bundled in with natural disasters. We have a real fear that if it is bundled in with natural disasters any drought relief may simply go to the biggest cause in the biggest area and not actually enable farmers to cope with something that is occurring on a more frequent basis. We would like to see consideration given to what that drought support would look like. It may be a subset under the fund. However, I do not think it should be bundled in as a natural disaster per se. It is not about a handout. It is about a hand-up. It is about getting the new technologies out there. We should know by now as a nation that drought is something we have to co-exist with, unfortunately, and we should ensure that the Bureau of Meteorology, CSIRO and what I would call our national assets in terms of science and technology are aligned to giving our farmers the best forward-leaning technology to identify climate change and how it impacts particular regions of Australia, both positive and negative, and particular commodity groups. Again, drought is unique. I do not think you can necessarily forward predict, otherwise it would be a very different scenario. But we do believe you can start forward predicting drought, and therefore the funding mechanism needs to be somewhat different.

Senator WANG: What are your members' experiences with the banks and insurance companies?

Mr Talbot: This is a very hot topic at the moment. We have seen a vast improvement in banks in recent years, led by significant government interventions and what I would call ambassador interventions around trying to showcase the issue in the media. What does frustrate us, though, is that the capital market in Australia tends to have a one or two year time horizon in terms of its lending and business returns. Having worked in agriculture I would never run a farm on anything short of a seven-year time horizon, because you will have the droughts and the natural disasters in that seven-year time horizon.

To answer your question, banks have improved, but more improvement is needed. Better understanding of the capital markets in terms of agriculture is needed. By the way, we are pro foreign investment under the right conditions and the right registration processes. A number of our foreign investment partners understand that agriculture is a long-term game. It is frustrating that many parts of George and Collins streets do not understand that agriculture is a long-term gain and a very vibrant game to win in.

We also have the interesting gap between what I would call city mortgage rates and rural land agriculture loans of between 0.5 to 1.0 per cent. With the interest rate reduction that occurred in recent days, that actually means our farmers face around a $200 to $250 a month worse off position in true mortgage comparisons with their city cousins. That is just not fair. It is a subset of the capital markets not understanding agriculture enough and not being willing to put in investment over the long term. To give you a specific example, I have encountered a number of superannuation funds that pay their account managers on a quarterly basis for returns. They are never going to put agriculture in their matrix.

Senator WANG: So generally the domestic banks are not as willing to lend money to farmers as overseas investors. Is that a fair statement?

Mr Talbot: We are seeing a lot of overseas investor looking at share farming, co-farming and capital injection, outside the banking sector. Also, we are seeing many Australian investments that are going through the banking sector. We would like to see an increased appetite from the banks, Australian banks in particular, to invest in agriculture. Inversely, we need to do a sell job that agriculture is vibrant and that it is young farmers, innovation and technology, to build that relationship. But there has to be a mutuality there and a bit more bridge building than what has occurred in the past.

Senator WANG: If a clean energy finance institution is trying to bridge the gap between farmers and the banks, would it be helpful in your view?

Mr Talbot: Without knowing the details, it could be very helpful. We would have to get into the details and understand it. I don't mean to sound harsh, but there are certainly some situations where no amount of interest rate or banking support can alleviate what is an untenable business position. That is something we need to face and be real about. But there are a number of scenarios that, if the banks through some form of bridging arrangement, could have a seven-year time horizon that would be much better. I certainly will not name any banks, but we know of situations that have occurred in recent years, where, during the middle of a three-year drought, a bank will take a loan to equity ratio—why didn't they take that in the good years? That is not fair. You should take a loan to equity ratio over a seven-year or five-year time horizon to get the good, the bad and the average years modelled out. What actually happens is that they say, 'Sorry, you are down to XYZ 20 per cent equity and it is time to move on.'

Senator WANG: Do you recall if all banks are doing that or was it a couple of offenders?

Mr Talbot: A couple of offenders. It is fair to say that we have been able to lift the bar on banking behaviour, which has been great. There are a couple of standouts in the current drought who have said that they are not going to do any foreclosures in the current drought and that they are going to maintain cooperative relationships and give true support to the farmer base.

CHAIR: Is that simply through informal communication with the banking sector, or were there specific rule changes that have led to that improvement?

Mr Talbot: It is largely informal, but with government support around 'Let's collaborate on coming up with a mutual outcome.'

CHAIR: Can you tell us more about that support?

Mr Talbot: Minister Joyce was quite instrumental in getting out there and saying 'Come on banks. Fair go for farmers. You need to support them through the good and the bad.' All sides of politics have been out there pushing for that positive outcome, and that is what is actually needed. I do not think there should be any political demarcation on the farming grievance issue.

As a matter of fact, one thing that we are trying to push—and The Nationals understand it very well—is a 20-year vision for agriculture. To hit that target of us feeding 150 million people a year, we need a 20-year vision for agriculture in which this fund would sit and drought relief would underpin it. What we do get frustrated by is any change of government or even change in political cycle. We tend to get another knee-jerk reaction around ag strategy, and for us it should be like defence. You should not chop and change defence or ag too much within a long-term horizon.

CHAIR: Mr Talbot, if I could, I would like to structure a little more your idea of a separate drought from a natural disaster fund. Do you think that a national fund where you have sectors and geographical locations tapping into it at all different times would be as popular as a more geographically localised fund? For instance, you may well have a wheat belt fund where there is a combination of mitigation of risk and early identification of drought. You know that only that area will be accessing the fund, and so you do not have this issue where one state is accessing the fund very heavily and you have concerns that other states or other sectors are missing out. Is there possibly a place for a more structured and discrete series of subfunds that provide a more localised assistance to your sector?

Mr Talbot: Yes, there certainly is. The architecture around this is very important. We certainly would not want to see one specific area drawing down an alarming level of the fund at the expense of a broader issue. We would certainly like to work with any future strategy committee on this matter on how we could break it into high-value production agricultural areas. Again—and I know I repeat it ad nauseam—coming back to the 150 million mouths to feed as the real vision, we know the high-value agricultural production areas. As with any good taxpayers' investment—and with all due respect to individual hardships—why wouldn't we invest in those areas that have the most capability of recovering from drought or natural disaster and as quickly as possible contributing back to the Australian economy?

If you spread it too thin, it will minimise the impact and you will get into an area of non-economic return, if I can put it that way. Mapping out those areas is, I think, part of being smarter about the way that we do farming but also the way we do farm-government interaction. I would love it to be by commodity, by geographic area, and for us to say: 'Yes, it's vital to Australia's future agricultural aspirations and it needs to be protected through the cycle of drought and/or natural disasters. It needs to have a specific allocation as available.'

CHAIR: As an extension of that, I am asking first of all about whether there is more interest in making a fund sustainable if it is both locally controlled and managed but also accessed. So the second question is around pre-emptively making it clear that the fund is not simply something that you unconditionally access when needed but that you work as a sector or a geographic location to reduce the need to ever access the fund by, for instance, having criteria such as risk mitigation, adequate insurance, providing for future tough times by effectively setting money aside into tax favourable vehicles so that you do have your own fund that you access first. The government does not want to be picking and choosing who wins and loses.

So I guess my question is: would you ever say to farmers, who are a very independent lot, 'If you want to get help from a fund like this, we require that you do certain risk mitigating actions in advance—for instance, having the most modern technology to reduce damage to top soil and potential exposure to drought or taking the following actions and being fully insured before you will be able to access this fund.' How do I stop either the moral hazard of just saying, 'I always know there is a fund there,' or the adverse selection where the poorest managing farmers are always the first to need a hand?

Mr Talbot: I am in strong agreement with the process outlined, and I love the idea of some sort of criteria of year 1, year 2 where you become resilient to drought and/or natural disaster by becoming compliant with deepening dams, new technology on evaporation of your dams, soil management, reticulation systems and deeper bores et cetera. I think it then comes back to our point about not backing winners but backing those who can recover quickly enough for the benefit of the Australian economy rather than a handout. I do not think there are any farmers out there who would say, 'We need to be given a handout year on year because we haven't adapted well.' That is not the future state of Australian farming. It is nothing we would recommend.

Getting that construct correct, I think, is vitally important. That does need a local bias because local conditions prevail, particularly on climate change. For us there is something around the technology, the best available farmer technology in terms of long-term forecasting and short-term forecasting. To give you an example, in one of our major farming areas we have been monitoring the migration of crop growing. The seasons have actually changed, so you now put your crops in two weeks later and harvest them three weeks earlier. That is the way the scenario works. A number of farmers were not aware of that technology and therefore suffered frosts at one end of the cycle. The point I am trying to make is that giving farmers the tools and the ability to self-manage, as long as they meet certain criteria and work as a collective within regions, is by far the better outcome.

CHAIR: We are accepting your recommendation that drought should operate separately. Could we quickly tease out, assuming you did have these two funds, how would they work? Would they work exactly the same way but simply be two different pots? Or did you have an idea that you would take a different approach with a long-term, predictable drought challenge where, if you take the wheat belt, they know they always have two bad seasons in five? So how should that fund be operating? And how should a natural disaster fund that may not be called on for five or 10 years operate in contrast?

Mr Talbot: I think my previous comments around the technology, the farmer cooperation and geographic areas of economic success and resilience relate to drought specifically, because it is more predictable and we think we can get the new technology in to make it more manageable. Natural disasters are probably a different kettle of fish. It is hard to build resilience for natural disasters. I think we could waste a whole lot of money trying to build resilience for natural disasters and potentially make mistakes because of the unknown. The natural disaster unknown is just much broader than the drought disaster known.

CHAIR: Just to conclude, what steps are taken within the sector to make sure that farmers are adequately insured? Does every farmer have to be an expert in insurance and at reading fine print? Are there situations where they cannot fully insure for certain interruptions of income or it is unaffordable to insure for that? Or are there certain pieces of infrastructure on farms that cannot be covered? We have heard from certain oyster fishermen saying that all the buildings could be insured but a lot of their nets and products could not. Are you confident that we have the best possible insurance and an understanding of that sector within the farming community?

Mr Talbot: Some of this is our challenge. We have—again, I will not name names—some very excellent insurers who are working with farmers in the long term and we have others who may treat them simply like a city based insurance package, which does not really work. The National Farmers' Federation as an entity must develop the top two or three ag insurance companies in Australia and work collaboratively to identify and alleviate the gaps, the unknowns and the risks. However, having said that, technology is paramount. Often drought and flood are the greatest insurance risks. If we can identify, particularly around the drought areas, things that we are doing to mitigate the risk as a farmer collective in given geographic areas, we believe that we can get a better insurance bundle from a specific company.

CHAIR: Interesting.

Senator WANG: Apart from a concessional loan, like the fund, for example, are there any other measures that you think would be able to help the rural industries or farming industries?

Mr Talbot: Yes. There is some amazing technology out there. It frustrates me at times that farmers do not know about it, or that the technology is not commercially viable. It is done for research purposes only. I would love to see a particular think tank put together from a farmer viewpoint. I would love to see some funding that specifically says, 'Please give farmers a dashboard.'

It is quite unique: farmers often operate somewhat in isolation and they do not have the capital resources to apply the best technology. But there is a growing demand amongst the farmer base, particularly around climate change and pasture management. If they could be given the best Google Maps data, the best Bureau of Meteorology data, the best intersects around solar, evaporation and wind to help them spray, to help them plan and to help model the land, that is the best tool we could possibly provide over the next 20 years. We are finding it increasingly difficult. It is like looking at a bowl of spaghetti: there is some great stuff at the bottom, if you can find it. But why can't we pull it together and give the farmers the dashboard they need so they can better manage their land? That would make us globally much more competitive.

Senator WANG: So some of the farmers are not really up to date with the new, latest technologies. Do you think there is a lack of commercialisation of the research outcomes?

Mr Talbot: Absolutely. Quite often the research proves an outcome, but it does not have any bearing on a farmer. We hate the idea of forming another committee for the sake of a committee, but there must be something done around commercial climate technology being applied to farmer-driven outcomes at a farmer level, where the first thing the farmer does when he wakes up in the morning is he says, 'Do you know what? I am looking at my short-term weather forecast, my evaporation rates, rainfall and wind, and I am not going to plant today, I am not going to spray the weeds today.' Or, 'I am going to have a frost in three days—here is my risk matrix and I can now make a calculated decision that the risk of frost is too great, so I am going to wait a week.'

That interest in those elements of that technology exists. They are hidden away, or they have not been fully commercialised to provide a practical outcome for the farmer. It is probably the single one thing that I would do in Australian farming to step change us and make us globally competitive. We have a unique country. We are only one of two countries in the world that can produce any food, whether it is arctic condition food or desert condition food or tropical or broadacre savannah. We have one of the most variable climates. Why would we not play to our weakness/strength and have by far the best climatic data that farmers can use a practical level? Despite the best intentions of some of our national assets, I think they need to be driven towards a pointy outcome of developing a farmer dashboard that is state-of-the-art, globally relevant, that a farmer can plot in their pasture and you can plot back, see surface temperatures or land temperatures for 50 years, start predicting—seasonality change, harvesting change, livestock change, livestock rates per hectare et cetera—and start modelling how the farmer can better manage. Individually, farmers cannot do it. Collectively, as a nation, we do not pull it together. A lot of what exists is commercially unviable for farmers from a cost perspective.

CHAIR: The national disaster funding as it currently runs, with the federal government providing money to states to disperse, is obviously a bit clumsy. Apart from the obvious observations that it can be hard to access and often farmers are not fully eligible for some of that funding, is it fit for purpose and capable of small modifications to be better for your sector? Or do you see that we need to completely rework our national disaster funding?

Mr Talbot: I would like to see it reworked. I think it can be sporadic; it is hard to compare event with event; often it can be fuelled by media. It is horrible topic to talk about, but it can be fuelled by media, who may overindex in a particular geographic area, and the TV may drive the outcome. We think it needs more structure and more clarity of purpose around, 'This has occurred; here is the size of the impact; here is the people impact, the economic impact, the social impact.' I do not think the metrics exist for a fair comparison. If you lined up the various natural disaster situations you would see varying levels of response, not necessarily based on economic or sound scientific outcomes.

CHAIR: Do you have any specific cases of farmers who you felt were legitimately entitled to some assistance but, because of some flaw in the current system, were unable to receive it?

Mr Talbot: Certainly. For privacy reasons I cannot name names, but we have a number of farmers who were entitled to drought relief, and the rain came, and by a factor of two or three millimetres the rain level dictated the number who got drought. The fact they had had to sell off or kill their livestock, and the fact that their soil was so badly degraded and there was no water in the dams, meant they were still drought afflicted for the next three years.

CHAIR: Too reliant on the wrong indicator.

Mr Talbot: One indicator and lack of field assessment. I think it is vitally important that, somewhere along the line, there is better scientific rigour, but also the human factor of just getting out there and having a look.

CHAIR: Just help me. We obviously have the concessional loans arrangements, and I just want some more feedback on that policy, but the other—excuse my ignorance—is the tax-friendly arrangements where farmers can put money aside for use in drought periods. There is some question about whether it actually is used in drought periods and whether they are just using it in non-drought periods and therefore not having much left when the drought comes along, because they can define when they need to access those funds. Can you tell me a bit more about those two policies and whether they are working.

Mr Talbot: On the latter, if you had the right rigour, without putting bureaucracy in play, and the right monitoring data—and this is more collective, cooperative arrangements at both farmer and government level—with best-practice climate technology, we could all agree, by geographic commodity area, that you are now in a drought, and therefore you can now release your tax-supported capital. It is what they do in the US, to be frank, and it works quite well. It does require that farmers have access to technology and be more cooperative, so again some things will probably need to change in putting an interface between government and farming groups on that, but it can be done.

We also get frustrations from farmers who have said: 'Look, I've drought-proofed my land. My neighbour hasn't. That is a regular occurrence, and he's getting support again.' That comes back to a lack of field officers doing any form of investigation and a lack of the precursor paperwork. Again, I am not one for any more bureaucracy or any more committees, but this can be done online. Again, with the Americans—and I hate to put American agriculture in front of Australian agriculture—they tell a particular state, by commodity group, when they are in drought, and the farmers have a chance to debate it, yes or no. It is a cooperative outcome. They agree. They release tax relief and drought relief, but you only get it if you have done stages 1 and 2 of drought preparedness. If you have not done stages 1 and 2 and do not have those certificates or the tick-off, which you can submit online, then you do not access it. It is all online. It is very effective and very efficient.

CHAIR: Very compelling. Lastly, between subsectors in farming, is there a sense that grazing, cropping or some of the smaller boutique industries either are getting an unfair share of drought assistance or are more able to access drought assistance than others, or would you say there is a fairly clear sense of when different parts of the farming industry are in drought?

Mr Talbot: Within the commodity groups and our member base, there is certainly a little bit of frustration: 'They got more than us,' et cetera. I think that is why, if you have the science around the agricultural production zones of significance, you will alleviate the, 'They got this; we didn't get that,' et cetera.

The other component—and this is an interesting one around climate change and climate variability—is that if you pay top dollar for land in Gippsland or Northern Tasmania and you get impacted by significant decrease in rainfall, by 50 or 60 per cent, it may not look like a drought, but the capital-intensive nature and the money you have paid for that land mean that your business model is significantly impacted. So there is a perception here: does the soil need to be dusty and blowing away, or do I look at the impact on the business that has been unduly or adversely affected? That would be the way I would probably answer that question: look at the business case, the preparedness for drought and the productivity of the land, and then determine what impact climate change has had on that. Then I think you get dairy, cropping, beef et cetera being compared equally.

Senator WANG: Do you think the fund may have an even bigger role to play, apart from natural disaster relief? We talked about how, when the farmer is experiencing a natural disaster, they go to the fund and say, 'I want a bit of money,' and the fund can say to the farmer, 'If you do this and do that, we'll give you the money.' But what about in a normal time, when the farmer is not experiencing disaster and they apply for a loan? Normally they do it through the banks, but if the fund had a lending capacity then they could go to the fund and say: 'I want money. I'm not experiencing disaster, but I need money to expand my business.' The fund—or the lending arm, let us say—could say, 'If you do this and do that, we'll give you funds and we'll give you, let's say, a one or two per cent concession.' That is more pre-emptive in a way that would make the farming sector more disaster-proof. Would you agree?

Mr Talbot: I would agree, and I do like the notion of—for me it all begins and ends with productivity and economics. If the farmer could get a concessional loan whereby they had to not only drought proof but, by drought proofing, they also had to become more productive over the seven-year life-cycle then they could become more drought proof as well as build up more cash, irrigate more land et cetera. That is a wonderful outcome because at some point we need to say—look, as we said in the submission, Australia and New Zealand are the two most open agricultural markets in the world with the least amount of tariff protection or tax concessions afforded to them. At some point as a nation, if we truly decide we want to hit the 150 million feed target for Asia, we need to start thinking about ways in which we can step change our fund productivity for both drought and stimulating capital investment because it is not coming from the super funds at the rate required. Frankly, when you look at the Future Fund—I do not have a number on me at the moment, but I would challenge what percentage of the Future Fund is invested in Australian agriculture and what is invested overseas. They may argue, 'We've given the best return to Australians', but if you look at all of the indicators around Australian agriculture and investing in agriculture in the long term, which is superannuation 101, I think they should be reversing some of their foreign investment decisions and looking back at home.

CHAIR: Thank you, Mr Talbot, that has been really insightful. Thank you for your views on both drought and disaster relief, and your very constructive ideas about how that might work. It is much appreciated.

Mr Talbot: Thank you.

ELKINGTON, Mr Robert, Manager, Economic Development, Murrindindi Shire Council

[12:18]

CHAIR: The committee will now recommence its third public hearing on the establishment of an Australia Fund. I welcome Mr Robert Elkington from the Murrindindi Shire Council. Information on parliamentary privilege has been provided to you. I would invite you to make a short statement then we will follow up with some questions.

Mr Elkington: I have a written submission which was only emailed yesterday, so I will make sure that you get a copy of that. What I have provided you with now is a bit of work I did this morning at the kitchen table to try to create a bit of a mind map of chronology that goes with what I have to say.

Thank you for the opportunity to speak. My context is in relation to disaster recovery and preparedness. I work for Murrindindi Shire Council, which was the most heavily impacted fire-affected shire in Victoria following the 2009 bushfires. The townships of Marysville and the Kinglake Ranges are both within our boundaries. My role, pre fires, was a normal economic development role, but as soon as the fires hit economic development was, pretty much, put on hold and we all went into relief mode. I ran two relief centres for a period of time following the fires. As time moved on, business recovery and business development came back into focus. That focus was different for every business because each businessperson was impacted in a different way.

One of the key points I would like to make is that business recovery and community recovery are inextricably linked, and what we found post the 2009 bushfires was that there was quite a bit of financial assistance for human social and familial recovery but there was a very limited amount of financial and other support for business. In the context of our towns, most of our businesses are small to medium or home based, so we do not have large enterprises, and what we found was that, as a result of your business leaders also being your community leaders in those types of smallish towns, business recovery was often set back by the human recovery process. So there is a lot to do with not only what support is provided, whether it be funding support or other support, but when it is provided and how and to whom.

I have outlined there in the summary that there is a chronology to the process of preparedness and recovery. I will speak briefly to the handout that I have given you and I can go into more detail as we go along. As I said, I did this work this morning at my kitchen table, and that is where a lot of the good recovery work was occurring. A lot of the commercial premises did not exist, and a lot of work was being done with businesspeople in their homes or in other locations.

Pre disaster is very important—and it was interesting to hear your comments to the previous speaker about how we can help people to be pre-prepared for disaster or drought or whatever. Pre-preparedness in a lot of our businesses, we found, was either non-existent or very minimal. A lot of businesses do not have a business plan, a lot of businesses do not have a business continuity plan and a lot of businesses do not have safe storage of key documents. So, when a disaster like the 2009 bushfires hits, not only are they not prepared for it in a planning sense but they are not prepared for it in terms of being able to quickly recover because they do not even have any documents left, including their own personal identification documents. They also in a lot of cases did not have adequate or any insurance, and most of them did not have any form of emergency plan. So there is quite a bit of work to be done in the pre-disaster space. I do not necessarily see that that is a role that has to be funded by an Australia Fund, but it certainly is a space that could do with a lot of extra work.

Post disaster, there are a series of phases, as I have put there on the handout: immediate, mid-term for businesses, mid-term for the local economy and ongoing. In terms of the post-disaster immediate phase—and I do see that the Australian Fund could be of great assistance in this space—there needs to be immediate emergency relief for businesses. There was significant emergency relief, in our case, for private individuals and families but very little, if any, for businesses. There is a need for the provision very early on of support to businesses through the recruitment of and putting in place business recovery officers and grants support officers. In our case, we ended up with two business recovery officers working for about 2½ years post the fires and we had one grants officer working with us for a period of two to three years, which is now a role that is within council. Having business recovery officers makes a huge difference because they are a one-stop shop for businesspeople to find out where they can go for what support.

In the mid term, my suggestion would be—and this is once again an area that the Australia Fund could assist with—the application of case management. For individuals and families, there was a case management system where each person was allocated a case manager so they could help them through that difficult early post-disaster phase. I think that would work very well for business as well. There needs to be access to small business mentors. We accessed small business mentors quite regularly, and that was a great outcome for businesses. There needs to be access to more support through the Rural Financial Counselling Service and also direct funding support. There are a series of direct funding support potentials which I can go to in a moment. I believe all of those areas could be supported through an Australia Fund.

The next two in the mid term for business are not necessarily Australia Fund items but they are very important: the need for flexibility in business processes—for example, taxation and taxation time lines; and BAS time lines, because when a business has no documentation it is very hard for them to do a BAS—and some flexibility in terms of early payment of BAS credits. If a business has some credit it would be good to get that back pretty quickly, but our taxation area is relatively slow. Also there is prioritisation: seeing things like insurance companies highly prioritise disaster impacted business with their insurance claims would be very useful.

Mid-term for the local economy, because every business is part of that broader local economy—once again, the first two of these are things that the Australia fund could support: the development of an economic recovery strategy, which is really important for a town or region, and the development of an implementation plan. In both Kinglake Ranges and Marysville that happened fairly quickly. The Boston Consulting Group did an economic recovery strategy from Marysville and Deloitte did one for the Kinglake Ranges.

CHAIR: Have they been evaluated?

Mr Elkington: No, they have not. The development of a local economic leadership group of key stakeholders within each of those towns or regions to try to implement that recovery strategy is also very important. All of those things cost time and money.

The third one in the mid-term for local economies, and something that the state government and local governments need to control more, is the massive influx of donated goods and gifted assets that our shire and others around us received. Controlling the flow and distribution of those is really important. We saw a number of businesses that were not in the flame impacted area close down because there were so many goods being gifted: white goods, work wear, footwear and clothing—that sort of thing.

Then there is the long-term or ongoing support. A few of these could be supported by the Australia Fund. The business recovery and grants offices could be retained in a more long-term way. The funding for those ran out after two years. We are now in our sixth year of recovery from that disaster and we are nowhere near finished. It is more like a 10-year time frame. We now are burdened with the job of continuing bushfire recovery and trying to do our own normal economic work. There could be ongoing support to local economic leadership groups to continue to implement economic recovery strategies. The Boston Consulting Group report identified about 12 key items that needed to be implemented. We have done probably about seven or eight. There is no longer an economic leadership group and there is no longer any funding to support one. Also for ongoing support, but probably outside the realm of an Australia Fund, is a requirement to support the rebuilding process and potentially new infrastructure projects as catalysts for the local economy and the re-establishment of local business structures and associations, which tend to dissipate pretty quickly if there is a major disaster. Getting them back in operation was very important in the longer term. Also there is a need to support local councils that are heavily impacted by disaster of that magnitude. I might close there but finish by saying that the magnitude of the disaster that impacted our council, which is a very small rural council, is not the norm but it does happen.

Senator WANG: What was the normal waiting period for insurance payouts after the 2009 bushfire?

Mr Elkington: It varied significantly from case to case. A cynic might say that the ones that paid up very quickly were pretty keen to get paid up before any further research was done on the actual extent of the damage. Some companies paid up quickly; some took two to three years.

Senator WANG: How would people affected by bushfires survive within that two- to three-year period?

Mr Elkington: I might backpedal one step. There were fairly quick responses to the insurance payments for people's homes and immediate property. They would probably have focused a fair bit of their attention on working out whether they would rebuild or relocate, because they were able to do that, whereas the commercial insurance payments were probably a bit slower. In a way that compounds the issue of economic recovery, because people tended to focus on their human and social needs. I guess the hierarchy of needs goes: myself, my family, shelter, food and the ones at the very bottom of the pyramid tend to be things like getting the business going again. It impacted a lot of businesses very, very heavily, and some businesses would not have got back up, partly as a result of slow insurance, no insurance or under insurance.

Senator WANG: Rather than the federal government giving a lump sum of money to the local community—for example, your shire—during the bushfire, can the federal government play a different role that could probably provide more value?

Mr Elkington: I certainly would not support a lump sum payment to an area. Interestingly, the comments from the previous speaker and your questions were more on the mark. It would be great to see some sort of a system where a business had to prove that they were disaster ready to be on a role where they could get support at a later stage. We saw a lot of instances where a business was quite well-prepared and lost everything and another business in the same street may have had the same. The first business might have been fully insured, may have had a disaster plan and were just unlucky. The other business might have had limited or no insurance, but they were all eligible the same amount of support. I think a federal process that enabled people to prove that they were pre-prepared for a disaster would be a very good thing.

Senator WANG: If we were to put in say $5 million to support the rural financial customers, direct funding support or to fund or support an economic leadership group, out of these items or areas, where would the most value for money be in terms of this Australia fund?

Mr Elkington: I think there are probable four key ones for me. One is some immediate funding support to a business that might be linked to some criteria and some outcomes. That would at least get them back thinking about getting the business on the road again in some form or another. The second one is some sort of small business-neutral, third-party support through a small business mentor or something similar. I think their first job would be to do some sort of a viability assessment of the business going forward before the business might be eligible for some funding relief. In our case a lot of businesses were proven through that first process to be unviable.

I can give you one example. You might have a logging haulage company—and we have lost a large percentage of our forest. That logging haulage company probably either needed to relocate closer to where the mills and forests were or potentially reshape the business. They might have become an earthmoving business, because there is a lot of earthmoving and rebuilding to be done. They would need some outside support through perhaps a small business mentor and business planning process to make that decision, and then they might be able to get some funding. That is that process.

The third area that I think is very important is the support to locally-based business recovery and grant support officers. The fourth one is supporting the creation of the strategic recovery plan for the local economy. They are probably the four key areas.

CHAIR: Of those four that you mentioned, because they probably will be our takeaway message, how many cannot be done with the current disaster relief structures? I guess you could argue you are highlighting some of the failures of previous disaster responses, but is the current structure flexible enough to pick up your recommendations fairly easily within current arrangements and do it better next time?

Mr Elkington: There is no current structure to identify which businesses are pre-prepared for any sort of disaster, in my experience. That is one. The immediate business relief, in terms of both time frame—getting it out there quickly—and getting it to the right places and the right businesses that have a chance of viability, is probably two. The other two were able to be done, but they were done either in a slow time frame or not for long enough. In relation to the business recovery officers and the grants officers, I spent a lot of my time, which was wasted, seeking grant funding so that we could get someone to do the work. I did that three times in the space of 2 ½ years for the recovery officers, because there was no long-term security for that role.

CHAIR: Are you talking about local grants, or is this the federal disaster relief money distributed by a state?

Mr Elkington: We received funding from the state government for those business recovery officers.

CHAIR: One area where we appear to have found a lack of emphasis is being adequately insured prior to a disaster. I am happy that you list that in your pre-disaster preparation. We have heard from other disaster relief organisations that are constantly informing people to be aware and prepared for a natural disaster but are not mentioning about being adequately insured because we have always considered that to be a private matter—that you should be adequately insured. Do you think there is an argument for a more detailed and exhaustive requirement of areas at risk of natural disaster to say that adequate insurance is almost a precondition?

Mr Elkington: Yes, I do. I think that would be a very strong message to business: if you intend to look to support post disaster, there are certain things you need to do. You need to have a business plan for a start. You need to have a business continuity plan and you need to have adequate insurance.

CHAIR: Another question is about potentially where insurance premiums have risen after natural disasters. That has been very, very hard for business. With unforeseen issues like that, it is probably beyond the means of any ordinary business to be able to predict what their premium will be after a disaster. There might be some argument there for assistance, particularly where the construction of a levy might take a long time to flood-proof a

CBD. In those cases, there is some argument. Are there any other reasons why we should be helping businesses that are not adequately insured? Are there any grounds for providing assistance to underinsured businesses?

Mr Elkington: Not that I can think of. It amazed me how many businesses were either well underinsured or not insured. You can understand a business being a little bit underinsured, but the number of businesses that were well underinsured or not insured was a real eye opener.

CHAIR: I was personally involved in creating problems for you by encouraging the flow of donated and gifted assets down here in 2009. We set up a 'tools for tradies' scheme through Lions in which we were transferring down tools to, basically, re-kit tradies. But I can now see that there are implications for local providers when you do that. Can you think of any other alternative and fairer ways where you allow local businesses to get back on their feet but also support local providers, given that there is going to be extraordinary will to give both cash and assets?

Mr Elkington: Yes, there is. We do have a way to do that better, and it took us some time to get that in place. We were receiving six semi loads a day, which created an issue for us because we were diverting resources to the receiving, handling and sorting, and that sort of thing. So we approached our local Rotary club—and this would have happened in more than one location, I am sure. The Alexandra Rotary Club came to the party and started to do the management of the inward goods. In their wisdom, they were very quick to pick up that some of our local trades were struggling because they were receiving so many goods and giving out so many goods. So, pretty quickly, we worked with them to create a voucher scheme. If we can, we need to get the message out to all of those well-intentioned people that do send goods to not send goods but to send money. Then the money goes into some sort of a localised voucher scheme in which a person who needs work wear or tools can come in, get their voucher and go to one of the local stores You set a radius of distance away from the disaster and say that it must be spent at one of these particular outlets. Then they go and spend that money on their tools locally. That got up and running probably within three or four months, I think, of the disaster. But it would have been better if it had been in place from the start.

CHAIR: Thank you very much, Mr Elkington. That has been very helpful. Thanks for the benefit of your experience and for this summary, which will be a handy structure for us.

Proceedings suspended from 12:39 to 14:03

CRONSTEDT, Mr Malcolm (Mal), Executive Director, State Emergency Management Committee Secretariat, Western Australia

Evidence was taken via teleconference—

CHAIR: I welcome Mr Malcolm Cronstedt, from the Western Australia State Emergency Management Committee, who has joined us by teleconference. Information on parliamentary privilege and the protection of witnesses and evidence has been provided to you. I invite you to make an opening statement, and at the conclusion of your remarks we will be putting questions to you.

Mr Cronstedt: By way of background, I think it is worth just quickly canvassing the Western Australian emergency management arrangements to provide the context. Western Australia's Emergency Management Act 2005 sets the foundation for arrangements in Western Australia. The committee of which I am the executive director is the peak body established by that committee. It was reformed a couple of years ago and currently comprises me, an independent chair, a couple of independent members drawn from the community, and directors-general and police, fire commissioners, the Premier and cabinet, and a range of other agencies involved in emergency management in Western Australia. It is supported by a range of committees, subcommittees and the secretariat, of which I am the person in charge.

As to the key projects which underpin where we are going with emergency management risks and disasters in Western Australia, there are several things that we are doing. It is worth mentioning them because, as I said, the context is quite important. We have a state risk project which seeks to develop a rigorous and comprehensive profile of risk across the state, based on state, district and local examination of hazards and particular vulnerabilities, utilising the national framework—you may or may not be familiar with the National Emergency Risk Assessment Guidelines—and of course effectively engaging with risk owners and stakeholders from across the community.

Mindful that Western Australia faces 27 hazards which we concern ourselves with, and that there are a range of agencies, as I have mentioned, which are represented on the State Emergency Management Committee and its subcommittees, many agencies are assigned one of those risks to deal with. We also have an annual preparedness report—which is available online and worthy of scanning, and which I can certainly supply you with a copy of—which is in its third edition and seeks to provide a high level report to the minister and parliament about the state of risk in Western Australia and its preparedness to meet it. It canvasses all of those hazards that the state may face and particular vulnerabilities across it. Western Australia, being as vast as it is, as you know, faces hazards right across the spectrum, from cyclones through to floods and bushfires—which are front and centre at the moment, as you would appreciate—and a whole range of other things.

The other thing we are doing is policy reform in refining, consolidating and simplifying the policies and plans that document the standards, processes and procedures across those hazards and agencies tasked with their management. So we are commencing the process of simplifying and de-bureacratising—if that is a word—the whole policy framework, to make it easier to understand and apply and maintain. And of course we have a regional presence across Western Australia through staff who assist local governments, industry or whomever in understanding and applying the policies that we have embarked on.

One of the key focuses of our agency in the committee, of course, is risk management. This is really key to the whole business. Anticipating and proactively dealing with the potential effects of natural hazards on community values, such as their effects on the built environment, infrastructure, primary production and so on, across all of the things that we value, is really key to delivering on effective and efficient emergency risk management. I cannot emphasise that enough: looking forward and trying to anticipate and proactively set in place mechanisms and processes that alleviate, mitigate or prevent any hazard impact is really the most effective and the most productive way to go, in our opinion. So the secretariat's major focus this year will be to build a comprehensive risk profile for the state, to build a comprehensive capability profile—so how we match it—and to examine hazard impacts as they occur to make sure we learn from experience and capture and improve the way we deal with risk.

Of course, the secretariat realises, as does the emergency management industry, that addressing the risk up-front, as I mentioned, by mitigation and prevention represents far better investment value than dealing with the result. Of course, mitigation reduces the cost of reconstruction and recovery, improves the availability and cost of insurance, contributes significantly to public safety generally, reduces the threat to those responders—volunteers are notable at the moment in the bushfires we are experiencing—and reduces the cost of hazard response.

We provided a submission to the Productivity Commission's draft report, which you will be aware of. That is publicly available, of course, along with all the others. We broadly supported their propositions—in particular, the need for greater emphasis on mitigation. It should be noted that there is a need to ensure clarity and transparency in the funding of postdisaster relief payments and to ensure that there are not undue disincentives to proactive consideration and treatment of risk by owners of that risk. Of course, insurance is one treatment. That may fall away due to knowledge that postdisaster relief is readily available. So you just have to be careful to understand the risk, think about it beforehand and select from the broad range of treatments available before something happens, and insurance is one such treatment. The Productivity Commission report does mention, I think, the moral hazard. It is a term that has been coined by a chap by the name of Richard Sylves in a book called *Disaster Policy and Politics*, and I will just quote a bit that is quite pertinent. He says that it:

> Creates a type of **Samaritan's dilemma**: providing assistance after a catastrophe reduces the economic incentives of potential victims to invest in protective measures prior to a disaster. If the expectation of disaster assistance reduces the demand for insurance, the political pressure on the government to provide assistance after a disaster is reinforced or amplified.

Of course, draft finding 2.7 of the Productivity Commission report I referred to earlier supports this approach.

Also in the commission's draft report—at recommendation 3.3, I think—it was recommended that the Australian government, at least, as part of its risk management approach ought to account for potential future natural disaster costs and focus attention on driving down future liabilities through investment in mitigation. This was seen by the State Emergency Management Committee secretariat as prudent and as a recommendation that others could follow. We have a range of industries in our north-west, for example, that thoroughly understand the risks they face, and cyclone is a notable one. We have been quite impressed by the risk management—proactively and thoughtfully looking ahead at what might impact them and ensuring that a whole range of appropriate treatments are in place well before something does impact. So essentially good risk management will identify the most effective treatment options and ought to underpin any approach to minimising the potential impact of natural hazards on the industries your committee is seeking to support.

It is notable also that we have recently established, in the last year or two, a specific State Recovery Coordinator in this state. That chap is obviously tied up today in dealing with significant bushfires in our state's south-west. But, underpinning that coordinator, we have done extensive review of our recovery policy and tried to line everything up so that impact assessment and what faces a community are well understood.

So we are embarking, as you can see, on a range of policy and, in particular, risk focused strategies to better understand what we face and to give people the information and the wherewithal to try to deal with it proactively. Thank you.

Senator WANG: I have a couple of questions. In terms of mitigation, preparedness and recovery, what do you think each level of government's role should be?

Mr Cronstedt: In Western Australia, there are already pretty clear arrangements about what the responsibilities ought to be for mitigation and prevention. Obviously, over time, anything can be improved in terms of processes and systems. But, as we noted in our response to the Productivity Commission report, funding support focused on mitigation will help, in our case, the states and local governments to fund and prepare for better risk mitigation. Our job at the secretariat is to provide the means so that they can prioritise and focus attention on things that will, if you like, bring the greatest return. The Productivity Commission identified the need for more funding focused on mitigation; we will provide the systems and the wherewithal the people to understand it, and our state and local governments will be able to then better focus attention where it is required.

Senator WANG: Given that WA has quite extensive experience in dealing with bushfires, do you think there is a need for a constant dialogue between state governments and local governments to share their experiences and learn the lessons?

Mr Cronstedt: Absolutely. One of the strategies I have not mentioned is that we are embarking on greater engagement with state agencies. The State Emergency Management Committee and its subcommittees already engage heavily with them. But, as we roll out the state risk project and get a greater understanding, we are keen to involve state agencies and local governments in defining and understanding the risk. So, in the next 12 months, two years, we will be deliberately targeting regional areas and involving whoever we think might be interested in better understanding the risk and defining it, and helping us all understand it better in that process. Local government in Western Australia are already heavily involved in this process, and we will continue to emphasise that and reinforce it as we roll out the state risk project. So it is a pretty exciting time ahead for at least understanding and collaborating across state and local governments to understand and do something about focusing attention on mitigation.

Senator WANG: In your view, is the current structure efficient in terms of dealing with natural disasters, particularly in WA?

Mr Cronstedt: We have just been through reform recently. Two years ago, the State Emergency Management Committee was refined and focused, and it is much more efficiently and effectively set up than it perhaps was in the past—and that is just continuous learning. But I have been in this position since July last year and I would regard our arrangements, particularly the State Emergency Management Committee and its subcommittees—which, by the way, mirror the national arrangements—as being as good as we can get for now. Over time, we will always find opportunities to refine that, but over the next two years our focus is to get a better handle on the risk and to help agencies, through that state committee and involvement in regional areas, focus on what needs to be done.

Senator WANG: How will the Australia Fund, if and when it is established, be able to help?

Mr Cronstedt: I think by resourcing in a focused fashion the mitigation and prevention strategies based on evidence. We can provide the evidence and we can provide the systems and processes to support evidence-based resource allocation. So, if the fund should come to pass, we will have the means by which to allocate resources efficiently to mitigation.

Senator WANG: So it is basically a funding resource not only to deal with disaster but also to prevent or make disaster-proof—is that right?

Mr Cronstedt: That is right. Building resilience and reducing vulnerability is key. Understanding the risk and dealing with it up-front is a much better investment. There is plenty of evidence to point to the fact that investment in mitigation and prevention is much greater value than spending post disaster. Of course that is not ignoring the fact that, once a disaster does happen, you need to address the outfall—understand what needs to be recovered and when and how—but the investment up-front will pay off in spades down the track.

Senator WANG: Thank you, Mr Cronstedt.

CHAIR: Thank you, Mr Cronstedt. I will just finish on that comment that you made about increasing resilience and reducing vulnerability. Increasingly, building resilience is a private matter: we expect people to be well prepared for disasters and properly insured. If I ask people to direct resources into reducing vulnerability and doing mitigation, it is an extremely expensive and poorly targeted exercise. So that is why we have not seen a lot of money pre-emptively invested to reduce the impact of disasters. Where do you think an Australia Fund should best direct its resources—to ensuring that people are adequately prepared, or do you have a whole big long list of areas where mitigation could cost-effectively be initiated right now and the only reason it is not happening is the lack of funding?

Mr Cronstedt: There are a couple of parts to that question, aren't there? Could you just repeat the first element of the question?

CHAIR: Of those two elements—which are increasing resilience or preparedness—increasingly, that is a private matter: having a business continuity plan and being fully insured. So then the other option is to reduce vulnerability by pre-emptive risk reduction, which can often be very expensive, if I said to you to perform that activity in a place like Western Australia. So the former is very much a private matter—being properly insured and being properly prepared. We do not want to have a fund that undermines or creates a moral hazard where that does not occur. By the same token, if I were to say to you, 'Start reducing the risk of bushfires,' where would you start in Western Australia, and how much money would be spent on work that actually had no impact on bushfire impact?

Mr Cronstedt: There are two elements to this: firstly, one of the things that we can really do as the State Emergency Management Committee, through our state risk project, and as we move through the various layers of the state—starting at the state and then moving to the district and then ultimately to local level—is to inform decision making at those levels in a consistent and understandable fashion. So, as we build the risk profile and the capability profile, and as we, as an agency, through collaboration with others, build a consistent and improving picture of the risk and of how well we are matching it, we can inform decision making at that local district and state level, and inform businesses and others about the risks they face more thoroughly. Perhaps there is not one place at the moment, or it is a little disintegrated, where you might be able to source reliable and consistent information about the risks you face. We can help people understand that, and that is a really valuable tool. So then they can deal with their business continuity in a more thorough fashion or with more certainty.

The other thing is: in terms of the state addressing its own land and its own infrastructure—roads and the like—first of all, understanding the risks that that infrastructure faces, and which land and which priority and which bushfire mitigations are going to give you the biggest bang for your buck, are things we will inform much more thoroughly within agencies, using existing resources, perhaps bolstered by, as the Productivity Commission suggests, more mitigation funding, so that the potentially more money you spend is really well focused, informed by the information we provide punters.

CHAIR: That is much appreciated.

Mr Cronstedt: Does that make sense?

CHAIR: It does, and thank you very much for your assistance, for joining us by phone, and for the contribution you have made to our deliberations. We appreciate your time.

Mr Cronstedt: No problems. Thank you very much.

Proceedings suspended from 14:24 to 14:34

BYRNE, Dr Anne, General Manager, Department of Industry and Science

SEXTON, Mr Paul, General Manager, Department of Industry and Science

CHAIR: Welcome. Information on parliamentary privilege and the protection of witnesses and evidence have been provided. We remind witnesses that the Senate has resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given a reasonable opportunity to refer to superior officers or to the minister questions that are asked. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of polices, or factual questions about when and how policies were adopted. Would one or both of you like to make a short opening statement? After that we will continue with questions.

Mr Sexton: We did not come with a prepared opening statement. That was on the basis that we understood that a particular senator had a number of questions around the funds that we deliver. I would just comment on a few things. First of all, it is important to note that the Department of Industry and Science splits its policy and its program delivery. Dr Anne Byrne comes from the policy side of things. She is my policy owner, if you like, for a number of the programs that I, in AusIndustry, have responsibility for. Included in those programs that I have responsibility for are a number of innovation and investment funds, as they are called. Traditionally these have been put in place by both governments since about 2004, usually to address a major manufacturing plant closure, usually in a regional area—but not necessarily so. There have been some 15 of these now since that year, 2004, across Tasmania, South Australia, Victoria and New South Wales. I have not had responsibility for delivering all of them, but I have had responsibility for delivering quite a few of those. Anne's area is the responsible policy area for those particular funds.

At the moment, we are delivering three particular funds in real time. Two of them are here in Victoria. One is centred on Melbourne's north and one is centred on Geelong. These were the government's response to Ford's announcement that it would close its manufacturing operations from October 2016. Another fund which is currently operating in Tasmania was an election commitment of this government at the last election.

CHAIR: Can I ask whether the criterion that activated this round was a failing industry. The particular recipients here are not necessarily companies that are in distress. This is more identified by cost-effectiveness of the investment.

Mr Sexton: Yes, the funds are not targeted at companies in distress. The funds are a response to a major plant or company closure in a particular region, recognising that that region will be severely impacted economically and socially because of that closure. As a response to that, the government has put in place these programs to support other economic activity in the region to take up some of the slack that would have occurred as a result of the departure of this main manufacturer, in this case. It is important to note that they are targeted at the economic activity in the region. They are not targeted at the firm that is failing. The intent is to try to rebuild economic activity in the region, to take up the slack that is going to occur because of the main withdrawal of that particular firm. In this case, it was Ford's engine plant in Geelong and its assembly plant in Melbourne's north.

CHAIR: Do you consider the issues of competitive neutrality? You are helping one firm in a region, which may not be helping another similar firm in another region.

Mr Sexton: Yes.

CHAIR: Do you consider the issue of firms that are possibly about to expand anyway and about to increase their capacity to respond to an increased export appetite, only to have it funded by government, therefore crowding out private investment? What is the response to those criticisms?

Mr Sexton: First of all, the funds are competitive, merit based grant programs. They provide a grant up to a maximum of 50 per cent of expenditure which is requested. They are on a competitive basis, so they are usually well oversubscribed. They are against certain eligibility criteria and identified merit criteria. The merit criteria go to issues about what would be the economic benefit for the region if this particular firm were supported. The main key outcome of that is how many jobs would be created. The main aim of these particular programs has been to create new jobs to take up the slack of jobs which are disappearing because of the plant closure. Capability of the firm to carry through this sort of project—we do not fund activities that might be transferred from another region either in the state or from somewhere else in the country. We are not about supporting business as usual. What we normally support is capital expenditure programs. For this, the firm is required to convince us that as a result of this assistance they will be able to grow or expand into new areas and take on new staff as a result.

Competitive neutrality is certainly an issue that we deal with. The easiest example I can give you is we do not want to be funding one coffee shop against 16 dozen other coffee shops that might exist in the region.

Competitive neutrality is a very keen issue for us. There is no point in supporting a particular firm to grow its businesses if all it does is force other businesses to lose business consequently.

As part of the arrangements that we enter into with successful firms, we will enter into with a contract. That contract will specify a number of milestones to be achieved. Firstly, this is about expending the money as we agreed to approve it for. Secondly, this is to ensure that the jobs that they have alleged they will put on as a result of this assistance are actually delivered. The contracts are such that, if those deliverables are not achieved, we have the ability to claw back the grant funding. We have done that in quite a few programs.

CHAIR: Even dollar for dollar, though, there is still this possibility that people are going to engage in this expansion anyway for far less public support. I just wonder whether a round like this could have been more effective, if you had started with three private dollars for one government dollar to see which applicants would apply for that. If you are undersubscribed, drop it to two for one. Work that way so you minimise the amount of public expenditure required to get the outcome.

Mr Sexton: There are a couple of points I would make there. The issue of dollar for dollar is one that comes up regularly. Industry, of course, would argue it should be dollar for dollar. Most of these funds are delivered in partnership with the state government. Certainly, these two funds in Geelong and Melbourne's north are delivered in partnership with the Victorian government. They have a view that if we can support it at lower levels of assistance then we should. Certainly, that is our view.

The guidelines actually provide for up to 50 per cent of funding. We are not required to go up to 50 per cent. We certainly cannot go beyond. As part of the due diligence that we do—of course, one of the pitfalls is that you end up supporting projects which would have gone ahead anyway. That is one we try to avoid. That due diligence looks at the financial strength of the company. We get financial records going back three years. We look at their growth prospects. We try to understand where they have come from, where their assets currently lie and whether they are using a lot of their assets to fund investments elsewhere; therefore why are they asking the taxpayer for funding if they could actually fund it themselves.

In many cases we do find that many of the applications we get are opportunistic—in other words, the project was going to go ahead anyway. Along came a grant program, and a decision was made: 'Well, we might as well access taxpayer funding if we can.' That is one of the shortfalls which we wish to avoid as best we can. We cannot necessarily know perfectly that that is the case. Many firms will argue, 'We may have the financial wherewithal to be able to undertake this program, but if you were able to support us we could bring it on line three or four years earlier and therefore create jobs earlier.' That is a possibility in some cases.

Dr Byrne: I might just add a comment to that. As Paul said, one of the elements of activity that is trying to be supported through these sorts of programs is the creation of new jobs. We have done some work which has indicated that those projects that are supported through these funds will actually create more jobs and that they will be accelerated in a way that is purposeful and helpful to that economy compared to those projects that do not receive the funding that still proceeded with their projects. Part of what is being assessed in all of this is the degree to which the policy objectives are being met. One of those is the creation of jobs so that there is evidence of the value of these programs in relation to that compared to projects that go ahead without the support through the program.

CHAIR: Was there a preference for manufacturing jobs? Most of them appear to be manufacturing. If people came with other proposals that would create employment in the region, do they have equal opportunity?

Mr Sexton: The guidelines do not mandate that they must be manufacturing jobs. The reality is that the sorts of applications we do get, though, are in manufacturing. In Melbourne's north you will see that there is a preponderance of food production type facilities, which is not unusual because that particular area now is developing an expertise and is a centre of excellence in food production. And it is one of the sectors that that particular region and the stakeholders in that region are trying to foster, so that is what happened has happened as a result.

Senator WANG: Given that you have probably had quite a number of opportunistic applications, I would assume that your terms and conditions are much more attractive than those they could have got from the banks or traditional lenders?

Mr Sexton: The banks will charge interest on any loan monies that they provide. We provide an unencumbered grant. So long as they deliver on the milestones, which are incurred expenditures and put on the jobs, then they are their obligations, terms and conditions. There are whole sets of other terms and conditions in terms of regular reporting so that we know what is happening. We need to be able to monitor these. We do not give all the money up-front; we pay it as milestones are achieved. We then monitor these programs or projects outcomes for some time after all the moneys have been paid out.

Senator WANG: So there is some sort of reporting arrangement with the business that got the grant?

Mr Sexton: Yes. Companies are required to report to us quarterly on progress, so we keep an up-to-date view on what is happening in this project. We have the ability, if things are going off the rails, to step in. Our worst-case scenario is to terminate.

Senator WANG: Let's say you terminate a business, what about the funding they have already got and spent?

Mr Sexton: In some cases, it may have been incurred in good faith and, therefore, we will not reclaw that back. In some cases where we believe the circumstance otherwise, we will attempt to claw it back—and we have done so in a number of cases.

CHAIR: Are there any other industry support funds anywhere else in Australia? When was the last AusIndustry managed fund in existence?

Mr Sexton: In terms of the innovation and investment fund, as I said earlier, I think there has been 15 to date. There are currently three that are live, these two and another one that is in Tasmania—the Australian government innovation investment fund. That was an election commitment of the current government so the status of that one is that the applications have come in, they have been assessed, they are now with the minister for decision and I am expecting an announcement in the very near future on the outcome of that particular fund. Again, it was heavily oversubscribed. It is only a $13-million fund. The minister will be announcing the outcomes in the next month I would expect. They are the only ones that are live at the moment.

There are a number of other program initiatives that are being delivered by AusIndustry, again, with Anne as the policy owner in a number of cases. They are similar in that they ARE granting programs that provide assistance for capital expenditure, improving competitiveness and so on. A part of it has come out of the government's growth fund initiative, which was a response to the announcements by Holden and Toyota to close down. There are a number of elements to that program and one of them is called the Next Generation Manufacturing Investment Program, which is to be focused on Victoria and South Australia only. That is a $60-million program to which the two states are contributing $12 million each. That program, which has only recently closed to applications, was enormously oversubscribed. With $60 million in funding available, I think we had 265 applications seeking grants totalling more than $500 million.

CHAIR: In the bigger picture, we are trying to make sure that if there is public investment in job creation, we want to make sure that it is in the area that it is going to be most effective. That is not necessarily the places that have lost employment recently because what is missing there is that in reality we want the workforce to move to where opportunity is greatest, so you have these other funding sources available to encourage workers to relocate and they have been historically undersubscribed as opposed to the program you are running. On a larger scale, while politically popular, do you really think funds like this that are so geographically targeted are simply reducing the propensity for people to move for work opportunities in other parts of the country?

Mr Sexton: There are a number of other programs which are looking at the ability of people, for instance, to be retrained in order either to take up new opportunities or perhaps new opportunities elsewhere. At the Commonwealth level, I am not aware of any programs which encourage or assist people to move to other locations. I know that the New South Wales government has had a program in place along those lines. I am not sure of any other government that has done that.

The thing about these programs is they are not a be-all and end-all. It is a recognition that that particular geographic location is worth keeping, for a start, and that it is going to be severely socially and economically impacted if that is not assisted. But it is also a recognition that it will be short-term assistance. In other words, if assistance is provided now, in the short term, there is a good prospect that in the longer term that particular region can sustain itself.

There will be other particular regions where a firm is so central to the economic activity in that region that if it were to leave or close then that whole region does not become viable. I do not think government would want to be assisting simply to keep that thing alive, because it would be doing so on the basis that continuous assistance would be necessary.

CHAIR: Could you potentially have included not just an opinion on policy in the scope but also an expansion to include, say, agriculture? I do not think it is really mentioned here in that list. There is just processing.

Mr Sexton: There are no exclusions. If you read the guidelines in detail, that is clear. There are no exclusions. It is just that they are the sorts of projects that come along. We do a fair bit of promotion about these projects. We go out into the region. The thing also worth mentioning in particular with these two programs is that it is the first time in this sort of program where we have engaged very closely with the local community and the stakeholders in the regions. With these two I was heavily involved at the outset, at the request of government, to engage with the community and to have their input into the design of the programs.

That engagement is continuing. Those two regions actually set up stakeholder task forces which are still ongoing. They regularly engage with us to monitor our progress. Also, they are taking on the responsibility now. For instance, in Geelong in particular, their task force activities include trying to marry up people who are working currently with Ford and will be displaced in the future with the firms that are getting assistance and will be taking on the new jobs. So they are taking the direct responsibility of trying to match future displaced persons with jobs that are coming up. They are also heavily involved more so on the training and retraining side and are trying to ensure that those workers who are going to be displaced are given the best opportunities to retrain and look for new opportunities.

We are not about trying to exactly match jobs and skill sets of those who are going to be displaced. It is just too difficult to do that, and I do not think you can do that. These regions must evolve. They must grow. Jobs are being created and destroyed on a daily basis. We are not trying to stop that. We are not trying to impede structural change. Structural change is with us all the time. We are just trying to assist it as best we can by encouraging and assisting those firms which provide the growth opportunities into the future.

CHAIR: From a national point of view, is there a sense that there might be other parts of the country that might benefit from even relatively smaller investments that could lead to significant levels of increased business activity or employment but are excluded because of the nature of this policy? Does AusIndustry have a feel for where there are great opportunities where a small amount of government investment might increase employment outcomes substantially? Do you just have to wait for these diabolical stories of industrial closures and then move in with what is very much a first-aid operation?

Dr Byrne: To pick up Paul's point, there is not and cannot be a one-size-fits-all approach to any of this. I think it is clear that, in many instances, where a major firm does close in a region our policy response is not to intervene in any way. That is because a decision is taken based on evidence that the original economy is sufficiently viable without intervention, and neither the Commonwealth nor state or territory governments choose to put forward a policy response.

It is important to think about it in terms of layers. When the Commonwealth government is responding to, if you like, activities which have resulted in the closure of a major facility, it is looking at what that means for the individual workers, the community and the economy. It has chosen—as Paul said, about 14 of them now—to sometimes put in place the Innovation Investment Fund. It is to attempt not to impede structural change but to facilitate the diversification of the economy.

In other instances, where there has been major closures of firms in other economies, governments have not decided to intervene with an IIF on the grounds that it was not considered, from a policy point of view, necessary to directly engage a strategy to address a difficulty. Rather the structural change process would be allowed to evolve and adaptation would occur. Certainly, many communities do adapt to structural change events.

But to pick up Paul's point, what often governments have done at the Commonwealth level—and this government has one measure along these lines—is to introduce national schemes which allow opportunities for firms anywhere in Australia that might want to transform to be able to access Commonwealth funding.

The Manufacturing Transition Program is an initiative of the current government. It was an election commitment. It is a national program about transforming Australian manufacturing into high-end niche value-adding. That would allow a company in any region that believes that they have the capacity to be able to support not only their own activities narrowly but also in the wider interest—including into accessing potentially wider supply chains which may include global ones—to be able to apply for funding. There are those interventions.

I just want to add that we need to remember, of course, that the states and territories have their own programs of assistance and support for individual workers, for communities in transition and for particular industry groups—either general or specific. I think part of what the Commonwealth continues to try to do is to collaborate. I guess the Growth Fund is an example where with two jurisdictions the Commonwealth has decided that together it is important to intervene in a way that supports economies that are going through significant change. So this becomes very much a collective effort and endeavour. It also sometimes involves, as Paul mentioned, the companies who are impacted and providing funding support into common pools to allow a more consolidated effort.

I think the policy responses available to the Commonwealth, state and territory governments are fairly diverse. But, as Paul said, governments over a long period now at the Commonwealth level have selected the Innovation and Investment Programs, because they encourage investment. They diversify economies and create jobs which are sustainable within those communities. To pick up your earlier comment, they could, in fact, support labour mobility in a modest way, at least within that region. The idea that mobility only matters when it is between locations is not quite right. I think it is about encouraging individuals to be able to take up opportunities, perhaps even in a close location but different to what they were doing before. So it is still about diversification.

CHAIR: Thank you very much. That is a very interesting program. We will enjoy watching it. We hope jobs that they have indicated eventuate and we thank you very much for coming down from Canberra.

BULMER, Mr William, Director, AUSVEG

MULCAHY, Mr Richard John, Chief Executive Officer, AUSVEG

WHITE, Mr Andrew, Deputy Chief Executive Officer, AUSVEG

[14:58]

CHAIR: Welcome. The committee will now commence its third public hearing on the establishment of the Australia Fund. Information on parliamentary privilege and protection of witnesses and evidence has already been provided. We thank you for your submission. I invite you to make a short opening statement, if you choose, that will be followed by questions. Mr Bulmer, What do you grow?

Mr Bulmer: I am a farmer in East Gippsland, Victoria, and I grow vegetables.

Mr Mulcahy: I have met both the members of the committee previously. I am the CEO of AUSVEG. Andrew White is the Deputy CEO of our organisation. Mr Bulmer is not only a board director and a grower but also he is the AUSVEG Victorian representative on our board. He is also a board director of the East Gippsland Catchment Management Authority.

AUSVEG is the national peak industry body representing the interests of approximately 9,000 Australian vegetable and potato growing operations who pay the national vegetable and potato levies. We thank the committee for the opportunity to appear before you today.

Horticulture is a major contributor to the Australian economy with the vegetable industry alone worth $3.7 billion annually at farm gate and considerably more at retail level. The nature of our industry is that it is heavily reliant on land with natural disasters such as floods and bushfires having lasting effects on the industry's performance and therefore on the Australian economy. Poor weather can result in poor crop yields and inflict significant losses on growers. Floods can wash away not only crops but farm infrastructure like fencing. It can ruin machinery, irrigation systems and growers' homes. Bushfires and cyclones can destroy entire properties.

When considering the great importance of Australian horticulture to the Australian economy as well as its value to consumers by putting fruit and vegetables on the table of millions of Australians, it is unthinkable that growers would be left to fend for themselves in the aftermath of emergencies which they had little ability to avoid or control. With the levels of debt being invested in day-to-day operations increasing, the losses faced by growers after a natural disaster can be enough to force them out of business—with drought deemed to be one of the biggest issues facing rural Australia.

The lack of recognition of drought as a natural disaster under many schemes is disappointing. For example, currently in the NDRRA, where states and territories determine which areas will receive assistance under the arrangements, drought is not considered a natural disaster for the purposes of relief. Under the highest threshold, the federal government funds up to 75 per cent of the assistance available to individual communities in those areas. However, this funding is administered at a state level as are the existing drought concessional loan schemes.

Last year the Productivity Commission referred to government disaster relief responses as 'ad hoc and emotionally and politically charged'. An independently managed Commonwealth fund would ensure that when rural industries were at their most vulnerable they were not left exposed to the political motives of state or local governments. This is exemplified by the current lack of coverage for South Australia in the Drought Concessional Loans Scheme in which the state and federal governments are blaming each other for applications not being opened. This situation is unacceptable considering the federal Treasurer has acknowledged that drought relief is a complete natural disaster and the Minister for Agriculture believes drought is an unmanageable crisis.

There is also currently a large gap in the market for agricultural producers to insure themselves against production risk, and that gap includes coverage for drought and extreme rainfall. While the area of drought assistance is highly complex, has undergone regular review and change, and all farm businesses should acknowledge the inherent business risk that drought presents, the facts remain. Drought is a major issue for rural Australia and is considered a natural disaster by most Australians, including by government websites. It therefore should be officially classified as a natural disaster for the purposes of determining financial relief. That includes any possible application under the proposed Australia Fund which should be administered by the Commonwealth to avoid any situation where funding does not flow as quickly as it should to farmers in their time of need.

AUSVEG respectfully urges the committee to recommend the establishment of an independent fund to support rural industries and provide financial assistance to growers affected by natural disasters. Additionally, it is imperative that drought is officially considered a natural disaster and that it therefore falls under the purview of the recommended independent fund.

In conclusion, AUSVEG is not an advocate that government is there to pick up all of the failings of badly run businesses but we do see aspects of the committee's inquiry that should be addressed in terms of these issues. I am supported today by Mr White and Mr Bulmer. Mr Bulmer, in particular, has a lot of firsthand knowledge of dealing with flood and other issues.

CHAIR: Great. Mr Bulmer, would you like to add something? Or, perhaps, just answer the questions?

Mr Bulmer: I will just take the questions. Fire away!

CHAIR: From my understanding you are very keen to see drought included in the remit of some possible fund. Do you concede, as the farmers' groups have been telling us, that drought should be seen as separate because it is a long-term situation that ultimately needs to have more viability, adaption and resilience? And so while there may well be room for support of both, they should occur in two separate arrangements so that we do not have long-term drought funding eroding the ability to respond to a natural disaster—effectively, separating the two operations.

Mr Bulmer: The drought scenario is quite a difficult one to gauge in the fact that usually you start off in a long, dry period. And where does that long, dry period go, where does it stop and when does it become a drought of significance that has a huge impact on the area, on the economy and on the viability of the farming operation? That is where it needs that close consultation with rural counsellors and people within the state's organisation who determine, 'All right: we have gone through that long, dry period but now we are in an extreme drought event which is having a significant impact on a certain sector of the economy—on the rural sector.'

I believe that is where—and I have seen it—the steps need to be put in place so we go, 'Okay—that's part of the cycle of what we have in Australia. This has gone far and beyond.' But between that gap there is the realisation that you keep going down as a farmer. You get to the stage where there is no way out. I jotted down some notes this morning—it is like a slow-eating cancer. You get to a point where there is no return for you: you have expended all your financial gain; you are in debt to your eyeballs; you have either lost your crops or your cattle are in such poor condition that there is no way out—there is no coming back with them; and it has gone to the point where everyone has lost control of what they are trying to achieve. I think that in that point we have to get to a balance where we can help people within the community and in the farming sector and say, 'All right: once we get over there, I need to come in and talk to you.' At that point we have to take some action to go into this next stage: 'There is funding to help you get out of this crisis, but you have to listen to us now and you have to act now.'

CHAIR: We have heard a common criticism where farmers see a neighbouring farm which has not taken appropriate drought mitigation measures receiving assistance, whereas the person who has invested privately does not receive that assistance.

Mr Bulmer: Yes.

CHAIR: Is there a way of having some preconditions for access to this funding? It might well be some standard procedures for appropriate levels of drought mitigation prior to being actually eligible for assistance?

Mr Bulmer: Exactly—and as Richard has stated, with any funding that farmers receive in this country we do not want to be seen as people who put our hand out to take a gift, or a grant or a subsidy. You have to have a good business structure behind you and within your business, and there are certain procedures and measures we can put in place within the farming sector which can alleviate either for flooding or drought. Bushfire is a different scenario; it is a different cat again. But there are certain things: 'If you are not taking these steps then, yes, do not be standing at the end of the queue waiting for a handout.' That mechanism needs to be looked at in a fairly stringent sort of way.

CHAIR: Yes, great. Can you tell us a little more about this focus on pre-emption and being prepared? We talked about gaps in insurance—that is a massive concern. Why is it up to public funding to fill those gaps in insurance, and what success have you had in talking to insurers about improving the product they offer—and the level of knowledge that farmers have in return to know that they are insured?

Mr Bulmer: For example, I will step into the next category that has affected us and that is flood. We have lived on a flood plain all our life. Our farming practices, usually high-intensity vegetable-farming enterprises, end up on flood plains. So, for a start, insurers do not want to look at you because you are on a flood plain. But, in saying that, even if there were an insurance policy that would cover you, the cost of premiums would outweigh whatever we would get out of it. Whatever we have seen over the past with insurance claims, there seems to be a loophole somewhere. I remember one of the floods that came through our place. It went through our house and the insurance agent said to me, 'Did that come through the door or up through the drain?' I said, 'Why? Which way am I going to get any claim for?' He said, 'If it came up the drain, we'll look after you. If it came through the door, you're out of business.' That was only a small part of a business—it wet the bottom end of our house. But another instance, the last flood in 2010, cost us $1 million in loss, just within our farming enterprises.

Sometimes you can lose infrastructure, you can lose crops and you can lose contracts, but the biggest thing I have seen in my 40 years of doing business and living on a flood plain is the people who have worked for us. We can survive; we can go to the bank. We can up our overdraft, get another $500,000, get further into debt for another decade and hopefully pay it off somewhere in the system. But the workers are the backbone of your business. Currently, under the system, they have to wait six to eight weeks to get any social security, but they have their housing repayments and they, like us, want to put food on the table next week.

When you have lost everything you have got, as a business operation you are not going to have an income for probably the next six months. In our case we have got 80 workers. It would be nice if you, Andrew, were to rock up and you were to do a quick survey of the business. 'Let's see if we can get these workers straight onto some benefits to help them and to keep them within your organisation.'

Then maybe within two to three months they will be back on the job, helping you to re-establish your own business. If I lose my workforce, they do not exactly the queue up again at the front door looking for jobs in the farming sector. When you have got some good people, you have got to try to look after them.

CHAIR: So which level of government is best placed to administer that process?

Mr Bulmer: I think that if it came under the federal government, under one umbrella, it would be much more beneficial. For one of the droughts we obtained, through Rural Finance, a $200,000 low-interest loan. From the time the flood got us, in March, until the time they actually paid the money was 12 months. It just went on and on and on, and we just had to carry that through our business.

CHAIR: Can that be changed by a different structure? Did you not want to have local case officers and the state administering programs like this?

Mr Bulmer: I think this is where it gets a bit complicated. If you have got the two-tier structure where you have state and federal government, it is just another department. No disrespect to anyone sitting around here, but when we work with bureaucrats it gets a little bit complicated. They do not actually get their feet in the mud to see what is happening. They might visit. We have all the pollies come after a natural disaster and we have had them on a regular basis for the last 30-odd years. They come in to do the film shots and captions, which is all good for that story for that week, but that is it. When it gets back to reality, you are the bloke that has to rebuild and go forward. If you had one person, whether they be state or federal, who actually came and looked at the problem, analysed it, knew what they were talking about and could take it forward, we could get a resolution a lot quicker.

Mr Mulcahy: I think it would be fair to say, without having any data, that the industry would have more faith in the capacity of the Commonwealth to take charge of these matters and to get an outcome, albeit the Commonwealth may not be all that keen to take on all of this. I think there would be more faith at that level because, as I was discussing with Mr Bulmer this morning, not only in the flood situations he has encountered does he have a large number of people who have suddenly lost their livelihood; he is also supplying major retail stores and is supplying one of the biggest fast food chains in the country. They will not sit around and wait till the problem sorts. So you have suddenly got an income stream that is shut down and a workforce that dissipates, and in the area where his operations are in East Gippsland it is not the flavour of the month for backpackers to go to. It is not like going to Queensland or some of the resort areas. So it is very difficult to recruit skilled labour in that environment. They do need help when things go wrong.

Senator WANG: You have mentioned the fact that it is either difficult or impossible to get insurance. If the Australia Fund had an insurance capacity, with more attractive terms and conditions, would the farmers be happy to take that on?

Mr Bulmer: You never say no. Any assistance or package that is put forward that is actually realistic and has a business structure around it that could be used in a business sense, yes, you certainly would look at it.

Mr Mulcahy: At the end of the day, insurance is about risk. Obviously, if they were to offer more attractive premiums or insure policyholders who might be deemed as just not worth insuring then that would obviously impact on the viability of the fund. I have heard of similar issues with hail damage where growers say, 'I just can't get insurance for that,' or it is so prohibitive in your state of Western Australia. I think it is well worth exploring.

Senator WANG: The reason I am asking about insurance is that, once you give a particular farmer insurance, you would have some say in terms of how his business should be operated. Let us say he is planting a crop in an area which is not suitable for that crop, then the fund can say, 'Sorry, you cannot plant wheat here, you have to grow corn. If you do that, we'll give you insurance.' I would assume that farmers would be happy to cooperate.

Mr Bulmer: You go into a different field if you start trying to tell people what they can crop and what types of crop they can put in. That would be a different kettle of fish.

Senator WANG: Okay.

Mr Mulcahy: I guess you, Senator, are doing the analogy with, say, residential insurance, which I have, and where the insurance company wants your car locked in a garage or locks or alarms. All these things impact on your premium. So it is possible that you could go down that road, but it might be a bit more challenging in a rural environment than it is in a residential environment.

Mr Bulmer: The biggest thing with insurance—and it is like what we have seen with a lot of natural disasters—is that five people in the street might have insurance and the other 25 do not, so those are the ones who jump up and down and say, 'We need the support; you have to help us.' I do believe you have to be in charge of your own destiny to a certain level, but it has to be set under the realms of where it is financially sustainable to do it within your business. As Richard said, we have looked at hail insurance in the past. It is prohibitive to take it out. In some cases, it costs more than what the crop is worth.

CHAIR: Any other thoughts you would like to add?

Mr Mulcahy: I think we have covered it pretty well. It has been very helpful.

Mr Bulmer: I will just touch on the bushfire scenario. We have been in that situation as well. As I said, we live in an irrigation valley. The 2007 fires decimated our cropping industry. We had smoke cover for six weeks. So it was a complete blanket, no sunlight. All our multicoloured lettuces and whatever were just a pale colour, so we did not have any colours within our cropping. With respect to the ash fallout, we are a large supplier of lettuce to McDonald's. The ash just rained on our lettuces and you cannot get ash out of lettuce. You pick it up and then you have got a black smear and every time you try to get another one and take another leaf off, there is no comeback. We lost acres and acres. They are just little things. You would not think a fire does not affect you. You cannot wash it out; you are just stuck with it.

The underlying thing is not only the financial loss; the mental strain within families and communities is enormous. We have been down the path of a lot of natural disasters over the years and different things. I can tell you that if you get a heavy rain on the roof and your wife is pacing around the lounge room or the bedroom because she cannot sleep because two years later you do not know what the outcome might be, these are the things—the strain within your family businesses and businesses—that people do not see. I am afraid I have too many mates that are pushing up daisies over these sort of things that have happened in certain sectors that I have seen. We know what that outcome is.

CHAIR: That is why we are looking at this area. Thank you, gentlemen. It is much appreciated. That completes this hearing today. Thank you very much, everyone.

Committee adjourned at 15:20