

Senate, Tuesday 15 October 2002

COMMITTEES: Foreign Affairs, Defence and Trade Committee: Joint: Report

Senator FERGUSON (South Australia) (3.16 p.m.) —I present the report of the Joint Standing Committee on Foreign Affairs, Defence and Trade entitled *Enterprising Australia—planning, preparing and profiting from trade and investment: a short report on the proceedings of the inquiry* together with the Hansard record of proceedings and submissions received by the committee. I seek leave to move a motion in relation to the report. Leave granted.

Senator FERGUSON —I move:

That the Senate take note of the report.

This report of the Joint Standing Committee on Foreign Affairs, Defence and Trade, *Enterprising Australia—planning, preparing and profiting from trade and investment*, is a short report on the proceedings of the inquiry. The Minister for Trade referred the inquiry to the joint committee on 2 November 2000. With the calling of the 2001 federal election, the inquiry automatically lapsed on the dissolution of the 39th Parliament on 8 October 2001.

The committee gave consideration to the re-referral of the enterprising Australia terms of reference in this the 40th Parliament. However, we decided not to continue with this inquiry. Our decision was based on a number of factors: firstly, the poor response to the call for submissions; secondly, the quality of evidence; thirdly, a review of the Commonwealth's investment promotion and attraction efforts by a task force headed by Dr Ian Blackburne that embraced significant aspects of the enterprising Australia terms of reference; and, fourthly, broad acceptance by the government of the recommendations made by Dr Blackburne in his August 2001 report *Winning investment--strategy, people and partnerships*.

Notwithstanding the lapse of the inquiry, we took the view that a short report should be tabled in the parliament outlining some of the issues and conclusions that came out of the evidence that we received. These reflect a similarity of view between our observations and the findings of Dr Blackburne's review team. I do wish to place on record our appreciation of the assistance that the former Irish Ambassador, His Excellency Mr Richard O'Brien, and the Singaporean High Commissioner, His Excellency Mr Ashok Kumar Mirpuri, gave to this inquiry.

We see a number of challenges for Australia in planning, preparing and profiting from trade and investment. No specific development agency model, whether it is an Ireland or a Singapore model, fits the Australian context. What is paramount is a national strategic approach to trade and investment. Additional challenges are regional initiatives that can build a diverse base for regional economic wealth, the provision of the skills in Australian people that will underpin research and development initiatives, and Australia's global competitiveness and the comparative effectiveness of the incentives that we offer. A strategic national approach to planning, preparing and profiting from trade and investment promotes and increases Australia's international competitiveness. Evidence to the inquiry showed that there were a number of federal government agencies that played a role in promoting investment and exports and, as Dr Blackburne noted in his investment review, this is not efficient and does not allow for a single Australian brand.

In the climate of global competitiveness, where national leadership is paramount, the multiple player approach promotes the insular culture of the bureaucracy and the notion of 'turf', with government processes cumbersome and sometimes unresponsive. It was evident to us that the degree of commitment to a national strategic approach is a key to advancing Australia's trade and investment competitiveness. The government has agreed to the development of a national strategic framework for investment promotion and attraction, with the Employment and Infrastructure Committee of Cabinet to oversee operations. We are hopeful that this will indeed provide the capacity and the capability to implement a whole of nation approach.

With the intention that this framework is to be developed in the context of Australia's overall economic growth and industry and regional development objectives, we regard the major national issues raised during Dr Blackburne's consultations as very important, and they need to be addressed. These major national issues are set out in appendix E of our report. We are concerned that these issues, which were to be included in the work program of the Blackburne review's proposed Prime Minister's investment council, will not be addressed under the new arrangements of the revamped Invest Australia. These major national issues should not be dismissed as not applicable and lost to examination within the changed operational arrangements of Invest Australia.

In our report we comment on the issues of tax, seen as an impediment to business, the adequacy of Australia's skills base with investment in education critical to the future of Australia, and the commercialisation of R&D in Australia. On this last issue, for instance, we are of the view that in pursuing commercial outcomes the capability to reach commercialisation should not become the sole criterion for funding an R&D project. Not every project can lead directly to a commercial outcome. If the policy focus on commercialisation becomes the be-all and end-all for Australian R&D, then Australia as an innovative country, for which it is recognised world wide, will lose research capability. Balancing R&D is a fine line. Managing this fine line is critical to the future and needs to be understood in the current policy climate by R&D boards and public administrators.

In conclusion, irrespective of Australia's achievements in encouraging inward investment and promoting export sales, the challenge for Australia and its policy makers at all levels of government is to move forward and put us ahead of our competitors. We need to focus on becoming even more competitive than our competitors and not be both outmarketed and insufficiently aggressive in the pursuit of opportunities. I commend the report to the Senate.

Senator COOK (Western Australia) (3.23 p.m.) — The report of the Joint Standing Committee on Foreign Affairs, Defence and Trade has been adequately described by my colleague opposite, Senator Ferguson. It ought to have commanded far more attention than it did. The purpose of the report is best set out in its title: *Enterprising Australia—planning, preparing and profiting from trade and investment*. As anyone who looks at the balance of payments or Australia's trade situation knows, an imperative to greater wealth creation in this country is that more Australian companies export. If more Australian companies are to succeed as exporters, they need to be globally competitive. Characteristics of a globally competitive company are ones that focus primarily on the world, not on the domestic market. They have a high incidence of innovation in their company structure and a high investment in research and development. They recruit skilled labour that has been well educated, they are able to be flexible and adaptable to new market situations that they confront in the world and they penetrate markets successfully.

This is not some sort of dry academic exercise. This goes to the engines that drive economic growth, improve living standards and create jobs for ordinary Australians. From that point of view, this is an extremely worthwhile report. I congratulate Mr Prosser of the committee at that time on promoting the investigation. Having said that, Senator Ferguson has also referred to the reasons why the committee did not take this report further; certainly the election was a big factor and a new committee was another factor. The real reasons—the poor response to this inquiry, the quality of the submissions garnered by the inquiry and, indeed, the advent of the Blackburne report—are all adequately set out in this document. However, we could have focused more on the findings of the Blackburne report and the implementation of them. But that is not a reason to criticise the effort that has been undertaken here.

I want to say a few words about some of the issues covered in this report. In 1994, when the Australian Manufacturing Council existed and created a forum for all the players in the Australian manufacturing industry to examine the issues in their sector and to seek remedies from government to improve that industry sector which is vital for jobs in Australia and vital for our innovative edge in the world, a study was undertaken headed 'Leaders and laggards'. It examined the characteristics of what makes success for Australian companies and looked at successful exporters and manufacturing enterprises. It also looked at the characteristics that are true of companies that do not succeed, and these were the laggards.

Overwhelmingly, the emphases of the leaders were, as I have said, a global view of the market, investment in research and development, capacity for innovation and a general outward drive to capture new market prospects. The characteristics of the laggards—those that did not succeed—were a preoccupation with the level of taxation they might pay, difficulties with their industrial relations system as they managed it in-house and a series of navel gazing issues of that nature which meant they were not focused on global opportunity; they were focused on what was going wrong with their company and, therefore, did not think about how to turn the company into something that was going properly and correctly.

That was an important study because it looked at real life experience of successful Australian companies and finds some echoes in the document that we have today. It is not surprising that there is a continuity of theme of those key issues. Some of the weaknesses in this report are that it does not address issues that have occurred since the advent of the Howard government. For example, it does not adequately deal with the reduction in the research and development tax concession, which went down in 1997 from 150 per cent to 125 per cent. R&D is a driver of export growth and international competitiveness. The fact that there has been less incentive and less take-up of research and development means that we are now becoming a lagging nation under that demographic.

The report did not deal with the impact of the capping of the Export Market Development Grants Scheme. We offered a scheme to encourage Australian companies that are mostly small to medium sized enterprises to go overseas and examine the market. That scheme has been capped, so not all those companies that want to go and examine the market can get access to the scheme or, if they do, it is at a lesser level. Under the previous government it was open-ended, so all players that wanted to be exporters could be and not just those that were ahead of everyone else in the queue and lucky enough to get a grant. It did not examine the abolition of the International Trade Enhancement Scheme, which encouraged Australian companies to get into the international market. Nor did it look at the abolition of the Development Import Finance Facility, which ensured that Australian aid spent abroad also created opportunities for Australian business.

The report did not look at the abolition of support for the business angels program, where experienced entrepreneurs were being matched with small high-tech start-up businesses, nor at the abolition of the Australian Manufacturing Council, a body that I think has played a magnificent role in resolving problems that confronted the growth of the Australian manufacturing sector and is indeed one of the reasons why we now have a vibrant export sector whose total value outranks that of the agricultural sector in export earnings. Nor did it look at the cessation of a \$20 million operating subsidy to the Commonwealth Development Bank for small business financing, an area in which the bank, as an expert lender in this field, is ideally placed to make assessments about competitiveness of potential enterprises. That \$20 million operating subsidy was an essential way of leveraging those small enterprises into something better.

The outsourcing of government IT, at a cost to taxpayers of several hundred million dollars—which is something that this government has done—has meant as well that we have not kept in-house the possibility of structuring a major IT provider in this country, and rather have brought in from overseas foreign IT providers to meet our needs. The freezing of the R&D Start program in early 2002, with the government cancelling new applications from 115 businesses, was the wrong signal to send. We are trying to encourage people to be more innovative, to use R&D. To cancel the R&D Start program early this year was the wrong signal for industry to receive. The abolition of the Printing Industries Competitiveness Scheme occurred ahead of schedule and, more importantly, the government's own resources were cut back, meaning its ability to pick trends in this sector was diminished and its ability to find solutions and to provide the necessary support programs was diminished.

This report looks at Singapore and Ireland as two tigers—one a Celtic tiger and one an Asian tiger—that have very active industry policy agencies at government level. The cutback of 30 per cent in the department of industry's funding over four years—the largest fall in any spending of any department—and a cutting back of 10 per cent in staff mean that, while this report looks at other countries to find out how you lift yourself to excellence, Australia is cutting back the infrastructure on which you build the necessary programs to encourage that same development in Australia.

I conclude by saying that, just last week, quite importantly, Dr Craig Emerson, Labor's shadow minister for innovation, industry, trade and tourism, tabled a policy discussion paper—*Thriving industries in an innovative Australia*—which does provide a very good blueprint for how to get Australia back to work and properly started again. This country has been the best in the world for creating part-time work and not full-time jobs. The jobs we have created over the last several years have been part-time jobs in the main, not full-time jobs that offer full-time career prospects for Australian workers. (Time expired)

Senator MURPHY (Tasmania) (3.33 p.m.) —I would like to say a few words with regard to this report of the Joint Standing Committee on Foreign Affairs and Trade—*Enterprising Australia—planning, preparing and profiting from trade and investment*—and particularly focus on my own state. I find it interesting that the report says that there was a lack of interest from agencies in terms of incentives and impediments. I would like to highlight some of what I believe are impediments that occur—at least in my state—with regard to opportunities for overseas exports, particularly to the Asian region. I want to give some examples, in particular from the timber industry.

It is interesting that in Tasmania today we have an industry that has so many opportunities and yet many of them are not being realised. One of the reasons that that is the case is that the government agency responsible for the management of the public resource seems to be acting against the interests of the private sector, which could process a lot of the timber that is being harvested from Tasmania's forests and gain very significant export opportunities in countries like China. How is that happening? It is happening in this way: the state government agency is actually exporting whole logs from Tasmania to China and other Asian destinations in competition with sawn timber products—or what could be sawn timber products—produced by Australian, indeed Tasmanian processors. That is something that we have to have a serious look at.

Looking at this issue in respect of creating jobs and opportunities in your own state or your own country, why you would have a state authority or a government agency proceeding to export whole logs, in terms of raw material, rather than allowing private businesses to actually create employment through processing that timber in the state of Tasmania or somewhere else in Australia, does take some understanding. Indeed, you have to wonder why they would be doing it at all, in terms of economic development in the state of Tasmania. It is not just in that area. We have a very simplistic view, it seems, in terms of the opportunities for export development in Tasmania, because we seem to be content with this approach of just taking the lowest common denominator, and shipping it offshore, rather than taking an approach whereby we can expand the opportunities for sawn timber products.

Not only that, if we look at the trade imbalance in Australia in respect of forest products, it is huge. I think it now stands at in excess of \$2 million per annum in pulp, paper and forest products. So there are all the more reasons why states such as Tasmania should take the initiative to create the opportunity to drive export opportunities in processed wood products, and yet we fail to do that. This report makes it very interesting in terms of the opportunities that should exist yet do not. It is very important to highlight that because that is something that the Commonwealth ought to take an interest in, in that we are allowing state agencies to do the sorts of things that seem to be to the detriment of the development of export opportunities within this country.

I cannot understand any state government—let alone from a Commonwealth point of view—allowing that to happen; it makes no sense whatsoever. We are looking at the management of what is a very valuable resource in terms of hardwood timbers in Tasmania's eucalypt forests. From Tasmania's perspective, it is important for the long-term sustainable management of those forests that we do go into the processing of those timbers, rather than just send them off in whole log form. I know that the Special Minister of State, Senator Abetz, would be fully aware of the stockpiles of logs that exist at Burnie and at Bell Bay in Tasmania. It is becoming increasingly unacceptable to people in Tasmania to see those logs going offshore when they know full well that they could be processed within the state. We are even exporting logs to Victoria, which is in turn processing those logs in Victoria and then exporting them. As a Tasmanian senator, it makes little sense to me that the state allows that to happen. Sure, it might create a few jobs for Victorians, but I do not see it as being of much use to the jobs that we should have in Tasmania. Very few opportunities remain for Tasmania in the natural resource area, and timber is one of them. It is about time something is done to ensure that opportunities in the natural resource area of timber are taken up and that something is done about them.

I am contacted by sawmillers on a regular basis now. Unfortunately, they do not want to say anything publicly because of a fear of retribution from the Tasmanian authority, Forestry Tasmania—in a circumstance where they produce residues for which they know that essentially they now have but one market, one purchaser, in Tasmania. They feel that they are between a rock and a hard place—that if they make public comment about this problem they will be crucified for doing so and things will only get tougher for them. I would hope that the Commonwealth might take an interest in this and consider what it can do to ensure that more processing jobs and more export opportunities are created for the Tasmanian timber industry. I know that they can be created and that those opportunities exist—particularly when China spent in excess of \$US30 billion in 2000-01 importing timber products. If we do not comprehend the potential of that sort of market, we will never maximise export opportunities that exist for this country. We have to take some steps to bring about necessary changes; we cannot just function on the basis of 'Dig it up, chop it down and ship it out'. It is unacceptable that we continue to allow that to happen in this day and age.

I have spent a few weeks in China this year, looking at their own forest products industry. I have found that there are vast opportunities; yet, as I said, there is little incentive on the part of the Tasmanian state government and there is little assistance on the part of the state authorities. A prime example is that exactly the opposite is happening: they are trying to chop down the trees and ship the logs out for what is essentially the lowest price. That will then make the sawn timber products uncompetitive, because the Chinese will ask, 'Why are the logs so cheap and your sawn board so dear?' It is a valid question. Essentially, the only group that are selling large volumes of whole logs into China and/or Korea are state authorities—the manager of the public resource in Tasmania. It just is not good enough. As I said, I hope the Special Minister of State and the Commonwealth will take some interest in this matter and see whether they can do something about it in future. I seek leave to continue my remarks later. Leave granted; debate adjourned.