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JOINT STANDING COMMITTEE ON TRADE AND INVESTMENT GROWTH

Supporting Australia's exporters and attracting investment

(Public)

FRIDAY, 29 NOVEMBER 2019

SYDNEY

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JOINT STANDING COMMITTEE ON TRADE AND INVESTMENT GROWTH

Friday, 29 November 2019

Members in attendance: Senators Rennick, Marielle Smith, Van and Dr Allen, Mr Christensen, Dr Mulino, Mr Ramsey.

Terms of Reference for the Inquiry:

To inquire into and report on:

The Committee will inquire into and report on:

- Understanding Australian businesses' ambitions to grow via export and attracting investment;
- Identifying local regulatory barriers to businesses being able to realise their ambitions; and
- Identifying best practice regulation that evidence shows supports export and investment growth, whilst protecting the national interest.

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EL-ANSARY, Mr Yasser, Chief Executive, Australian Investment Council

HARPER, Mr Brendon, Head of Policy and Research, Australian Investment Council

TOLHURST, Ms Robyn, Public Affairs Manager, Australian Investment Council

Committee met at 09:00

ACTING CHAIR (Mr Ramsey): I declare open this public hearing for the inquiry of the Joint Standing Committee on Trade and Investment Growth into supporting Australia's exports and attracting investment. In accordance with the committee's resolution on 25 July 2019, this hearing will be broadcast on the parliament's website, and the proof and official transcripts of proceedings will be published on the parliament's website. Can I ask a member to move that the media present may cover today's proceedings on the condition that cameras neither film nor take photos of the private papers or laptops of committee members, the secretariat and witnesses.

Senator RENNICK: I so move.

ACTING CHAIR: I welcome the representatives of the Australian Investment Council. This hearing is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter which may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and attracts parliamentary privilege. I now invite you to make an opening statement—not too long, because we have limited time—and then we'll proceed to questions.

Mr El-Ansary: Thank you for the opportunity to join you all this morning. By way of brief background, the Australian Investment Council is the peak body for private capital investment here in Australia. We represent around $30 billion in capital under management, managed across private equity, venture capital and private credit funds. The investors into those managed funds tend to be institutional-level, sophisticated investors, the likes of which include superannuation and pension funds here in Australia and around the world.

In the context of this inquiry we put forward in our submission a range of particular areas of focus, all of which we're happy to engage in a discussion about this morning with the committee. But I do just want to draw out a couple of brief observations, if I may. The first is that it is vitally important for Australia's future that we continue to support investment into Australian business. I think we would all agree about a statement like that. What's also true and important, in our view, is that we continue to attract investment into the Australian market from offshore and that we continue to support in an active way the growth and expansion of Australian businesses in both a domestic and international global market context. There are a range of issues that we set out in the submission that we feel speak directly to furthering both of those ideals, and we're happy to take questions from the committee this morning about those specific issues.

As a brief overview of our focus, it would be fair to say that in both of those dimensions our industry—the private capital investment industry—plays an important role in the context of the economy, a role that we think can continue to expand in time to support an even greater number of Australian businesses to grow, expand, employ more people and generate more economic growth for the nation. We're happy to take questions.

ACTING CHAIR: I haven't read through your whole submission, but there are a number of very interesting points you make. When we come to the paragraphs and recommendations around the current tax framework, I sort of read the submission on deterring foreign investment but I'm not sure I got a handle on what you think those deterrents are and what should be done about them.

Mr El-Ansary: In the context of foreign investment, let me map out a couple of additional points that might help to complete the picture. Notwithstanding that Australia has the fourth-largest accumulated savings pool in the world, through our superannuation defined contribution system, our industry—the private capital investment industry—which invests directly into Australian businesses, has today and for the past five or six years relied more so on offshore investment into Australia than on domestic investment. In other words, the capital that is ultimately deployed in to support the growth of Australian businesses is by and large coming from offshore, which represents a really interesting structural challenge in the context of our economy. It certainly draws a lot of attention from offshore around why a nation that has the fourth-largest accumulated savings pool can't do a better job of directing some of that capital base into the economy and Australian businesses. There are a range of considerations and factors that play into that, which I'm happy to explain further, if the committee would like.

To come directly to your question: foreign investment policy, therefore, for a sector like ours and for the businesses that attract private capital investment is hugely important. Over the past few years, going back as far as 2014, it would be fair to say that Australia's international reputation has ebbed and flowed to an extent with offshore institutional investors around the signalling of whether or not we, as a nation, are receptive and open to foreign investment to the extent we say we are or whether or not our foreign investment policy is ultimately in some ways disconnected from the narrative that, as a nation—

ACTING CHAIR: Just to cut in: that's foreign investment. You spent some time there talking about the lack of investment from one of the largest saving pools in the world. I've already sat on a couple of inquiries about why it is that Australian superannuation funds are not investing in Australian business per se, particularly in agriculture—but it doesn't matter where it is. You've got the perfect vehicle for superannuation funds to invest in. They often say, 'It's not the right set-up for us,' but I would've thought a private investment fund would be ideal for a superannuation fund. So why are they not investing in your funds?

Mr El-Ansary: There are a couple of primary points to make in response to that. First, there are some technical considerations around the structure of the collective investment vehicles that are not operating as efficiently as they should. In particular they relate to the structure of what's known in our tax regime as the venture capital limited partnership vehicle. That vehicle has been in place for around 15 years now, but it is not contemporary enough in its design to mirror the sorts of collective investment vehicles that institutional investors, be they Australian or offshore, from other markets are used to.

To cut through all of that, there was a government announcement made about 2½ years ago to introduce what's termed a limited partnership collective investment vehicle, which is a flow-through fund structure that is simpler to understand and less compliance intensive than some of our existing vehicles here in Australia, and, importantly, it is the same type of vehicle that is used offshore. So, whether you're talking to an Australian super fund, an offshore Canadian fund, a US fund or a European fund, they will be very familiar with this type of vehicle that's known as a limited partnership collective investment vehicle. Australia doesn't have that. The government's announced that it intends—

ACTING CHAIR: What does that do, just in general terms? Don't give me the details.

Mr El-Ansary: It's a flow-through legal vehicle. In other words, investors can pool their capital into one structure. That one structure then enables fund managers to draw capital into a fund, and then, ultimately, to deploy that capital into Australian businesses. But it is a legal vehicle, around which legal rights and obligations are consistent with other jurisdictions around the world. That's where Australia falls short at the moment. We have an overreliance on the use of trusts, which is a concept that Australia is very familiar with within our domestic market. It may also be familiar concept in the UK market, but it's not at all familiar to other markets, outside of that. When institutional investors, many of whom I engage with on a fairly regular basis, particularly in Asia, look at the Australian market, it is a deterrent for them. The proposition that they often put is, 'A lot of us have learnt many lessons out of the GFC, one of which was: don't invest in things that you're not familiar with and that you don't understand.' When it comes to our use of managed investment trusts in particular, it certainly ticks the box on that first criterion.

So there are some tax inefficiencies that exists at the moment; that is one aspect of the response to your earlier question. The other aspect I would point to, in the context of our superannuation system, is that we have a very large system with huge amounts of capital that is growing day by day, and we also have a push on the part of government, certainly, and regulators, in particular, for consolidation in the superannuation industry—for less funds ultimately managing larger amounts of capital. What that does mean is that those funds, out of commercial necessity more than anything, have to invest ever increasing amounts of capital in one transaction. We refer to it as bigger and bigger cheques, because the size of the fund is such that you just can't afford—

ACTING CHAIR: And so too big for your—

Mr El-Ansary: They are really big, and for a large part of the Australian business sector, which might be looking to attract capital through an industry like ours, they are too big.

Senator RENNICK: I just want to talk about the tax framework deterring foreign investment. I completely disagree with that. Just so you know, I've got a master's in finance and a master's of tax law, which I got just down the road here, from Sydney university, and I did my subjects focused towards global capital markets and offshore taxation. Prior that I worked in Amsterdam, which, as you know, is pretty well regarded as a tax haven, and I've worked in various tax havens and things like that. The reason why I disagree with that statement is that our tax treaties only tax interest royalties and rent between zero and 10 per cent. In Australia we have an onshore tax rate of 30c and an offshore tax rate of between zero and 10. What that means is that we can attract capital onshore, but then, when they make earnings, they'll ship those profits offshore.

I think our current tax framework actually deters domestic investment. We make it too hard to get Australian capital off the ground here. They can't can compete with foreign capital, because, No. 1, they don't have the 144A bond market, which is where, in the States, they go to for their Eurobonds and things like that. We don't have the depth of capital markets here. We also pay a higher tax rate, because we don't have the benefit of basically parking our equity in another country and then relending on it. So I dispute that, and I'm happy to take that up further with you.

There's also another section of the tax act, 855-10, which basically says that if you invest in shares in Australia and you own less than 10 per cent, that is you've got a non-portfolio interest, you don't pay any capital gains tax at all. So Australians pay capital gains tax when they make profit, but, when foreigners invest here and they own less than 10 per cent of the company, they pay no tax at all. That's a tax incentive they have. To me, that's not really fair on fellow Australians who have to pay capital gains tax. So I have a problem with that.

With the funds management industry, I actually think superannuation works against innovation and entrepreneurship. All this money comes down to Sydney and Melbourne from across Australia and gets parked here every week. There's no competition for money, because fund managers know they're going to get 10 per cent of everyone's income every week. That's compulsory. Even though we supposedly live in a free market in this country, 9½ per cent of our income comes to Sydney and Melbourne every week to get invested, and most of that goes straight into the secondary market. Do you know the difference between a primary and a secondary market? A secondary market buys existing assets. There's very little entrepreneurship, where they'll invest in greenfield, new assets. All they do is: that money comes in; it gets parked in existing assets and it pushes up the cost of an existing asset. What that means is that, today, asset prices are basically determined through capital inflows, not in the way they should be, which is the net present value and future income stream.

So that's completely distorted the market. I just read this morning in the *Fin Review* that superannuation funds own two-thirds of all the shares on the stock exchange, and that is very, very scary. As you were saying, if they go and consolidate more and more and more we're going to have two-thirds of the stock market controlled by, say, 10 superannuation funds, a large number of which will be industry funds controlled by the unions. Interestingly enough, with sovereign wealth funds—those guys get tax exemptions when they come here, because sovereign wealth funds aren't invested. We take money from Saudi Arabia and places like that—they don't pay tax here—and we then go and invest offshore. I've heard of industry funds who own 15 per cent of Heathrow; they're investing in the King's Cross subway. Pity they can't invest in some infrastructure here in Australia. I don't think that we make it too hard for people to invest here at all. If anything, I think we make it too easy. If you look at Google, they've set up their service in Ireland, for example.

ACTING CHAIR: Gerard, have you got a question?

Senator RENNICK: This is the submission. The reason why I'm making this statement is that it's very important, because one of the reasons why I ran for parliament is that I want to give domestic capital a chance to thrive in Australia. What I've seen over the last 30 years is that we've sold off a lot of our assets in infrastructure and we're taking on more and more foreign debt. That's going to destabilise the nation's balance sheet. As someone who's an expert in this field, who's had 25 years experience in global capital markets and tax and finance, I find this idea that we make it hard for foreign investment in this country to be not true. I'll leave it as a statement.

ACTING CHAIR: Thanks, Gerard. Just to bring them into the conversation—Dr Allen or Senator Marielle Smith, would you like to ask any questions?

Dr ALLEN: Yes, I would very much. I would add to the comments of the senator for New South Wales. My question would be: what factors in the past have encouraged competitiveness for Australian investors to compete with overseas investors, noting the comments that the senator has just made?

Mr El-Ansary: Can I just clarify the question—what specific policies?

Dr ALLEN: Yes. I know companies, for instance, who are doing exactly what Senator Rennick was referring to. They're investing offshore because they can't compete onshore. Are there any factors in the past that have been helpful to local investors to compete in the cycle of investment that the senator has just outlined?

Mr El-Ansary: I think our tax framework has historically delivered to Australia the outcomes that we want in terms of competition and sparking a level of competition in the domestic market that we need in order for capital to be allocated efficiently to its highest and best use. But certainly over the past decade there has been a fundamental and quite profound shift in policy right around the world insofar as taxation is concerned and insofar as globalisation of economies, generally, drives greater competition for capital into separate and distinct markets right around the world.

If you were to look at the Australian market as against a jurisdiction like Singapore, as a case in point, it's relevant to our industry in many respects because of the Singaporean economy's focus on driving a greater inflow of capital into their home market to grow what you might broadly define as the innovation economy in Singapore.

They have put in place policies that are very aggressive and very competitive but extend beyond some of the simple headline numbers of tax rates, concessions and exemptions. They go fundamentally towards creating a more compelling proposition for investors either to relocate key personnel and key leaders into that market or to, at the bare minimum, look to set up a physical presence in those markets. They do that by coordinating policy and incentives right across the full gamut of government regulation, right through to creating lifestyle opportunities that attract individuals to move outside of other developed markets into somewhere like Singapore.

So it would be fair to say that Australia's policy framework has served us really well for a long time. The sheer reality is, whilst I do take on board Senator Rennick's comments, I really do believe that ultimately Australia has for a long, long time relied on offshore capital to fund the growth of our economy.

Senator RENNICK: We didn't, but when Gough Whitlam and Paul Keating let the banks in it just went off.

Mr El-Ansary: So we're talking circa 35-plus years now that we've relied extensively on foreign investment to fuel the growth of our economy. There is every reason for us to continue to make attracting investment into our country a priority, because the fundamental reality of the structure of our institutional-level capital in this market is such that we're not going to be able to replace lost foreign investment with domestic sourced investment as quickly as we will need to in order to manage transition through sectors and markets within our economy. We have to maintain a pretty competitive edge on both fronts. We have to do better to incentivise that domestic capital. I entirely agree with the statements earlier about the need to do more to achieve that outcome, noting though, as I did earlier, that there are some structural design features of our system that increasingly make that difficult, but it shouldn't deter us from continuing to make that a priority. At the same time, I can't emphasise enough the importance of maintaining a competitive foreign investment policy framework that incentivises institutional-level sophisticated capital to come to Australia to continue to fund the growth of Australian businesses into the future.

Dr ALLEN: Can I just summarise what you're saying. Because we have an immature market and possibly some tax settings, like company tax, that make us open to being invested in by foreign markets, which is holding us up from an economics point of view, we couldn't switch over anyway, because our markets are not mature enough. But, more than that, it wouldn't take just changing things like company tax settings; we would also need to have a more competitive and more compelling investment microstructure, and that would take decades to do.

Mr El-Ansary: If I can just clarify a couple of those observations: I'm not suggesting that we have an immature market. I would suggest that we have a fairly mature competitive economy from an investor's point of view. We see that in our industry, day to day. If we didn't have a sophisticated market that offers competition and the opportunity for businesses to grow and expand and become more valuable over time through domestic investment and offshore export, then we simply wouldn't attract the capital into Australia. When I talk to offshore investors, they recognise, by and large, that Australia is actually a very interesting investment market for them, because of some of the fundamental design features that we have in this economy, from a business point of view. We have great businesses with lots and lots of opportunity and potential, and that's ultimately what's driving the interest from foreign investors in our market.

On another point of clarification, I don't think it would necessarily take decades to make the sort of transition that we're talking about here, but we do have to recognise that there is a long game around setting up our policy framework to support the sorts of outcomes that we want. What I would suggest is important in that context is that, as a nation, we define clearly how we want to incentivise the growth of our economy, in particular, in the unlisted business sector. I'm not really focused here, in this discussion, on the listed equities market. Others can speak to that more than I can. In the unlisted business sector, the engine of the Australian economy in the SME market in particular, I think it would be in Australia's long-term interest to put in place a framework that incentivises the right mix of domestic and offshore capital to continue to fund long-term patient growth in our businesses. That's certainly something that the Australian Investment Council feel strongly about. It's something that we are taking our own initiative to do something about, because at the moment we feel as though government policy hasn't quite delivered that long-term vision that we think is needed across the market, and it's something we'll have more to say about in the next few months.

Dr MULINO: Thanks very much for attending to give evidence today. I want to switch the conversation from the foreign back to the domestic. I'm also on the House of Representatives Standing Committee on Economics, and last Thursday and Friday we had pretty extensive discussions with peak industry bodies and a number of retail and industry funds on unlisted assets. A number of funds indicated that they had an increasing appetite to look at venture capital and early stage investment. Among many discussions, one example that stuck me was Hostplus investing almost a billion dollars, I think, in venture capital to date. I acknowledge your earlier point that it takes a lot for super funds to invest in individual transactions at the moment, but that seems to me to be an example where a balance could be struck around that billion dollar fund. Is that an example of where we could start to get some of the larger funds investing in venture capital and private equity in the Australian context—if we broadened that across a range of other funds to the great economic benefit of Australia?

Mr El-Ansary: It is; definitely. I would suggest that what you have heard from Hostplus, as a case in point, is symbolic of what's possible. It's widely recognised—in the public, in the market and in broader dialogue around the role of super funds—that Hostplus has taken a uniquely different position and strategy to the Australian market than many of their peers in both the industry and retail fund segments. But, to your observation, I certainly agree that it is possible to see Australian super funds doing and replicating more of the sort of activity that Hostplus has engaged in so far. But it's important to note that we are ultimately talking about, in the current context, an exception rather than a rule. So there are not enough funds doing something similar to or emulating the approach and strategy that Hostplus is adopting. There are some unique attributes of Hostplus as a fund—and I'm sure you heard this directly from Hostplus last week—that provide Hostplus with slightly wider capacity, from a strategic investment and allocation viewpoint, than perhaps other funds.

Dr MULINO: The fact that they've got a very long-term approach.

Mr El-Ansary: They have a long-term approach. I certainly don't want to speak on their behalf but, from my knowledge of Hostplus and their strategy, clearly the demographic composition of their membership base allows them to make decisions in a different framework as against other funds in their peer group.

Dr MULINO: It does strike me that the diversification they achieve and the results they're already getting hopefully make them a case study that at least some other funds can emulate in the medium term.

Mr El-Ansary: I agree. I would add one further observation for the record, and for information perhaps more than anything: were it not for Hostplus investing the quantum of money that they have invested so far in venture capital here in Australia, it would be fair to say, in my expert opinion, that we would not have the level of thriving innovation sector activity that we have in this market today. Whilst we can do a lot better than where we are, we would be nowhere our current state were it not for the leadership of some of the institutional capital that's coming out of funds like Hostplus in Australia right now.

Senator RENNICK: If you really want a true level playing field and to get genuine productivity going across the world again, we need to level the playing field between onshore and offshore taxes across the world. So what I just mentioned with Australia isn't just an Australian problem; it's actually an OECD problem. All the wealth is basically generated in the top 20 OECD countries in the world. When they originally designed those tax treaties back in the sixties, it was based on the assumption that OECD countries would give up their taxing rights because they thought the other OECD countries were going to tax it. What they did was to put a tax haven here in the middle, so the capital got sent here or the profits got repatriated to the low-taxing tax haven and not back to the other OECD country.

What really needs to happen is that, at the G20 finance meeting, they need to understand that, when you compare us to Singapore, you're not comparing apples with apples; you're comparing apples with oranges. Singapore's just a big town council, effectively. They don't have the infrastructure demands that a country like Australia, Russia or the States has. They get away with what they do because they can offer a low company tax rate, because they just have a small economy to manage. So, when we get compared to the likes of Ireland or Singapore, it's not really a fair comparison against the bigger countries with a much larger footprint. Singapore doesn't actually create wealth; it's just a pass-through where they set their capital. So we need to divide the world between those countries where the wealth's generated and where the larger populations live and those smaller tax haven countries that basically just set up head offices and let the after-tax profits go there. I'll leave it at that.

ACTING CHAIR: Time is marching on, and we're going to have to wind this up. During this hearing, the chair of the committee has slipped in and been uncharacteristically silent. Do you have any questions, George?

CHAIR (Mr Christensen): No, I think that, for the purposes of time, we probably should cap it off.

ACTING CHAIR: Okay, thank you very much. We'll wind it up. Thanks for coming today. If you've been asked to provide any additional information, which I don't think you have, please forward it to the secretariat by Tuesday, 17 December. You'll be sent a copy of the transcript of your evidence and will have an opportunity to request corrections to transcription errors. We'll call the next witness, and I'm going to hand over to the chair.

CHAIR: Thanks very much, Mr Ramsey, for your expert skills in my absence.

CAMPBELL, Mr Peter, Director, Export Consultants Association Inc.

CAMPBELL, Mr Rod, Chairman, Export Consultants Association Inc.

[09:33]

CHAIR: This hearing is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and attracts parliamentary privilege. I invite you to make an opening statement before we proceed to questions and discussion.

Mr R Campbell: Thank you. We've made a submission to this inquiry. We're not expecting that you've been over the fine detail. Just in a nutshell, we are specialist practitioners, much the same as tax agents, and indeed many of us are tax agents. We specialise in assisting applicants to make submissions to Austrade, the government agency, for assistance under the Export Market Development Grants program. The EMDG program has been in existence, you may be aware, since 1974, the most successful economic stimulus initiative ever introduced into our parliament. Our organisation has some 15-odd years of existence, and our charter is obviously to come together as a body, ostensibly internally, for quality control and for professional development. We run CPD days et cetera cooperatively with Austrade. In that way we endeavour to ensure that the purpose of the legislation is appropriately discharged to those who are entitled to apply.

Ostensibly the reason we're here is that the program does require funding, and that has been so right from the very beginning, of course. The thing that doesn't seem to really resonate with the people who make the big decisions on the funding with the annual budget is that the inside mechanism for this scheme is performance based, so in a strange way you could say that it's an investment by the government, because people get rebates, not grants. It is called a grant, but that's wrong. It's a rebate. People spend their money and apply for a rebate. Yes, there is a soft entry. The export performance demands on first-time applicants are removed. It's there for that very purpose—to invite people to try. They can try for two years. Thereafter no benefit is paid unless they perform. So the government has put a safety net in the scheme.

The issue that we've had ostensibly is that, when the GFC hit, there was an annual allocation of funding. The Labor government at the time, rightfully, reduced the amount allocated because the demand for the grant had fallen away, so there was basically surplus allocation to requirements. The pendulum swung and the world economy returned but the budget didn't. By that time we had a coalition government that reinstated an amount of funding, but basically for the last five years—and we put detailed analysis and statistics in our submission—you'll see that we have an ever-increasing deficiency in the annual budget for EMDG as time progresses, and that has been happening for the last five years. It was modest to begin with, but now, if you look at our projections, by the end of June next year that deficiency will be in the region of $70 million to $80 million.

In the mechanism of EMDG, you have to realise that people put their hard-earned money on the line on an understanding that the government has offered a rebate of 50 per cent. They put in an annual application, like a tax return, to find out that when Austrade has assessed it virtually 12 months later there's not enough money to pay them. The upfront component is guaranteed—presently $40,000. The maximum benefit is $150,000. The grants above $40,000 last year were paid out at 24.6 per cent. A small business person at Airlie Beach with a tourism operation may have spent a lot of money on marketing and advertising to try to get people to come to Australia. They have an expectation in their cash flow of some level of recovery. If they find that they're going to get 24.6 per cent, it would be a pretty bitter pill to swallow. If it were once, that would be understandable, but this is now the fifth year. Unless something is done, it's going to get worse.

Senator RENNICK: Can you just walk me through that again, Rod?

Mr R Campbell: Yes. The government allocates it. Prior to the trade minister allocating an additional $60 million spread over three years, which effectively is $20 million a year—

Senator RENNICK: Yes, but how does it work for the Airlie Beach operator? Just walk me through that.

Mr R Campbell: The Airlie Beach operator spends, say, $105,000 on marketing. The government always skims $5,000 off the top in the formula. For the $100,000 they're expecting a $50,000 rebate.

Senator RENNICK: Right, and what do they have to do to qualify for that rebate?

Mr R Campbell: Make an application, like a tax return, go through an audit—

Mr P Campbell: And spend double that amount to get it back.

Mr R Campbell: The grant is 50 per cent.

Mr P Campbell: So to get a grant of, for example, $100,000 they need to have spent $205,000.

Senator RENNICK: Okay.

Mr R Campbell: I'll take Pete's example of $200,000. That is a decent sized claim. You're expecting a $100,000 rebate. At the moment the minister determines—it's at the minister's discretion—the annual first instalment entitlement. It's presently $40,000. You're guaranteed $40,000, so you're hanging out for $60,000. You think, 'I could do a lot with that.' At the end of June of the following year—so you have to wait a year—you find out that you're going to get 24.6 per cent.

CHAIR: Which is based on the level of money that's there and the number of applicants?

Mr R Campbell: Correct.

CHAIR: They would reduce the percentage amount that they're going to give based on—

Mr R Campbell: Correct. It's a pro rata payment to everybody. Everyone gets treated fairly and equally over and above the $40,000.

Mr P Campbell: Everybody gets treated unfairly equally.

Mr R Campbell: The issue is that, with the GFC subsiding some years ago now, world markets have recovered. During the GFC, probably one of the biggest handbrakes for Australian small businesses—tourism operators, education, wine exporters; everyone was in the same boat—was that, with the Australian dollar at parity, we could not even sell a bottle of wine. It was pretty hard to get a tourist to come to Australia or a student to come and study. But, now that we are at 67c or 68c, it is a different ball game; the applicant members have returned. Back in the GFC, there were under 3,000 applicants Australia-wide, whereas now we have pushed to just over 4,000 and, by end of June next year, I expect it is going to be about 4½ thousand to 5,000. These numbers are in our submission.

If you do not understand where EMDG sits, the government offers this program as almost like an apprenticeship to export, because it has an eight-year window. You have eight years worth of claim entitlement. You can spread it out as an applicant over a longer period, if you wish. There are people continually coming in and there are people continually dropping off. So if you look back over the history of the scheme—the 40-odd or more years—some of the biggest names that we know today in business started off as applicants to the export grants program.

Mr P Campbell: The program has been operating for 40 years. It is the largest financial assistance program the government has to support exporters, but it is underfunded. In the situation Rod described before for applicants seeking over $40,000, because the program funding is capped, companies do not know how much they are going to get back. Exporters are required to spend money on export promotion in the expectation that they will receive funding from the government, but they will never know how much that is, which makes it very difficult for companies to budget plan. The purpose of the program, the objective, is to encourage companies to spend more on export marketing because, by doing so, it increases their chances of being successful overseas and developing sustainable export markets. By not knowing how much they are going to get back, it actually works as a disincentive to spend.

CHAIR: I think we got that. Is there anything else that you wanted to add beyond that?

Mr P Campbell: I just wanted to offer to you a description of the example we gave of a company lodging a claim. They received what is called a 'notice of determination of grant'. They receive an initial one when their claim is assessed and they receive that initial $40,000 and, at the end of June, they receive a second one which tells them how much they are going to get. If I may offer these documents—

CHAIR: Yes, that is fine. We can do that as a document to table.

Mr P Campbell: You can see in this case that the company was entitled to $150,000 from Austrade. They spent the money, claimed it, were audited, had the claim approved, were told they were entitled to $150,000, received $40,000 at step 1 and, at the second stage, received $27,000.

Senator RENNICK: So are they going to get the rest?

Mr P Campbell: No. That is lost. That was the maximum grant paid last year for companies entitled to $150,000. They received $67,000.

CHAIR: We might move onto some questions then. I want to kick off to say that I fully understand and appreciate the value of the EMDG. This inquiry is more about identifying the regulatory barriers to export potential. It concerns me that, as you are consultants in the field of exports and are one of the main associations for that, you are telling us that the biggest barrier is a government funding program giving—dare I say—free money to businesses. That concerns me. I do not dispute the claim, but it concerns me. What underpins this? Why do businesses need government subsidies to successfully export?

Mr R Campbell: The program was started back in the seventies—

CHAIR: It is not a question of the program.

Mr R Campbell: for the purpose of luring small businesses into having a go.

CHAIR: I understand all that. I am asking the general question of why businesses need a government subsidy program in order to export. There is something underlying all that. It is not about the efficacy of the program or how good the program is. Why do they need that program?

Mr R Campbell: I was reading some of the Export Council's submission, which has been tabled to you as well, I believe. If not to you then there is an inquiry, by the way, that the trade minister commissioned of a review into the EMDG legislation. That is happening as we speak. It happens about every five years. It was interesting. They were quoting certain figures about how SMEs in Australia underperform, compared to the OECD's and other places. But what they don't touch on is the fact that we are located way down the bottom of our planet. We have soft borders. If you look across most other places in Europe et cetera, some places which are now separate countries used to be one country, but they've got hard borders. They've always traded. So we're being compared with countries that have always had someone on the other side of that river and they've sold to them for the last 500 or thousand years. For us, we've got to jump on a plane or take a long slow ride on a ship to go and find somebody we want to do business with. That's why, just coming back to the reason, the government said we've got to lure people to get out and have a look.

I myself go back to another era. I worked in export, in the government, right in the beginning. The attitude of the government assessors, as we were, as a team, was that: the fact that people may well have come back with a straw hat and a suntan was no reason to deny them the right to receive from government. They're not going on a holiday as such. It used to be, if you remember, that it was a long haul to America, and most aircraft had to stop in Hawaii to refuel, and sometimes people would take a day off just to relax. The thing about it was that just being on the ground overseas was, of itself, an education. That was back in the beginning. Time has moved on.

As I mentioned a moment ago, the applicants here are the new fresh faces. That's who we're appealing to: the new emerging people coming into small business. And we want them to think global. In Asia and other places, people automatically think global because they're culturally attuned to doing business on the other side of the border in the other country. In Australia, that doesn't come naturally to us. So I guess the government has to, as always, recognise that we need to lure them.

The program attracts 1,500 to 1,800 new exporters a year. It's a significant way of introducing Australian business to the world, and one of the roles of government is to create the infrastructure for businesses and for the economy to progress and for businesses to succeed, and EMDG is infrastructure for exporters. It's a vital component to enable Australian businesses to take their products and services to the world.

Senator RENNICK: You're asking for an extra $60 million. How much do we give? How much is in that program now?

Mr R Campbell: It's $157.5 million, I think. For years, it was $137½ million.

Mr P Campbell: And the government increased it by $20 million a year, this year.

Senator RENNICK: What's the size of the businesses? Is there a cut-off on them once they get past—

Mr R Campbell: There is. Businesses of $50 million and more in turnover are excluded from the program—

Senator RENNICK: Yes. It's up to $50 million.

Mr R Campbell: That's the top. At the front end, it's based on the spend. You have to have a minimum of $15,000 in eligible expenditure. I might add, just to add to what Peter mentioned a moment ago about the applicants, that we're referring to applicants that are eligible for the EMDG program. I think the people who were presenting to you before us were people from the financial, banking and advisory area, and many businesses in that sector do not qualify.

Senator RENNICK: Yes, because they're too big.

Mr R Campbell: No; it's the nature of their service.

Senator RENNICK: Can I say: while I concur with George's sentiment about giving free money, if I was going to help anyone, it would be small businesses exporting outside of Australia, because that is what we need, and they don't have super funds investing in them. That 10 per cent of the money that gets taken off people each week doesn't go into small business. So this is a small payback for guys like you. So I'm more than happy. I think this is a great program and this is what we should be doing because it's our small business that drives the country.

Senator VAN: Thanks, gentlemen, for appearing today. I will state for the record that I'm a big fan of the EMDG program. As Gerard just said, it's going to the right places, to the right businesses, and, being outside Australia, I think it's one of the programs that we should be supporting. I just want to check or to get you to give us some evidence on this. For the $60 million increase that you're suggesting, what sort of return do you think we, as a country, would get out of that?

Mr P Campbell: We can give that answer very easily. The most recent review of the EMDG program a couple of years ago engaged KPMG to undertake econometric analysis, and they came up with a multiplier of $7 to $1.

In their first finding they said that the additional business generated by export grants almost covers the cost of the program through additional tax revenue. So the net cost to the government purse at the end of the day is negligible, and that's not taking into account the tax benefits that flow in subsequent years from companies like Cochlear, Blackmores, Atlassian and The Wiggles, who have all benefited from grants in their earlier age. The second finding is they show an economic benefit for each dollar of seven to one.

Senator VAN: So roughly $420 million returned for that extra $60 million?

Mr P Campbell: Correct, and by not having that extra $60 million it's costing the economy $420 million.

Mr R Campbell: Just to emphasise for clarity: the grant or the rebate, when paid, is taxable income. It's a taxable item.

Senator VAN: Thank you.

Dr MULINO: Could we get a copy of the valuation? I'd be interested to see some of the analysis, particularly where the benefits were, what types of firms benefited and what industries.

CHAIR: Are you able to supply something like that?

Mr R Campbell: We can certainly get access to the KPMG report. It was a key feature of the review of the export grants program, which was undertaken by Michael Lee some years ago. I guess the evidence and the facts largely stand for themselves. In regard to that, I'd just like to focus a little bit on a bit of granular information. In the statistical analysis that supports our submission, what you'll see is that what we've done is we've analysed the export revenue derived by applicants relative to what we mentioned before were the export performance requirements. So across the board it's basically four to one. In other words, what the government has embedded in the legislation is what its expectations are for minimum performance. The average is four times. When you look over the life of an applicant, what you'll see is EMDG applicants seem to hit their straps in about year 2/year 3. Through to year 7, you can see that's where there is an elevated level of export performance relative to the grant they receive. So when you analyse this in terms of whatever it is they're doing, something helps them get through the door, they've cracked the opportunity but once they hit the ground, all of a sudden they seem to explode in terms of their export revenue. It's a good statistic. It's pleasing to see.

Mr P Campbell: It's not just exporting that benefits; it also supports innovation. So last year when Innovation and Science Australia released their innovation review, the chairman, Bill Ferris, said that EMDG was a better stimulus of innovation than the R&D tax incentive program, which is a $3 billion program, and that it does more to encourage innovation in Australia, and the subsequent export of it, than other programs. He recommended that the funding for the program be doubled; that was early last year. Late last year, when he was stepping down from the position of chairman of Innovation and Science Australia he again, in his closing remarks, argued for increasing the funding for EMDG. Every review of the program has seen the benefit in providing exporters with certainty of finance so that they know exactly how much an expense is going to cost them in terms of their cost and the government's support. At the moment, they don't have that, because the funding is not 100 per cent.

Mr RAMSEY: You indicated earlier that someone is undertaking a review of the program. Is that a departmental review?

Mr R Campbell: Under the EMDG legislation there is a provision that says that the minister will periodically commission a review. That was done a few months ago.

Mr RAMSEY: Was it done internally or external of the department?

Mr P Campbell: An external reviewer was engaged, supported by Austrade.

Mr R Campbell: It's a ministerial decision within the powers of the act to appoint whoever they—

Mr RAMSEY: I understand that. I just wondered who undertook it.

Mr R Campbell: It's not internal, even though Austrade are sort of sitting in the background.

Mr P Campbell: The program is reviewed every four or five years, and every review has found that it achieves its objectives in encouraging more exporters to take products and services overseas and provides value for money. I appreciate that you have a bigger picture to look at in terms of supporting Australia's exporters, but it is a critical part of the infrastructure that enables Australian businesses to export.

Mr R Campbell: I'd like to make a final point. We've just thrown numbers around about increases in exports et cetera, but the true fact is that it doesn't matter whether you've got a wagon full of a commodity of some sort, or whether you've got a highly transformed product, or whether you've got a service, whatever it is; when you've got revenue in a business there's always a labour factor. The government says around $8—$8.60—for every dollar worth of grant is the average across the board they expect in return. The reality is it's about $40 every year, or nearly $40. So what we're saying is that differential between the $8—make it $10 or $15—and $40 is the labour component. That's what's effectively embedded, I guess, in the KPMG analysis.

Mr RAMSEY: That's the jobs.

Mr R Campbell: That's right—it's all about the jobs.

CHAIR: Thank you very much for all of that. I think you've got a great deal of sympathy here for that grant being expanded in terms of dollars. I would just ask one final question. Aside from the EMDG—and actually I do appreciate your giving me that answer about the underlying issue, because that helps illustrate the need for that grant—what other issues, as consultants, are you seeing in the export space that are potential barriers for Australian businesses in getting into export?

Mr P Campbell: The exchange rate is a critical one. But that's not a barrier to export; it's just a factor of it.

Mr R Campbell: Well, it is a barrier when it gets out of control, as we had during the GFC. That was the biggest handbrake, as well as the markets falling away.

Mr P Campbell: We deal with companies in a whole range of products and services, so there is no one barrier that affects all of them. There are issues with free trade agreements that affect some manufacturers.

Mr R Campbell: I think I'd like to reverse that, if I may. The government does do a lot to try and open up opportunities through free trade agreements. But I've been in this game for a long time and I'm dealing with SMEs et cetera. There's almost no knowledge at the business level within the SME sector. It's just not getting through. It's not so much a barrier. I think the opportunity is there. I know it. I worked in the department of trade in my early days, so I understand about trade agreements and what they can benefit and I understand that people work hard to try and achieve concessions in certain areas. But it's not being translated into business.

Senator RENNICK: Could I add to that. The reason why is that small business are the hardest-working people in this country. They spend all day every day. They haven't got the time to lobby. They don't have industry groups and lobby groups; they can't afford to. Really, they're the lowest paid people in this country, if you divide their hours up hour by hour. I started off in a small accounting firm where I did the books for small businesses while I was growing up on the farm, and my dad was a butcher, et cetera. I know that this bench here will certainly try and get the voice of small business to be heard and do something about it. I'm really passionate about this.

Mr P Campbell: When things resonate, like diesel fuel rebates and those sorts of things, is when, once a year or every quarter, you do your BAS and somebody's got to focus on it to put it into a BAS return, a tax return or whatever. But if it's just this open thing that's out there and it's not linked to some other compliance requirement then it gets lost. You would know that, as a practitioner. That's part of the scenario.

Senator RENNICK: They're not forgotten when it comes to regulation. We're drowning everyone in regulation. We've got to lay off the regulation and provide better services.

Mr R Campbell: With the people doing the review of the EMDG at the moment, we were questioned: 'Have you got some ideas?' I said, wider than EMDG, what could happen? And we used that to suggest education. Education used to be an expense that was claimable under the EMDG program, but it got taken out.

Mr P Campbell: I notice that Atlassian is one of the other organisations that are appearing before the committee today. While it wasn't technically referenced in their submission, they've gone on record in the past as saying that EMDG and the R&D program were the foundations for them being able to develop their business in Australia and take it overseas. There are a large number of companies in a similar position, who have built their success on the support they received from EMDG in the early years.

Senator RENNICK: And it's a shame they had to go and list overseas. Do you know what I mean? This is what really grinds my gears. We see it in universities as well. The universities do all the research and then a foreign company comes in and does the development. We saw that with the CSIRO and Cisco with wireless.

That's Australian technology that we get stuff-all for. I know we made a claim and got some back. That's the next thing: we've got to keep development here in Australia.

Mr P Campbell: To stop being a colony, we need to own our own products. And that's one of the things that the program supports. You can claim the cost of overseas patent and trademark registrations. You can receive funding for that, so that encourages the continued ownership of intellectual property in Australia.

CHAIR: We're probably going to have to leave it there. Thank you very much for your evidence here today. If you've been asked to provide any additional information—and there was one document that we did talk about that you might be able to furnish us with—

Mr P Campbell: It's information about the economic effectiveness of the program in terms of recipients, I think.

CHAIR: I think we were talking about a KPMG—

Mr P Campbell: A KPMG review; we can certainly provide that.

CHAIR: If you could forward that to the secretariat by Tuesday 17 December. You're going to be sent a copy of the transcript, and you'll have the opportunity to request corrections to any errors.

Mr P Campbell: A final point: it was disappointing that, in their submission to the inquiry, DFAT and Austrade made a 21-page submission but didn't reference EMDG at all. It's their main form of support for exporters, and they didn't mention it.

Mr R Campbell: It's part of the Austrade budget.

Mr P Campbell: We don't understand their position on that.

COLE, Mr William, Partner, International Trade and Excise, BDO (East Coast Partnership)

Evidence was taken via teleconference—

[10:04]

CHAIR: I welcome you via telephone, Mr Cole, to give evidence today. Do you have anything to say about the capacity in which you appear before this committee?

Mr Cole: I speak from a perspective of observation of industry and the experiences of BDO itself in this matter.

CHAIR: Thank you very much. This hearing is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Evidence given today will be recorded by Hansard and attracts parliamentary privilege. I invite you now to make an opening statement before we proceed to some questions and discussion, if you so wish.

Mr Cole: I suppose my first observation is that the topic that you're dealing with reaches into all aspects of Australian society and economy. The matters I'll be discussing today, of course, will be far less broad than that. For us as an island trading nation, the constitution and form that our trade takes is hugely important for both our current wellbeing and our future. The second point I'd like to make is that it's my opinion that many of the processes, systems and behaviours exhibited not just by government but by business as well hark back to the 20th century and are not representative of the requirements of the 21st century—and we're well into that, as you all know. Finally, we're continually viewed by key bodies such as the World Bank and others as being low rated in terms of the ease and efficiency of our trading system.

All of these things, of course, have an impact. We feel it particularly. Is it an imperative? I don't see that it's recognised as an imperative. I happen to believe, however, that one of the fundamental things in securing our future is to change and improve how we engage in international trade and, as an offshoot, how we attract investment and create an appropriate environment for that.

CHAIR: You've referred to a number of things in your submission here. You've referred to skilled visas. You referred to antidumping laws and also the Trusted Trader initiative. Do you want to give us a brief overview of your concerns and suggestions regarding those matters?

Mr Cole: I'd be happy to do so. I possibly sounded somewhat negative or grim in my introduction, but I'll start with the Trusted Trader Program, which is an excellent example of the kinds of initiatives that can improve the Australian trading system. The Trusted Trader Program is premised on something called differentiated compliance, and that basically says, 'We will test you for your ability to comply with and support Australian laws and requirements, and if you can demonstrate that that's the case then we will provide you with benefits and facilitation.' In that, we have shifted risk to a compliant business. To enable that, the legislation that we just put into the Customs Act gave discretion to what's now the Australian Border Force to provide a range of concessions to businesses that satisfy those compliance requirements. In that respect I think it's a blueprint for the kind of regulatory reform that is required in the Customs Act and the kind of interaction between government and business that will engender better, greater, more profitable trade for this country. So I see it as a bit of a light on the hill. I see it as a road map, at least conceptually, for how our very ageing systems, processes and regulations need to be addressed and the perspective that is needed to do that.

CHAIR: To stick on this ATT issue, obviously what has been developed is a conduit to remove a whole heap of regulatory burden from exporters. How do you envisage the ATT could be bettered and broadened to help other exporters?

Mr Cole: The first point is that what it represents fundamentally is a set of principles that could be applied to broader compliance. I was on the working group in 2015 that started developing the ATT. The discussions often went to: 'This is a limited program. What happens next? How do we use the learnings from this to free up the broader trading system? It can't be 1,000 participants in the ATT and that's it. There are synergies and spillovers from this that should really inform a revisiting of the whole trading system itself.' On that note, if I think about what standard exporters put up with now—the application of licensing and permits for exporters, the amount of reporting et cetera—can all be rationalised to reduce costs for some of the key exports in Australia. I looked at some figures about a year and half ago. Some processed meat exporters were putting a price of 40c a kilogram on the cost of compliance for their exports. It's an appalling impost on our competitiveness.

Unless we start having a straight line with not only border and quarantine but the broader agencies that have input into the border, unless we start rationalising how that is managed—and from a perspective of real compliance consideration rather than: 'This is what has been done in the past; therefore, we should do it in the future'—unless we start looking at those matters, we'll slip further and further behind. We need to turn those ideas to: is this an attractive place to invest? Those kinds of cost structures impact on investment decisions by foreign capital. We really need to get the architecture in this right. A lot of it is horizontal management between departments around trade issues as much as it is: 'Let's cut out a few reports to the Australian Border Force.'

CHAIR: We might come back to some of those other matters. Mr Ramsey has some questions.

Mr RAMSEY: I'm going to the point in your submission about the antidumping legislation. I will give a very brief background. I chaired the inquiry that led to the change to antidumping. In my electorate I have 40 per cent of the remnants of the Australian steel industry. At the time we were facing an enormous wave of cheap steel in the world that was being relabelled, being mixed differently, being marketed in different ways, coming through different countries, being phoenixed and all those kinds of things. That is why we moved in that area. Having said that, the core tenet of antidumping legislation is that it should reflect the real price at the point of production in that country of production and should not come out at a subsidised or artificially reduced price, plus the obvious transport cost. That is the underlying ethos of the legislation. Are you telling us that it is being distorted, not being used correctly or not operating in that manner?

Mr Cole: I'll make two comments. My starting point is that I worked with PricewaterhouseCoopers for 12 years, the first six as an international trade specialist. For the first six years I was banned from doing any antidumping work because it was felt that there were too many conflicts of interest for the business. I was the antidumping officer when I was in Customs. When I came back and looked at that legislation, I was horrified at the archaic nature of it. When I revisited it with clear eyes, it was legislation that was clearly constituted from a protectionist viewpoint.

The second observation I made—and I tackled Graeme Samuel on this when he was at the ACCC—was that we had a disconnect between how we treated border competition and domestic competition. I thought that was a huge mistake. You go to various supermarkets and tell me that we're not having virtual dumping in the economy domestically—that all of a sudden we put all of these efforts into particular sectors at the border. There are other mechanisms we can use to do this stuff; I know it's well and truly cemented into the WTO, so everybody is used to using it.

I've done a lot of work in this area, and it is a hopeless task. If you're trying to fight against it legitimately or otherwise from offshore, it's very difficult to get your case up. The solar panels case was an excellent example of a single Australian business that had taken $20 million of government money to make itself viable putting up antidumping actions against imported product that it didn't even compete against. This distorts the economy horribly. If you take the steel industry, you've possibly got a case in point that requires particular measures. But is it an antidumping system? Absolutely not, in my view. It's a horrifying non sequitur in the trade settings of Australia, which are premised on free trade and open competition.

If we've got problems with abnormally-low-priced goods that are actually predatory priced and dissolving market share for local businesses—the US, for instance, uses emergency tariffs. Why not recognise that? We had a very poor go at that with SPC, because the bureaucracy didn't like it. There are much better ways of doing this. I think it's a vale of tears, quite frankly. The fact that it doesn't even test the effectiveness of the antidumping duties in levelling the playing field is not modern economic regulation.

Mr RAMSEY: It was a little while ago now—that front seems to have gone significantly quiet—but the aluminium and steel industries in the nation were under enormous threat at the time. Apart from the fact that I had a significant part of the steel industry in my electorate, I didn't bring any particular baggage to the table when we were looking at it. I thought the outcomes were pretty fair and balanced. The level of proof to require an antidumping outcome was quite high, I thought; it was quite difficult for companies to get those up. I'm not sure that I concur with your views on that. But I would be particularly interested if you were to point out particular spots where you think that antidumping legislation is being abused.

Mr Cole: The one that is absolutely clear to me, in terms of asking how did the system let it through, was the solar photovoltaic cell action. If anybody can explain to me how that actually became—

Mr RAMSEY: I'm not aware of that one—

Mr Cole: Have a good look at it, because if anybody can tell me how that was rationalised, other than by political pressure, then I'll be astonished. How can a business that only existed because of huge amounts of government money—

Mr RAMSEY: If you could give us the name of that company. Did you give us the name of the company?

Mr Cole: No—I didn't even mention it.

Mr RAMSEY: How do I find that easily?

Mr Cole: Photovoltaic cells—it will be in the antidumping register. It was defeated in the end, but the point is that the business I was representing, and numerous others, spent vast amounts of money, which they presumably got back from Australian consumers, ultimately, because they had to pass on costs. I really do question it. I think there are better ways of looking after our businesses. When I was doing a masters in the early 90s, my supervisor was writing about the politico-economic nature of antidumping back then, and how it is distortionary. That's a very rationalist view, but I've got grave misgivings about how it operates, especially without end use tests and public interest tests. We're a small open economy that relies on intermediate goods to do what we do. If you put antidumping duty on the importers, that's fine if it's just the imported good that's being sold, but if it's an input to Australian manufacturing, you just raise the price.

Mr RAMSEY: I understand that. We've been down that path, thank you.

CHAIR: Senator Rennick wants to ask a question and make a statement.

Senator RENNICK: So you do recommend the introduction of a public interest test antidumping legislation. Is that correct?

Mr Cole: I do.

Senator RENNICK: Isn't there probably a fair argument to say, and I'll make a judgement here—I would consider steel production to be in the national interest. I wouldn't consider solar panel production to be in the national interest at any level. You don't think steel production is in the national interest if steel is being dumped? I'm with you—you don't want to increase the cost of production—but, for example, if the Europeans are subsidising their agricultural products heavily, which they do, isn't there a fair case for us to push back on that type of antidumping?

Mr Cole: I think we'd need to be clear about our position in these matters. You spoke about the steel industry. If you look at the US approach to some of these matters, they effectively take what's called a 'strategic trade approach' and that basically says they will protect industries of strategic importance, be that in time of war, or for the provision of fundamental utilities et cetera—choose your own definitions. The basic approach is that they will ring-fence certain industries, because they are clear and important—you used the agricultural subsidies of the EU as an example. In our trade setting generally, we tend not to take those approaches. We just say, 'Free trade is good.' But over here, we say 'regardless of what happens'. I think there's a little bit of to and fro in terms of where we're coming from—

Senator RENNICK: I actually find the expression 'free trade' an oxymoron. I've never been to a market where I've bought something for free. I actually believe in fair and efficient markets that drive productivity and profitability, because at the end of the day you have only two outcomes in a market: you're either making money or losing money. Great, free markets or whatever. But if it means that Australia loses—and I don't want to encourage inefficiency here, which is why I don't want to say 'fair and efficient markets'—all of us, not just the government, need to remember that it's return on equity. It's about productivity and profitability, not about ideology that just gets repeated ad nauseam, to the extent that we're now drowning in debt and selling off our infrastructure assets to foreigners. I'm kind of over that. It's the same again with competition. There's also constructive competition and destructive competition. War is destructive competition. The internet boom of 2000, when every IT guy's company was valued on a P/E multiple of sales times a thousand, was just silly competition. I guess that's more of a statement, but I'd be curious to know what your thoughts are about it.

Mr Cole: I fully agree with what you're saying. I worked for General Motors Holden for five years. The fact is: every government in the world buys jobs in the automotive industry and subsidises them with a hell of a lot more than our local one ever got. And it's the same in other industries. Once again, there's, if you like, the front end of our policy approach to trade and then there's the reality of the rest of the world. I suppose part of my message is: let's be consistent. Let's recognise what we really want to do and why we want to do it. Let's be honest about the fact that—just for an example—the spin-offs from the automotive industry were fantastic in terms of the SMEs fostered in this country. I deal with the remnants of them through other industry associations now. The fact is that there are certain key industries that have spillover effects that are magnificent in an economy. Are they efficient of themselves? Maybe not, but the broader impacts in the economy for employment and generation of second-, third- and fourth-tier revenue is fantastic.

Looping back to the antidumping concept, we're overburdening ancient legislation that damages as much as it benefits. I think it's a bad system. And that's captured. I sat on some of the committees there, and the steel industry is extremely well represented and the unions are really well represented. It's pretty clear to everybody that it has a number of purposes.

CHAIR: Senator Rennick wants to say little bit more, but, Dr Allen, do you wish to add anything or ask questions?

Dr ALLEN: Just that it's an intensely interesting conversation and I'm very appreciative of the submission.

Mr Cole: I probably should have written another 50 pages, but it would have brought everybody to tears.

CHAIR: Less is better sometimes. I'll go to Senator Rennick. Less is better, Senator. We've only got two minutes.

Senator RENNICK: I'll make a quick statement. With General Motors what was interesting was that no-one ever asked the question: how much in interest, royalties and rent did General Motors pay back to Detroit or send off to its tax haven? I suspect it would have been enough for it never to make a profit here in Australia, because had it made a profit it would have paid 30c in the dollar, whereas with interest, royalties and rent it would have paid between zero cents and 10c, because it was with an American company. Interestingly, in the same month, May 2014, that we made the decision to shut it down—and that was a combination of factors; it was something that had been coming for 30 years and there were a number of parties that needed to take responsibility, it was across the board—we did have to fund the University of Sydney and the University of New South Wales a billion dollars to bail out their defined benefit schemes under the uni credit scheme. So we should remember, when it comes to higher education, that they got bailed out for their defined benefit superannuation.

Mr Cole: Exactly. We pick and choose. We still pick our winners, you see.

Senator RENNICK: If I'd had my choice, I know which one I would be picking.

Mr Cole: I still meet up with the engineers. Whatever you thought of the business and whatever you thought of the fact that it was American, Victoria was—

Senator RENNICK: I'm not against that. It's just that we needed to make sure—

Mr Cole: No. But I was going to say that Victoria was one of the three places in the General Motors world that was allowed to design a car. Their sales of engineering services made a profit of something like $80 million when I was there. It builds on the kinds of things that everybody talks about now as being the 21st century economy. It was a magnificent breeding ground for those skills. They had virtual reality design centres before I had an Apple Macintosh. It was a very impressive coming together of old and new manufacturing. So some of these industries provide incredible opportunities. It was just a pity, I think, that it went the way it did.

Mr RAMSEY: Thank you very much, William. I just come to one of the points that you made. We haven't touched on it, so I thought I would. You state that a significant barrier for organisations is Australia's visa system and that BDO has been personally disadvantaged by it. My understand of BDO is that it probably operates in somewhere between 30 and 50 countries in the world, and it gives high-level tax and financial advice.

Mr Cole: Yes.

Mr RAMSEY: I'm just a bit surprised that that pops up, because I would have thought that most of your talent pools would be locally based around individual tax systems and that advice is as near as the internet. Any other office in the world is very contactable. I'm not doubting what you say; I just really wonder why it is that a company like BDO would feel the need to physically shift people around the world.

CHAIR: I've got a question on the back of that, about the same topic.

Mr Cole: What you need to understand is that, if you helicopter out, there's significant convergence between taxing regimes in terms of legislation and process. You'd be aware of the BEPS discussions, transfer pricing and GST/VAT convergences around ecommerce et cetera. There are so many synergies or convergences occurring that we have a high velocity of exchange, because experiences in other jurisdictions inform and enrich the approaches of our—

Mr RAMSEY: Just on that, that's probably the point I was making, or trying to make; it may have been poorly made. We talk about the value of the internet of things. Is not that kind of information almost instantaneously accessible around the world? Do you actually find—because this surprised me—that, if you need to deal with access to European markets, you need to have people with European experience living in Sydney?

Mr Cole: I'd answer more generally by saying—and I've dealt with legislation all my working life—that the fact is that information on legislation is not knowledge. Anybody can read a statement in a regulation. Can you apply it in a business setting with all the other things it impacts? No, you can't. In fact, you put everybody at risk by doing so. Practical experience is something that mostly can be transferred by conversations and exchange of things, but knowledge of, if you like, the working environment is really the goal in consulting now, because, as you say, everybody can read what's on the internet, but applying it in a circumstance, and doing it creatively and correctly, is where the real—

Mr RAMSEY: And that still needs to be done in person, in your opinion? I'm not actually pushing an angle here; I'm just trying to understand the way that business works. So it's advantageous to your business to have the person there in person rather than on the end of the line?

Mr Cole: Yes. There are other things that come into this, of course. We're a global business, so leaders of the future and up-and-coming staff in a particular office are urged to understand what other parts of the world are doing. If I think about Australia and the Asian practices to the north, we have people visiting us all the time because, quite frankly, we deal with the same companies, and they're in two different spots. So, if we're asked to design strategies, we need to understand pretty much everything. Whether it's lesser or greater presences, that's what's encouraged in our business to achieve the right outcomes.

In the instance that I have described to you—and I suppose at the end of the day this is an example of how you can improve compliance—these SAF fees are paid by an entity who has a temporary resident working for them. The technical risk—and we got advice on this—is that, in changing our name, there was the potential to incur the fees again, because there is this idea of being static: you come in, you've been sponsored by one business and you're supposed to stay with that business. If the circumstances change, the whole thing has to be reapplied for et cetera. Bureaucratically or under legislation you could change that so it was: has this person had their fees paid and have the conditions of their visa been maintained by that change of entity? Those two questions flip all that around and get rid of the problem.

CHAIR: Mr Cole, you've enlighten me that your complaint isn't necessarily so much that you have to pay a fee for the SAF, for bringing in a skilled worker from overseas; your complaint is about this particular scenario where they may go and work for another entity and you having to pay double the fee?

Mr Cole: Correct, and that's what's happening to us now.

Mr RAMSEY: I get it.

Mr Cole: Sydney and Melbourne are amalgamating with another franchisee in Brisbane. Our name will change. We've had to do different things and incur different costs in terms of the structure.

Mr RAMSEY: I think you make a very good point. I'm glad we got to that because I think that's a very good point.

CHAIR: We are going to have to wind it up though, Mr Cole. Thank you very much for your testimony today via phone. If you have any additional information, please forward it to the secretariat by 17 December. You will be sent a copy of the transcript of your evidence. You'll have an opportunity to request corrections to any errors. Thank you once again.

Mr Cole: It was a great pleasure speaking with you. Thank you.

CURRY, Mr Ron, Chief Executive Officer, Interactive Games and Entertainment Association

FONG, Mr Edward, Chairman, Interactive Games and Entertainment Association

[10:46]

CHAIR: Welcome. Thank you both for coming along today. This hearing is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and attracts parliamentary privilege. I now invite you to make an opening statement, if you wish to do so, before we proceed to questions and discussion.

Mr Fong: Good morning, and thank you for the opportunity to speak to the committee about the role that the interactive games and entertainment sector plays in supporting Australian exports and attracting investment. I am appearing today as the chairman of the IGEA, but I'm also the managing director of Ubisoft Australia and New Zealand—a part of the global Ubisoft group that makes games like *Assassin's Creed*, *Prince of Persia* and *Just Dance*.

IGEA proudly represents a whole range of businesses from the regional arms of the world's largest interactive and video games companies, like Nintendo, Sony PlayStation and Microsoft Xbox, to the many independent and home-grown game development studios currently creating games for Australia and worldwide. While our video games consumer market is huge, with Australians spending $4 billion on video games last year, our game development sector is actually very small.

Senator VAN: Did you say $4 billion?

Mr Fong: Yes, correct. Aussies love games! While our development sector is small, it is highly creative and innovative. Our members are at the cutting edge of a technology driven and export focused industry that has the potential to play a huge role in Australia's economy both now and in the future. Interactive games are the fastest-growing media in the world. In fact, it might surprise many on the committee to know that the global video games industry is worth $200 billion. That's more than the film and music industries put together.

CHAIR: Does that include app based games?

Mr Fong: That includes mobile as well; yes, correct. But games aren't just for fun either. Serious games, as they are called, are finding applications across a range of sectors, including health, education, engineering and defence. Games are also getting kids interested in studying and pursuing careers in STEM. For example, researchers found that girls who play video games are over three times more likely to study a STEM degree. The point is that video games are no longer the simple pastime for young boys that some people consider them to be. The average age of the Australian gamer is 34, and 47 per cent of Australian game players are female. Games are one of the most significant forms of entertainment and media in the world, and they are a serious business.

In our submission to the committee, we refer to games as the archetype form of the export industry that Australia needs. Games are digital exports that can be shipped without transportation, cost or even environmental impact. With over two billion players globally, and about half of them on our doorstep in Asia, the potential export market is enormous. Unlike other types of digital exports, like film and music, interactive games can provide developers with ongoing revenue streams through content updates, expansions and new business models. Many Australian game developers are still earning significant export revenues from games they developed years ago. We measured Australia's largest creative exports over the past decade, in terms of movies, music and books, and couldn't find anything that came close to the success of popular game exports like *Fruit Ninja* and *Crossy Road*, which have been downloaded hundreds of millions of times.

While the economic potential of the Australian game development sector is huge, we are not capitalising on this potential as other countries have been. For example, while the Australian and Canadian economies and populations are roughly the same, the Canadian game development sector is more than 20 times larger than ours. Canada's game development sector employs 28,000 full-time workers and indirectly supports 50,000 people, while Australia's sector employs just over 1,200 people. Just one of the studios that Ubisoft has in Canada, in Montreal, employs three times as many people as the whole of Australia. Last year the Canadian game development industry contributed $4 billion to GDP. In the same year Australia's industry generated just $140 million—less than 0.1 per cent of the global market. In fact, our game development sector has traditionally generated less than New Zealand's, a country a fifth of our size; yes, I know that hurts!

There is huge potential for the game development sector to help grow the Australian economy through exports investment. Every year tens of billions of dollars are invested in the games sector globally, but Australia gets very little of this. This is why we have argued for a 30 per cent tax offset for game development to make Australia competitive, similar to the offset currently provided to our local film and TV animation and effects businesses.

Tax incentives for game development have been adopted by many countries around the world eager to futureproof their economies, like the UK, Canada and Singapore, and right across the US and Europe. Each of these regions have booming game development sectors. Evidence from those other jurisdictions indicates that the video game tax offsets work because they are tax positive. They attract new investment and economic activity, which actually brings more tax revenue than the offsets cost. With the right incentives in place, Australia could quickly become a world-class location for game development. Otherwise we will continue to lag further behind and miss out on building an industry. We will also continue to lose some of our brightest and most creative tech workers to overseas companies.

Finally, we would like to emphasise to this committee that we are not talking about blue-sky hypotheticals here. There are global publishers who are currently investigating opportunities to establish studios in Australia. Companies like Ubisoft are always on the search for the right talent and for economic environments in which to set up new studios, and Australia is one the few advanced economies where they haven't been able to do so. Without policies to attract investment, these opportunities will be lost.

CHAIR: Can we continue with this for a moment. Is your evidence here today that it is purely the tax offset situation, and the comparison with places like Canada that you talked about, that is driving this games industry in those countries but not here in Australia?

Mr Fong: Yes, correct. Obviously there are a whole range of different-sized studios that the industry has. In Australia we have what I would call a cottage industry where the small development houses mainly focus on mobile apps and games. For the larger production studios, it is the tax offsets that incentivise the huge investments. As I said, in Montreal, in that one studio we have over 3,000 people. So it's actually the economic environment that incentivises companies like Ubisoft to invest and to establish that.

CHAIR: Something really puzzles me about the numbers you went through. It almost surprises me to hear that places like New Zealand and Canada have such a large workforce involved in this, because, obviously, expertise in games development isn't a skill that you need someone sitting in your own office for. There are a lot of expert games developers, or people who have great skills in that field, throughout the developing world. I know that many places offshore games development. So it surprises me to hear that there are so many workers in that field actually in, for instance, Canada. Why is that, when you can remotely hire someone, either directly or through a company in India, for instance, where the labour rates are a fraction of the costs that they would be here or in Canada?

Mr Fong: The game-development process has changed a lot. Traditionally you would have one studio working on a game from start to finish. Now, because of the internet, and obviously we're in the global economy now, it's made it easier to transfer technologies and knowledge and files between countries. So, yes, India and Asia have a huge market of potential that we've already explored. We have two studios in India already, in Pune and in Mumbai. We have two studios in China—

Mr RAMSEY: Who's we?

Mr Fong: Sorry, Ubisoft. I have my Ubisoft hat on now. With Ubisoft, for example, we are the largest development force in the Western world. We have 17,000 people in our studios globally, wholly owned by Ubisoft, across 40 studios.

CHAIR: I want to push this a little bit, although it might be deviating away from the terms of reference. My point is, with these lower-pay-rate countries, where you can easily find people who are experienced or have the skills that you need for games development, what is Ubisoft's drive to actually put on more games developers here in Australia when you can put on more in one of those countries at a cheaper rate?

Mr Fong: To draw the analogy with film production, or any business, for that matter, you have different tiers of personnel within your business. And, yes, at the lower operational level, countries like India provide a good source of more cost-effective labour. But we still need the creative directors and the directors and producers to drive that process. A lot of that knowledge in game development is in the more developed Western world—again, Europe and the US being some of the leaders there. It's like film production, where you can outsource some of those functions, but a lot of the strategic work and creative direction is actually driven by more senior personnel, and those have traditionally come from the more developed countries.

CHAIR: If the workforce were to expand here in Australia, what types of workers would you require in that field?

Mr Fong: We would have engineers, programmers, graphic artists—again, for us to make a game, any big blockbuster game these days takes close to a thousand people to make. The way we currently work is we have multiple studios working on the one development. For example, in the last *Assassin's Creed* we made, we had eight studios globally working on that same project, each controlling one part of the game. For example, in Singapore they would focus on one part of the game, and the Montreal studio would focus on another part of the game. So there's a whole gamut of engineers, coders, programmers, quality-control people—a whole gamut of people, in all different categories of technology.

CHAIR: Some people might say that, if we're going to provide a tax concession for the games industry, there would have to be some quid pro quo around the people that you employ. How could you ensure that, if there were the same subsidy provided as is provided to the film industry, as you suggested—and that seems eminently sensible, by the way; it's the same type of business—that is going to be linked to employment outcomes, or that we're not just going to have businesses come here with the top executive and then suddenly outsource all their staff to India or the Philippines or wherever they could get much cheaper technical skills from?

Mr Fong: As I said, the way we would run the business—I'll take what we've done in Canada as an example. In Montreal, Canada, 20 years ago, it was a very similar size to where we are now. There were about a thousand people in the industry over there, and it wasn't contributing much at all. The Canadian government said to Ubisoft: 'We have this fashion district in Montreal that's dying. Companies are going out of business. We want to create a technology space here.' They said to Ubisoft, 'These are the incentives we want, and we want you to continue to commit to grow the business.' We were the first studio there.

Now, as I said, we have over 3,000 people spread across—I call it a studio, but it's spread across four buildings. The university has opened up next door and other technology companies have come into play—not only our competitors but also other industries: AI companies, big data companies et cetera. We've been able to create infrastructure. If a company like Ubisoft is going to invest in a country, we're not going to just employ a couple of top execs. We want to tap into the Australian talent pool. We know that the Australian talent pool is great, because we actually employ a lot of Australians in our studios overseas. In fact, I was at a game development conference two weeks ago in Brisbane, and our Ubisoft Singapore studio was there actively recruiting great Australian talent. So we know that the talent is here, and we employ a lot of talent in our current studios. The opportunity here is for us to tap into more tiers of the Australian talent, instead of just those that are willing to relocate.

CHAIR: For the committee's information, I'm wondering if can you help us with something. My last experience with gaming was probably *Wolfenstein 3D*. No, I lie, *World of Warcraft*! I started to get addicted, and I said, 'No more games, that it.' What new games are coming out of Australia? What are the big games that Australia's involved with at the moment?

Mr Fong: Well, it's unfortunate to say, there are no big console triple A titles coming out of Australia. As I said before, the development industry is now mainly focused on mobile games. I mentioned *Fruit Ninja*; it's probably our biggest success story.

CHAIR: That's an app game?

Senator RENNICK: Oh yes—that's yours? The kids have got that one.

Mr Fong: It's more focused on the mobile side. To be honest, one of the negative impacts of us not supporting the industry at the moment is that Australia's quickly getting a reputation or a question mark around whether Australians can actually make the big triple A games, because we haven't made one here for about six or seven years. The last one was probably Team Bondi; *L.A. Noire* was a game that they made. With the financial crisis and with our exchange rate going to parity with US, all the big studios left. This was about six or seven years ago. Australia hasn't made a big triple A game or been part of a big triple A game for a long time.

Senator VAN: I was lucky enough the other day, Wednesday, to be at the services export roundtable, and I was astonished to hear Mr Curry put up that number of $200 billion worldwide, and Australia's only getting $100-odd million worth of that. Having an interest in trade, and supporting Australia's efforts in that, that piqued my interest. You mentioned some numbers around modelling that you've done. Did you guys do that modelling, or was that done for you? Where did those numbers come from?

Mr Curry: There is a series of data points. Which particular data point are you talking about?

Senator VAN: In your opening address you rattled off quite a few of them, specifically around the size of the market, numbers of people employed et cetera.

Mr Curry: The size of the local Australian market?

Senator VAN: Yes.

Mr Curry: We do that research through Tim Thorpe. He is a consultant who works out of New Zealand. He does New Zealand and Australia. He has been doing that for about 10 years in New Zealand and about five years for us. He collects that data from Australian game developers. They supply that data to him, he aggregates it, and we released that this week—yesterday.

Senator VAN: Would you provide that to the committee, please?

Mr Curry: Absolutely.

Mr Fong: And most of the global data that we quoted was through global companies like Newzoo, who collect both mobile and obviously console data as well.

Senator VAN: Is that aggregated in a document or documents somewhere?

Mr Curry: Yes.

Senator VAN: If you could provide that to us, thank you. You were talking about publishers like Ubisoft wanting to do more in Australia. You said that there is talent here. Where is that coming from? Are the universities supporting—?

Mr Curry: I didn't touch on the education sector. We have great university and college courses in game development and related areas. Again, I have done quite a few talks and things at universities. The one question I get asked constantly is: when is Ubisoft going to open a studio here? But the more important question is: where can I take my career? Because at the moment we have thousands of graduates coming out every year. They get jobs usually with the smaller development houses that are doing mobile apps but then there is nowhere to go; they hit the glass ceiling. So we have a void in our ecosystem here. In other countries, what would happen is they would start with those smaller studios. They would then graduate to the medium-sized studios then the larger studios and then become creative directors on one of the games. As I said, at that point of time when they hit that glass ceiling, they are forced to make a decision: do I move overseas or do I change careers? Unfortunately for the youth of today, that is the dilemma they are facing. We have universities providing very good courses already. As an industry—I'm putting my IGA hat back on—we need to complete that ecosystem. That would then create jobs for our local students and our local talent and make the pie even bigger because we would then have the inertia around working with universities and institutions, health care providers and the whole ecosystem becomes bigger.

Senator VAN: Have you done any modelling on what sort of return the nation would get if there were to be a 30 per cent offset?

Mr Curry: Anecdotally, the evidence we have got is from overseas. Ron and his counterparts in other countries share a lot of information around what these tax offsets mean. We have got data points. For example, in the UK, their 2016 research showed of the 78 million pounds that they provided in offsets, it generated 156 million pounds in tax revenue. Similarly in France, it showed that for each euro of game development support, it generated 1.8 euros of additional tax.

Senator VAN: If you supply those numbers or any of the others you could come up with to us, that would be appreciated.

Mr Curry: Sure. They are already in our submission but we can send them again, if you like.

Senator VAN: No, if they're in your submission, that is fine. I have read it but I didn't commit it to memory.

Mr Curry: There were a lot of numbers in there.

Senator VAN: Yes there were. It was a great submission, thank you. You mentioned that it takes a thousand developers to build a game but you said there are only 1,200 in Australia. So how does game out of my great state of Victoria—*Untitled Goose Game*—get built then? Does it tie up the whole workforce?

Mr Curry: I think it is a matter of the scale of game you are looking at.

Untitled Goose Game is a huge success with a very small team all working together, but it's certainly not an *Assassin's Creed*, which has a budget of $100 million plus and hundreds of hours of gameplay. Scale is what it's all about. If you want to create a AAA game that generates millions or billions of dollars in revenue then the size of the team is much larger. I guess it's the same as considering what an indie film takes to make and what *Aquaman* takes: it's a matter of scale.

Senator VAN: Thank you.

Senator MARIELLE SMITH: I had a follow-up to Senator Van's question. When you are referring to the university and college graduates who are having their careers stalled in the Australian industry, when those students do transition to other jobs or other industries, where do they go? I'm interested in the transferrable nature of skills in your industry and where it might lead people.

Mr Fong: We compete with other technology companies like Facebook, Google and Atlassian, for example. We're employing the same engineers. We're employing the same programmers and the like. There are opportunities for them to go into different categories, obviously, because the skill sets around, for example, engineering are transferrable. It all depends on what sort of discipline they have trained in. Graphic artists can go into other fields. Our postproduction people can go into the film industry, for example. It all depends on their specialty. But certainly, when we are talking about transferrable skills, this is where the opportunity for Australia is, because places like Canada are becoming very competitive from an employment perspective because all the big companies are there and they're all competing for the same people. That's why someone like Ubisoft is very attracted to Australia: we know we have a very mature market here in terms of consumer economy, but we've also seen the fact that there are no real huge technology companies competing for the talent here at the moment. So there is a first-to-market advantage, but, again, I'm sure that, once a large studio opens up, there will be others that will follow much like what happened in Montreal for us.

Senator MARIELLE SMITH: Are you finding it's easy to get qualified software engineers in Australia? In another committee I've been on, one issue which was raised was the lack of qualified software engineers in the market.

Mr Fong: I can't tell from firsthand experience, because I haven't actually looked for any, because we don't have a studio here in Australia. All I can say to that is that that could be a function of the fact that, although we talk innovation and we talk technology, we actually don't have the jobs at this point in time that will attract people to say, 'Okay; maybe I will study that, because I know I'm going to have the career there long term.' It's a chicken-and-egg thing, I think. Again, it's what we were talking about regarding completing that ecosystem to demonstrate to young people deciding on what they want to study and what career they want to follow that there is pathway. At the moment, there is no pathway or the pathway is actually very short.

Mr Curry: Or out of the industry.

Senator MARIELLE SMITH: On the idea of serious games that you were talking about, could you give us an example of a serious game in health of education to paint the picture of what you mean?

Mr Curry: Sure. There are a couple of examples. I'll take a game that has moved from being an entertainment game into being a serious game. There's a game called *Dance Dance Revolution*, and essentially it's been around for a long time. There's a mat. You follow the screen You dance on the mat. That's been adapted in two separate ways. The first way it was adapted was by changing the music to make it relevant to senior citizens, slowing down the music and teaching them to use *Dance Dance Revolution* to lift their feet when they're moving. The greatest pathway into care for a senior citizen is generally a fall and a broken hip. That's generally from not lifting their feet when they walk. What was happening was Neuroscience Australia was experimenting with using the mat to have senior citizens lift their feet because they were practising dancing. It could be a bespoke experience: it was the music they enjoyed and it was at a speed they could do. The program itself would understand where along that rehabilitation or training they were, speed up the music and speed up the actions they had to take. A similar model was used with Multiple Sclerosis Australia. It was the same product and the same sort of methodology on that path, and it had some great results.

If we look at something like *Fruit Ninja*—I'm trying to keep it to very simple examples at the moment; I can move up—we see that it was used in rehabilitation with young men in a spinal unit. They traditionally just will not do exercises. When you introduce a game like that—it just means moving your arms for practice—all of a sudden they enjoy playing the game, but they actually play it more when the guy in the bed across from them is competing with them. All of a sudden we have competitive rehabilitation. It's taking the experience of video games—the motivation of video games—and turning it into a health outcome.

Cochlear are using serious games with people who get a Cochlear implant to have them enjoy music again, because the ability to enjoy music really suffers when you get a Cochlear implant. One of our members is creating a game that slowly reintroduces you to music and the enjoyment of music.

Mr Fong: To give you an example of a purpose-built serious game, we developed in Canada a game to treat an eye condition. I can't remember the exact name of the eye condition, but anybody who's had kids might have had to do patching for a little while to exercise a weaker eye. We use 3D technology to on and off the eye. Kids don't want to patch the eye; they get frustrated and they rip it off. So we gamify this whole experience. With the screen we've turned off colours and stuff like that to accidentally exercise their weaker eye. So there's a spate of purpose-built serious games as well.

Senator MARIELLE SMITH: Thank you. That's all from me.

Mr RAMSEY: I'm very interested in what you're actually asking for. This will be a point of ignorance with me that Senator Rennick will be rolling his eyes over, but you're actually asking for a 30 per cent tax rebate. To put some bones on that so I clearly understand what it is you're asking for, let's assume a company has made a $1 million profit and they are under the $50 million turnover, so they've got a 27½ per cent tax rate lowering down to 25 per cent by 2022. Let's say they have $275,000 tax liability. What does a 30 per cent rebate do to that figure? Is that 30 per cent off that figure? Explain it to me.

Mr Curry: It's 30 per cent off the expense incurred on the profit that's made.

Mr RAMSEY: It is 30 per cent tax reduction on the profit made, so, instead of paying $275,000, they will pay approximately $180,000. They're rough figures.

Mr Curry: Yes.

Mr RAMSEY: Okay, I clearly understand what it means. I look at your table here that compares those rebates with those of other countries. For instance, in Germany they get a 25 to 50 per cent rebate, but they have a company tax rate of 15 per cent. In France, at the other end of the scale, they get a 30 per cent rebate, but France has a 33.3 per cent company tax rate. There are other variations in between. Are those figures that you're quoting there in exactly the same context as the 30 per cent rebate you're asking for in Australia? In Germany, 25 to 50 per cent or whatever the variation is—let's stick to France; it's got one figure. Is it a 30 per cent rebate on the 33.3 per cent tax liability that they have on their profits? Is that what we're talking about?

Mr Curry: I would have to take that on notice. I would need to go back country by country and have a look at that specifically.

Mr RAMSEY: I can go through and look up those company tax rates, but I think it's sort of important that we have a little bit more clarification about what that actually means, because I don't know how good a run they're getting and how good a run you're asking for in that context or how competitive their tax rates are. In fact, I think it's probably quite an important comment about the competitive or non-competitive nature of our company tax rates anyhow, but that's part of another discussion at other times in the parliament. But, if you're got any more information in that area that you could let the committee, I would be—

Mr Curry: Sure. Are there any particular countries you'd like us to go back and drill down on?

Mr RAMSEY: Just grab a few. Give us three examples. Let's say we'll look at France. Even Germany's got the 25 and 30. Have a look at Canada as well.

Mr Curry: Sure. With the Canadian experience, because it's on a provincial level, each province will be different.

Mr RAMSEY: Pick one. I don't mind.

Mr Curry: We can pick one of the bigger ones.

Mr RAMSEY: I don't want to overburden you with the research.

Mr Curry: No problem at all.

Mr RAMSEY: We could ask the Parliamentary Library to do something similar. I think, because you're asking for the rebate, your view on what that rebate actually means to their underlying tax liability would be helpful.

Mr Curry: Sure.

Mr Fong: The structure that is probably the most relevant for us is similar to the production offset that the film industry gets. For every dollar that we invest in that, we actually get a tax offset on that investment dollar, is how I would look at it.

Mr RAMSEY: I will have to check to see how that one works in the film industry, because I'm not so sure there either. Senator Rennick could probably put me straight. We can do that privately.

Mr Fong: Again, to Mr Christensen's point, we are very related industries. At the moment those incentives are applied to film and television production. We're just talking about expanding that definition to screen content production, because the fact is that there are more consumer eyeballs on game screens now than there are on film and TV. We just need to catch up. As a country, we are way behind at the moment.

Mr Curry: I think the point, particularly to this hearing, is that when you create a game you create it for an export market; that's why you're creating it. Unless it's a very indie game made for a very specific purpose, the game is made for an export market.

Senator VAN: A point that hasn't been made but I'll make it: our film and TV industry, especially our TV industry, also benefit from local production content quotas, which I assume don't apply to your industry. Going back to a point you made earlier, Mr Fong, about it being a chicken and egg: to be completely cheeky, if the 30 per cent tax offset were to come in, would Ubisoft commit to opening a studio here in Australia?

Mr Fong: We'd certainly entertain that. From Ubisoft's point of view—as I said, we have 17,000 people in our teams already. We're on a particular trajectory. Our CEO has said that we want to grow that number significantly. On average we're opening up a new studio every second month somewhere around the world. We'll continue on that path. I'm only doing this from an Australian point of view because I want one of our studios to be in Australia. From a global corporate point of view, we'll continue on our merry way and find those countries that want to work with us and want to incentivise us to be there. There's huge growth in not only Ubisoft but the market itself. Games like *Fortnite* are being played by more and more people every day. The money that they're making is significant. We're missing out on that from a production point of view. There's a huge opportunity here for Australia to tap into this.

Like I said, this is not some risky blue-sky thing that may or may not happen. This is already happening. We're way behind the eight ball already and we need to catch up. There is a huge opportunity because we have great talent, we have great infrastructure, internet infrastructure is getting better and we have a great education system. To make a game you need a computer and you need internet. The barriers of infrastructure are pretty low. And we need the talent. They're the main things we need—and obviously the economic conditions—to say, 'Okay, let's invest dollars and dollars.' To open any significant studio, you're investing $100 million into the business over a number of years. The investment is significant. Again, it all depends on how quickly we can upskill the local talent to make the bigger games.

CHAIR: Thank you very much for your testimony today. If there's any additional information you want to forward to the secretariat, do it by 17 December. You'll be sent a copy of the transcript of your evidence and you'll have an opportunity to request corrections to that transcript. Thank you once again for coming along.

Mr Curry: Thank you.

Mr Fong: Thank you.

SKIPPER, Ms Georgie, Director of Public Policy, Atlassian

[11:25]

CHAIR: Welcome. I'll go through some quick legalities. This hearing is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded in Hansard and attracts parliamentary privilege. I invite you now to make an opening statement before we move to questions and discussion.

Ms Skipper: Thank you very much to the committee for having Atlassian present and also for the opportunity to make a submission from our founders, Mike Cannon-Brookes and Scott Farquhar. I'm obviously representing Atlassian here today. In the spirit of sharing our insights as one of Australia's most significant tech companies, we wanted to helpfully contribute to your inquiry. We think it's a very important matter. I suppose where I'd like to begin is by framing the interest in this inquiry. We see, from Atlassian's perspective, that, in terms of Australia's export capacity and indeed our ability to attract or investment, the technological manufacturing capacity of Australia needs to be enhanced and grown. This would significantly contribute to Australia's economic prosperity overall. I'll provide a little bit of a summary about Atlassian—what we do and who we are—and then outline a couple of the key points that we'd like to make in the context of this inquiry. Then I'm very happy to take questions, whether they're here now or on notice.

Atlassian was founded by Aussies Mike Cannon-Brookes and Scott Farquhar. It's a great success story in terms of a company that manufactures software and technology and exports it around the world and also services companies and industries here in Australia. We are represented across 12 locations and seven countries in the world. We employ over 4,000 people, of which there are 1,500 here in Sydney alone. We're very pleased to say that in January we'll actually have the largest intake of graduates ever, 100. We're growing at a really rapid rate. We have 1,600,000 customers across the globe. Some of those include companies like NASA, Twitter, Facebook and other large and smaller companies too. We're very proud of our operations in Australia and the number of people that we employ directly here. One of our main products is Jira, across a larger suite of products. To give you an idea of that one product alone, we have 65,000 customers globally. In the context of these stats and the context of this particular industry, the tech industry, obviously we're wanting to share some insights with you about the company's growth and what we think and see from being in this industry as really important to Australia's future economic growth.

To step back a little bit and take a bird's eye view of what we see, we're very much identifying that the world is going through digital transformation, that every industry throughout the world is essentially somehow maintained or powered by software and technology and that there's an enormous appetite for this globally. For Australia to best position itself in terms of becoming a leader in this area, but also continuing our own economic prosperity, we would encourage this inquiry to focus on areas and industries where we can enhance Australia's capacity to be able to service the needs of the world. We note that Australia is really fortunate in the place that it sits in the world: a growing middle class in the Indo-Pacific region and various different needs not only from a consumer basis but also from an infrastructure, energy and food supply basis—a lot of which is also powered by software and technology.

We see an opportunity for Australia. Obviously, our traditional export base has been driven by primary exports, and that's been a major contributor to Australia's economic growth—then powered as well by tourism, education and other service exports. But we see, from our point of view—and from our founders' and our company's point of view—that there is a very big opportunity to embrace in terms of what Australia can do from a tech perspective. We've identified—helpfully, I hope—for the committee some areas that we think, in terms of a policymaking point of view and also in terms of a shift of mindset, potentially should be looked at. There are areas that really help propel this industry and help it grow. They're summarised in the submission and I'm conscious that you'll probably have questions, so I'll quickly give an overview of those now and then we can have a discussion.

First and foremost, we would see that education is absolutely key, particularly in science, tech, engineering, maths et cetera. If we are really to be truly competitive globally across all industries and across a range of sectors, we need to ensure that we have the best skills and the most appropriate skills to do that. At the moment, we would say that there is a very significant gap. Atlassian has directly felt this and we've directly engaged with the parliament and with the government on this, and we very much see that there is an opportunity to fill that gap. And it's the right thing to do. It's not just that kids in schools who don't have high grades in maths and science will face that only challenge in their life. We think that, as they go on, in terms of their ability to contribute to our economic growth and to contribute to industries that are developing through software, tech and engineering, they need to have those skills and there needs to be a serious investment in that area.

Secondly, we would identify that research and development and any incentives that can be looked at in the context of this inquiry or more broadly are very, very important. Australia has a really strong basis in this area historically, in the context of research and innovation. Our leading institute is obviously CSIRO, which has seen many, many important developments. Australia is the founding pioneer of wi-fi, Cochlear and all these incredible things, and a lot of those, of course, are based on some form of tech or software as well. So there's an enormous opportunity, not only from an economic point of view but in terms of harnessing our international reputation and continuing to see that Australia is highlighted in this regard as a leader globally. In the context of R&D, we're very, very proud of our R&D footprint. We contribute over and above the cap on that at the moment. A huge amount of the company is focused on development, and the by-product effects of this are very significant as well.

Skilled migration is another area, and we're very supportive of a number of the initiatives that have been undertaken recently, including the global talent initiative, which one of the founders, Scott Farquhar, highlighted was a very strong initiative that was brought forward by the government most recently to attract some of the skills where there is the gap. That's a very important thing for Atlassian, because Atlassian sees its footprint in Australia, obviously, as you heard in my opening statement earlier. Taking on a hundred graduates in January alone is no small feat and we want to continue to do that, both through home-grown talent here—and that comes back to the point about education—and also through skilled migration. We're a very big advocate of that.

The final thing that I highlight is a broader point about issues to do with encryption legislation and other tech policy. I won't go too much more into that because there is an independent review underway at the moment. We've been consulted, and we contributed as well to that review, and we're very pleased to do that. But I think we'd just say, essentially, that we very much respect that there is a fine balance between national security issues, but we would just highlight that, in any legislation or policymaking, there's always an ebb and flow between the economic impacts to a business and that those need to be taken into account, particularly if, as we believe, Australia's industry in tech and software should be seen as a key part of Australia's manufacturing component. In order to be able to do that, across the whole of government and across policymaking more broadly, there needs to be that awareness of the impact of those different types of policy settings and legislation. I'll pause there. I've got some concluding remarks, but I'm sure we can have a bit of a discussion and take it from there.

CHAIR: In your submission you raised those factors that you've just given a quick overview of—the potential barriers that you see. The skilled visa is probably a contentious one. You've made the point that, if we get highly skilled migrant workers in, there can be job multipliers—so that Australian workers are put on as a result. Do you have any evidence of that with Atlassian?

Ms Skipper: Certainly. I can take the evidence side on notice and get you something in writing on that. Anecdotally, to play that out a little bit more, what we see with middle to senior management, in particular, who have significant experience in engineering and other areas within the business—a lot of whom we find through the skilled migration—is that it allows us to also employ teams of people underneath those people. Because of the nature of Australia's skills and expertise in STEM, we do have to import some of this knowledge, particularly for senior management positions, but then that allows us to expand teams out from there. But we can certainly provide some statistics on that for you, because, obviously, with an employment base of 1,500 in Australia you can almost see the multiplier effect from that alone. But I can certainly get you some information on that.

CHAIR: Is it less with offshore? Do they contract any of the technical work out?

Ms Skipper: Atlassian is a global company, so we have operations in seven countries around the world. There is a significant base in the United States. So we do employ others around—

CHAIR: Where are those bases?

Ms Skipper: We have five bases in the United States. There is a significant footprint in San Francisco and Mountain View, as you can appreciate, being another tech hub of the world in terms of skills and expertise. We've also got bases in India and in the Netherlands, so they're spread geographically where there are skills and expertise that the company needs, and markets as well.

CHAIR: You said there are 1,500 employees in Australia. Is that right?

Ms Skipper: Yes.

CHAIR: I'd be interested to know how many you have in India, if that is publicly available?

Ms Skipper: Yes, certainly.

CHAIR: It seems a bit strange to me that, of all the barriers that there are to export in this field, you've put up the encryption issue around the AA bill. What's put in the submission here with regards to the concerns that others around the world have just doesn't gel with the reality—having a backdoor built into software. It seems bizarre coming from a company with much more presence in America, because I think in most people's minds there are issues even buying a TV manufactured by an American company. It's certainly been widespread. You can get stuff directly into the CIA and stuff like that. Why is there that concern? The AA bill certainly didn't introduce any backdoor that allowed our spy agencies or foreign countries to get data or anything like that.

Ms Skipper: That's a valid query. If it helps the committee, we can submit the submission that we made to the independent reviewer on this matter. It is very detailed, and I think will address a number of your concerns. The fact that there is an independent review of this legislation goes to the point that there are some issues in the legislation that are in need of addressing, issues that were seen across the industry and across the national security industry as well as business. That review, which is the first review of its kind of a parliamentary inquiry into intelligence matters, highlights, I think, that the voice of Atlassian is not alone in this area.

Just to articulate this—and we'll provide you with our much more detailed submission—there are various different parts of the AA bill which make it very difficult for companies like Atlassian and for the industry as a whole to operate on an equal basis. I'd point to various different contexts and their relation to inquiries with TCNs and others—that is, individual contributors to companies and the implications of information that they may hold wittingly or unwittingly and the powers of legislation around those. We would like to see that our employees are protected and that appropriate precautions are take in relation to investigations into them and that we also have the appropriate review mechanism that isn't just procedural but that actually goes to the heart of being able to raise a concern about an inquiry in relation to one of our employees. In the context of attracting talent into Australia, this bill put Australia in a very different position to where it is in the United States and comparatively with the UK. The UK bill is a really good model for how to balance that and how to ensure that Australia is actually not on a back foot in terms of its competitive advantage of being able to attract talent into Australia.

Senator MARIELLE SMITH: I'm interested in your contribution around STEM skills and what we need to do to make sure kids are growing up and getting the benefit of a STEM education. There are particular gaps that we're aware of in terms of attracting young girls to participate in STEM and also women to participate in industries related to STEM. I was just wondering if you had any contribution you wanted to make or any ideas that you could suggest about how we do attract more girls and women into STEM professions and STEM learning.

Ms Skipper: I really appreciate the question. Our founders are particularly good advocates in this area in the context of their background and their Australian education at UNSW. In general, there have been a number of initiatives both at the university level and at other levels that have propelled this, and we know there is an awareness around the importance of supporting women and girls. What I might do is gather some concrete ideas in that context and submit them, if it's okay with the committee, in writing to you. I know this is a very important subject matter, and we take this very seriously. With your question, I wouldn't mind taking that back and getting you something in writing, if that's okay?

Senator MARIELLE SMITH: That would be excellent.

CHAIR: Thank you very much, Ms Skipper, for your testimony here today. There were some other things you were going to provide. Could you forward that to our secretariat by Tuesday 17 December? You're going to be sent a copy of the transcript of your evidence here today and you'll have the opportunity to request corrections to any errors.

BATTAGLENE, Mr Anthony (Tony), Chief Executive, Australian Grape and Wine Incorporated

[11:44]

CHAIR: Welcome. This is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and attracts parliamentary privilege. I now invite you to make an opening statement before we proceed to discussion.

Mr Battaglene: Thank you, Chair. I am delighted to be here at such an important inquiry. The Australian grape and wine sector unapologetically relies on export for its future. We are at around 60 per cent to 70 per cent export at the moment in profitability terms and in revenue terms. We don't have a domestic market that's large enough to support the industry at the size it is. Our region is also, as you would know, very regionally diverse. We are a major source of income and community welfare within the regions of Australia. Without us there are be many regions that would suffer, particularly those in the warm midland regions. They are all doing it pretty tough at the moment due to the drought, and it's going to be a really tough year.

Our exports are around $1.9 billion. That probably puts us in the top 5 for agricultural exports—and we are of course a value-added product. We are dangerously overexposed to China. About $1.3 billion of our exports go to China now. It has become our major market. In the last 10 years it has grown from a $50 million export market to $1.3 billion. So it is extremely important. It is an extremely high-value market. They put good money for wine there—which is great, because not all our export markets do. And we rely on it very strongly.

CHAIR: What percentage did you say it is?

Mr Battaglene: It is around $1.3 billion to China, and we are totally about $1.9 billion.

CHAIR: Wow; that is very overexposed!

Mr Battaglene: It is why I don't sleep well at nights. Sorry; we are $2.9 billion.

CHAIR: Why has it ended up like that? Sorry to interrupt your opening statement, but it is almost crazy to have that much reliance on a single country. Why has that situation developed?

Mr Battaglene: Following the money. Traditionally, our major markets were the UK and the US. The UK is now dropping off—Brexit is not helping. China came on stream, and the free trade agreement really gave it a boost. That was a really positive move. The thing about free trade agreement is not so much the tariff reduction—though that's great—it is the raising of awareness that comes through a fair trade agreement and that building of relationships. So that really kicked it off. Because it is such a high-value market, people are diverting resources through into China. Also, with the GFC, when the dollar hit $1.10, those markets in the UK and the US became unviable for us; we just couldn't compete and we lost market share there. China picked up that slack. People have developed those relationships and are going to China.

The other thing about China is that we have a large Chinese expat community over here. We have about 1,500 exporters to China. To put that in perspective, there are 2,600 wineries in Australia. A lot of those exporters don't own wineries or grapes; they are entrepreneurs who get wine made under contract and then they are exporting through their own means. It is a really interesting market. Normally the top four or five companies have about 70 per cent of any export market—they control that. In China, they have about 40 per cent. So there are a lot of smaller exporters, entrepreneurs and small businesses that go to China. I love it; it's just that it scares me.

CHAIR: Do you want to go into other aspects of your situation?

Mr Battaglene: I'm happy to go to questions.

CHAIR: I guess the biggest question for this committee is: what are the regulations here in Australia—not necessarily to do with export but any regulations—that are inhibiting your sector from growing and growing its potential to export?

Mr Battaglene: We have a relatively good regulatory system. Food regulation, as you know, is done through Food Standards Australia and New Zealand. It works quite well and is quite transparent. There are all these different labelling regulations. We're about to go through those. That works well. Export regulation is done through Wine Australia. It's the marketing and promotion, R&D-funding and compliance organisation, so it's unique under the RDC models. Again, it's got a very rigorous regulatory framework, which I think has been vital to our success in export markets, because the one thing that importing countries want is surety and integrity in the food safety aspects of your product. I think we've got that. So we actually like regulation in this area and we think it's at an appropriate level. It is not too onerous but it provides us safety, making sure we can do that. We just got an increase in regulation. We've just developed a thing called a label directory, which is going through parliament this week or next week, I think. That will mean people will have to upload their labels so that IP owners can see if they're being infringed. We've had a lot of cases of infringements. That's a brand owner responsibility, but, to get that visibility, we're actually getting increased regulation.

We see differences between states. Probably the biggest one domestically is difference in responsible-service-of-alcohol requirements between states. If you go to a function or you want to promote alcohol and serve it, you need to do an RSA certificate. That is different between each state. It seems simple. It means that people are continually having to go through expensive training or getting staff that then have to do this. You can't just get training in South Australia and it applies in New South Wales. It seems really simple, really stupid. It's one of the biggest things that impede small businesses in trying to sell their product domestically. But we're pretty good in general.

CHAIR: I recently read somewhere about the rules potentially changing around the names of certain products—champagne, sherry, port. What's happening in that space at the moment? Is that a bit of a barrier to export in other places?

Mr Battaglene: You're talking my favourite subject here—geographical indications. It's all in the context of the Australia-EU free trade agreement negotiations. In general it's not a big problem for us. We did a wine agreement with the European Union in 1994 and then renegotiated it in 2008. We gave up the terms champagne, port, sherry, Burgundy and Bordeaux then. The problem we have at the moment is the Italians—my forefathers were Italian—and the European Union. They are trying to claw back names like prosecco. Prosecco is a grape variety. The Italians, very cynically, in 2009 legislated to change the name of the grape variety to 'glera'—awful name—and then legislated to make a geographical indication of 'prosecco' so no-one else could use it. We will fight this tooth and nail in the negotiations, and we have bipartisan support, so thank you, all of you.

CHAIR: Do other members of the committee have questions?

Senator VAN: I was going to ask about the GIs and the EU FTA, but you've just responded to that proactively, Mr Battaglene.

Mr RAMSEY: I might drill down a little bit more on our exposure to the Chinese market. I'm South Australian, and I had the great fortune of picking up the Clare Valley in the last redistribution. That has given me more exposure to large wineries than I had had before, so I'm trying to get my head around a lot of things in the wine industry at the moment. You touched on the 40 per cent exposure to that one market. I think back to when we got into the situation of the wine glut, where we had expanding production in Australia and expanding production all over the world. We've again got expanding production. Are other countries targeting China or is their product flowing to China? Are they similarly exposed or are we individually exposed? Are the Americans marketing it in a big way? Are the French bringing it in in a big way? Are the South Africans and the Chileans?

Mr Battaglene: It's a really good question. The answer is: everyone is targeting China.

Mr RAMSEY: I thought they might be.

Mr Battaglene: We just overtook France in that market, so we are now the top imported wine.

Senator VAN: By volume or by dollar?

Mr Battaglene: By dollar. This will surprise you, but only about 40 per cent of the wine market is imported. About 60 per cent is domestic production. In production terms, China is actually bigger than Australia, but it's mostly not as good quality as the product from your respective states.

Mr RAMSEY: They'll get there.

Mr Battaglene: They will get there. There's no doubt. Everyone is going in hard. Everyone is going in at higher price points where they can, because we're all seeing it as a premium market. We've tried the discounting game before, in the UK and places like that, and it doesn't work. In the long run it ends in tears. Everyone's running hard. Everyone's running hard for 'premium-isation' around the world as well.

Mr RAMSEY: In that case, we all face a similar risk. If the China's economy takes a big downturn, which some people are predicting, and they decide to tighten up on outflows, something like wine could easily be the thing that they target. That effect could actually be far worse if it was just on us, because, if it was just Australia, then we'd have the ability to try and enter other markets. If the whole of the world is going to see a downturn on China importing wine and more emphasis on them producing their own wheat, this is a danger point for the industry generally.

Mr Battaglene: It is. We're seeing China slowing now. The global growth is slowing; there's no doubt about that, and certainly in volume turns it's tapering off. In the price points there's still room to move, but it's definitely reaching a developed market stage. That means that we won't get a lot more growth there. I don't see the market collapsing, but the biggest risk is when there are bilateral tensions between countries. The US don't have a market in China now; the tariffs went up in the tariff trade world. We all know last year we had some border issues with China, related to links—nothing to do with the sector. We had a lot of containers held up at the border for three months. It was a significant amount, enough for one of our major companies to issue a profit downgrade, so that exposure probably makes me more nervous than generally.

Mr RAMSEY: So when you're lying awake at night, as he said you do—

Mr Battaglene: I do.

Mr RAMSEY: where are our chances of diversifying our market? What are you thinking about? What are you trying to direct the Australian industry to? What can we do as a government, and what can we do as parliament, to actually try and facilitate that diversification of your sales?

Mr Battaglene: That's another good question. South-East Asia is clearly a market that's still underdeveloped. Even though some of those markets are difficult for wine because they're Muslim countries and there are cultural difficulties there, there are still very large commercial marketplaces in hotels and the like. The US is still in enormous growth potential. We were a billion dollars in the US when the GFC hit. We're half that now, so we know we can get back into the US. That's probably the biggest sugar hit hook.

Mr RAMSEY: They're properly facing oversupply at the moment, because they've been frozen out of the Chinese market.

Mr Battaglene: They've got a domestic oversupply problem at the moment, indeed.

Mr RAMSEY: It's not going be a great place to be selling our wine.

Mr Battaglene: We're trying hard there. Canada is a great market, but certainly some of the other parts of Europe, like eastern Europe, and, of course, India—but it's going to be 10 years before we have the ability to get into India. We're not working non-tariff barriers in those developing markets—

Mr RAMSEY: At the risk of monopolising the conversation here, what is stopping you from getting into South-East Asia? We're interested in the barriers here. Is it just information, advertising, getting them used it, getting them drinking wine, or are there things that are barriers?

Mr Battaglene: There are some technical barriers in some of these markets. Enological practice, which is basically how you make the wine and what you put in it, differs between markets. So we've done a lot of work both bilaterally and through things like APEC. APEC has been a very useful tool for us, and it's something that has been really important in changing those regulations in those markets in a non-confrontational manner, so we use that really well. India's tariffs and corruption and state governments makes it very difficult. India is a slow burner. We've got a lot of regulatory issues there. We are trying, and they'll take 10 years to get over.

The other problem is that everyone's putting all their eggs in the China basket because everyone's making money there, so people are going in and going hard. That means we are neglecting some of the other markets. We've been encouraging the industry as you need to actually make sure that you are diversifying, because, if problems come, you need to have somewhere else to go. So a lot of it is self-inflicted, I'm afraid. It's non-tariff barriers and some of those differing standards around the world that we really work well with government on.

Mr RAMSEY: For what it's worth—only a short story—I was in Bali recently and had the opportunity to buy a bottle of wine that had produce or content from South Australia. When I read the label more closely, it would appear that they imported the grape juice, not the wine, and made it into wine—as far as I could tell from the label. I hadn't even entertained that that's what people would be doing, buying bulk grape juice out of Australia and turning it into wine. Would that be what had happened?

Mr Battaglene: They would have taken concentrate, they would have added water to it and they would have added spirit.

Mr RAMSEY: Concentrated grape juice, added water—

Mr Battaglene: Yes, and some ethanol.

CHAIR: Ethanol?

Mr Battaglene: Yes. Different countries' rules are different. We can't control that.

Mr RAMSEY: I didn't chance my arm at drinking it!

Mr Battaglene: No, I wouldn't. Very wise!

Mr RAMSEY: But I picked it up and there were bells ringing. I thought: I don't like the look of this.

Mr Battaglene: For countries that are not traditionally producers of wine, we will either adopt regulation from other countries or have a very flexible attitude to it. We are trying to get more standardisation through international bodies.

Senator VAN: You mentioned Canada. I may be out of date on this, but, if memory serves me right, they have a government centralised system of buying alcohol there. Is that changing, or is that still a barrier for Australian wine and other exporters?

Mr Battaglene: That's another really good question. The Liquor Control Board of Ontario is the single biggest wine buyer in the world. If you're in the system, it's actually really good; you make really good money; there are good margins. It's hard to get into the system. We have a World Trade Organization case against Canada at the moment about aspects of preferential treatment for Canadian wine. The second hearing is on 3 December in Geneva. We will win that. It is the first case we have taken in 17 years, incidentally; so it was good to get it up. There is a lot of preferential treatment, so we'll get that up. We don't argue against the actual liquor board model because, as I said, once you are in that you make money. It's not like our supermarkets—the only one who makes money is them—but there are aspects—

Senator VAN: Say that again—just for the record!

Mr Battaglene: I'm always happy to talk about retailer power.

Senator VAN: Please do.

Mr Battaglene: There is a retailer power issue in Australia. It's very hard to put profits back to grapegrowers as well, because the retailers are the ones who make the money

Senator VAN: It sounds familiar.

Dr ALLEN: I come from Rutherglen and a sixth generation winemaking family. The wine industry in Australia has a very proud history. Are there any innovative practices or new products that could help boost Australian wine exports? Some local people here in Higgins are engaging in very new products, particularly to China. The Chinese market is, interestingly, open to very unusual combinations of products, such as Grange Hermitage with cola to make it more palatable. It is a very odd product but it is an extremely large market. I know there is a lot of high-end interest in Grange-like products competing with France, but there are also low-end products. Could you comment about any innovative practices or new products that could boost Australian wine exports.

Mr Battaglene: A great question. I think the future does lie in innovative products. We will always have a fine and traditional wine segment but, increasingly, consumers are demanding a number of things. One of them is a health and wellness attribute. That doesn't mean they think alcohol is bad—they don't—but they are looking for low alcohol and products that will have other products infused. There is wine with tea infused in it, for example. That is not to my palate, but it does hit those sweet spots. So I think in the next five years or so we're going to see a great increase in the number of products out there which will diversify our offering. The biggest growth category in alcohol at the moment is gin. There was 26 per cent growth in the Australian market last year. The second-biggest growth category is zero-alcohol spirits, which is flavoured water! It's a cracker—

CHAIR: That is crazy.

Mr Battaglene: Google it. You can buy product in Australia for about $30 a bottle which is a zero-alcohol spirit.

CHAIR: I've seen it on the shelf. But what's the point?

Mr Battaglene: It's actually a really good idea. This is my health thing. A lot of times people will be at a bar or something like that and they won't necessarily want to drink too much. So they can go get one of these products and, to everyone else, they are meeting the social things and they are drinking something that looks, tastes and smells like gin. It is zero alcohol and it is good for you. You've got the social advantage of drinking that thing which is healthy, but you don't have to have alcohol. We actually encourage that mixture. We think low- and zero-alcohol products are great to have. It fits the marketplace and it goes well with what we think is the conviviality of—

Dr ALLEN: I am a medical doctor. There are racial differences between how different people process alcohol. People from Asia have a lower ability to process alcohol. Their stomach process alcohol differently. So there are physical reasons why different products may be developing. We should be alive to that fact.

Mr Battaglene: Yes, and the industry is very much looking at that. We are seeing a lot of initiatives to lower alcohol. We are finding that consumers actually prefer lower alcohol products. There is a lot of research going into how you do that and still get the flavour and characteristics of a full-flavoured one. I think it's a great move, and we're seeing more of it.

Dr ALLEN: It's good for Australia's health and international health as well.

Mr Battaglene: Indeed.

CHAIR: Mr Battaglene, thank you very much for your testimony here today. I don't think anything else was asked of you, so you don't need to provide any additional information. But if you wish to do so, could you do that by 17 December—the samples Senator Van asked for! Anything over $200 has to be declared, though, Senator Van! You will be sent a copy of the transcript of your evidence and you'll have the opportunity to request corrections to any transcription errors. Thanks again for being here

Mr Battaglene: Thank you. And if you later think there is something else you would like to ask me, please feel free to contact me. I'm more than happy to participate. Thank you very much for your time.

CHAIR: Thank you.

Proceedings suspended from 12:06 to 13:01

MANDER, Mr Jarrod, General Manager, Investment, Tourism Australia

SEATON, Mr Leo, General Manager, Communications and Government, Tourism Australia

CHAIR: Thank you very much, gentlemen, for coming along today. This hearing is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and attracts parliamentary privilege. I now invite you to make an opening statement before we proceed to questions and discussion.

Mr Seaton: Thank you for the opportunity to address the committee. I'd like to begin by acknowledging the traditional owners of the land on which we meet today. I would like to pay my respects to elders past and present. Please also allow me to pass on the apologies of Tourism Australia's managing director, Phillipa Harrison, who is unable to attend today because we have a board meeting taking place actually as we speak. My colleague Jarrod Mander, joining me today, oversees our work, alongside Austrade, in the states and territories in the tourism investment space, in case that is an area that you want to cover today.

I will start by very briefly outlining the role that Tourism Australia plays in supporting Australia's tourism and exports and in attracting tourism investment. We are the Australian government agency responsible for promoting Australia internationally as a leisure and business destination. We have a head office in Sydney and seven international hubs around the world. We undertake consumer marketing and industry development in 15 key markets. An important point that I wanted to make here is that, whilst we may be asked to provide input into policy relevant to this committee, we don't actually have any direct control over the policy settings themselves.

Another key point that I want to make is about the nature of our relationship with industry. We have an industry relations team and they engage with tourism organisations across the country by hosting and attending industry events, briefings and roundtables. These are platforms that allow us to keep abreast of trends, opportunities and challenges impacting on the industry. Then our overseas teams in our overseas markets also engage with the likes of international airlines, wholesalers and distributors, which again provides another conduit for capturing industry feedback.

This work with industry provides valuable insights and intelligence which we use to help shape our marketing activity and our industry development work. However—and this is an important point—TA is not the voice of industry, nor are we an industry lobbying group. However, when relevant issues are brought to our attention by industry, we do have a legitimate role in making sure that the relevant policy areas of government are made aware of those issues.

CHAIR: Mr Seaton, can I interrupt you there, because it is a very good point and I was thinking of saying it. I will let you get back to your statement, but in your capacity here today—because it will probably go to how much we can extract from Tourism Australia that's going to be helpful for our committee—are you going to be able to share with us some of that dialogue that you have with industry about the issues they are facing?

Mr Seaton: Absolutely. Later on, I will do that. There are probably three main areas that would be relevant.

CHAIR: Great.

Mr Seaton: We work closely with DFAT and Austrade, as well as the state and territories, to promote visitation to Australia, and we rely on these organisations, as well as other policy departments, to address potential barriers to trade and investment. This is done through formal mechanisms like the Tourism Ministers' Meeting and the ASCOT meeting and also less formally through the regular interaction that we have with industry through our global campaign.

In 2009, the federal government, state governments and the tourism industry collaborated on the development of the Tourism 2020 strategy. This was about growing the annual value of Australia's tourism industry to somewhere between $115 billion and $140 billion. This commercial approach to the aspirations of the Tourism 2020 strategy was well received by both domestic and international industry. We are tracking pretty well against this target. As we speak now, we are forecast, by 2020, to bring that to around $134 billion. Consultation is currently underway to develop the next iteration of this strategy—Tourism 2030—which will further assist with the development of a globally competitive industry.

As with all industries, there are opportunities and challenges. In its report to government, the Beyond Tourism 2020 Steering Group Committee identified the importance of a number of key issues, which we'll talk about a little bit later. Liberalising aviation supply is one. Attracting investment in infrastructure is another, and so is maintaining a competitive visa regime. Those are the three areas on which we will certainly be able to share some feedback from industry. TA fed into this report through our former managing director, John O'Sullivan, and we are assisting Austrade at the moment in the development of the next iteration of the strategy.

On aviation, obviously as a nation aviation access is critical to the wellbeing of our tourism industry. Whilst the Department of Infrastructure, Transport, Cities and Regional Development looks after the aviation policy, we play a legitimate role in that space, primarily commercially. That's working with the airports, the airlines and our state and territory partners to attract new routes into Australia and to bolster existing capacity. We do this through partnership marketing support. In addition to our marketing efforts, we feed industry insights back into the department of infrastructure to assist them with their aviation policy development. An example of that would be that, when we are looking at looking at forward air service agreements, we can provide input as to where we see the tourism opportunities.

In 2012, TA and Austrade formed a tourism investment partnership, demonstrating the government's commitment to attracting productive investment into the sector. Tourism investment means more capital city accommodation. It means higher quality product in regional areas. It means world-class business events. And it means leisure attractions to meet the growing demand of the tourism industry. Since the partnership's commencement, there has been an unprecedented level of hotel development around the country. Again, we rely upon Austrade, DFAT, state and territory governments and existing mechanisms, such as the Tourism Ministers' Meeting and ASCOT, to capture and feed that industry feedback into the policy processes.

The final area is visas. Visa competitiveness is obviously an extremely important factor for Australia's reputation as a welcoming country and also in terms of growing our market share in what is a very competitive landscape out there internationally. Whilst TA doesn't have policy control over visa settings, we do, again, work closely with DFAT and so forth to ensure that the tourism industry's voice is heard.

CHAIR: Can you just elaborate a bit there on what you mean by 'competitiveness'? Is it cost or is it timing—or both?

Mr Seaton: It's all of those factors. When we are competing against, I think, 190 different tourism organisations in the China market, for example, it's cost, its visa processing, it's the ability to use technology with online processing and it's the product, whether that might be multi-entry visas or10-year visas. From our point of view, it's just making sure we have competitive settings when it comes to our visa offering. On that point, we obviously acknowledge that the government made a commitment to commission a review to benchmark Australia's visitor visa settings against our competitors and also to identify areas for improvement. We 100 per cent support that review and we will work with Home affairs and other agencies on this study as it goes forward. We also support the government's ongoing commitment to streamline visa processing to make Australia an easier place to visit. Thank you for the opportunity to provide a submission today. Jarrod and I are very happy to answer questions here and, if it pleases you, to provide any follow-up submissions.

CHAIR: I will kick off by asking about those three factors that you talked about. Would they be the three factors that you see there needs to be changes to in order to drive more international tourism and more investment into our tourism industry here in Australia, to capture more of the international markets and, if so, how? Could you just elaborate on each of those points?

Mr Seaton: We are the demand side of the equation. But certainly from the supply side I think we would acknowledge that there are three important levers that are going to make it easier and more efficient for international visitors in particular to visit Australia. In the case of aviation, that is clearly a critical one. Ninety-nine per cent of our visitors arrive by aeroplane. Therefore, the ability to, through Open Skies, encourage a really competitive aviation industry where we can get sufficient capacity to match what we believe is the demand going forward is something that we see as absolutely critical. What we see historically is that there is a direct correlation between aviation capacity increases and increases in international visitation. For example, if you look at the situation with the Japanese inbound market, which had been in flat full for some years, in recent times we are getting a real bounce back there. There are a number of factors there, but I think aviation capacity increases would be critical to that.

CHAIR: What about costs in those flights? It has been pointed out to me that, as a result of the imposts that we put on international flights coming into the country, you can actually fly in some countries from place to place for less than the cost of our taxes. That has got be a big issue?

Mr Seaton: I am not sure we are the right agency to get into that but I think what I would say—

CHAIR: Has that feedback come back from the industry?

Mr Seaton: What I was about to say was it is interesting. We did a campaign in the US—the Dundee campaign—a couple of years ago. One of the measures around that which probably contributed to its success is that flying from US to Australia in relative terms is about as cheap as it has ever been. It is supply and demand, I suppose, but the increase in capacity has had a positive effect on fares and that in turn has had a positive effect, as has, hopefully, our marketing as well and the dollar. There has been a number of factors but it has been a critical factor, I think, in driving very positive numbers from the US at the moment.

Mr RAMSEY: I might just question you on the aviation chapter a little bit. Which is the chicken and which is the egg? Does having more capacity into Australia actually lead to more discounting of packages to fill up those seats thus putting downward pressure on the Australian tourism market or is it the increasing numbers wanting to come here that is actually driving the airlines to put on extra seats, which, in turn, because we are short supply, is driving our market prices up? I don't know if that makes sense to you. I wonder which is the most important to achieve first?

Mr Seaton: I think it is bit of both. Having worked in the aviation sector myself, the airlines are very commercially savvy in terms of where they point their aircraft and how they price their products. They will always be looking for opportunity. The important thing there is that at Tourism Australia we recognise it. Last year we worked with 16 different international airlines around the world in joint marketing efforts to stimulate the market and get people here. We've got seven significant MOU agreements with a number of airlines, including the three key airlines in China and Etihad and so forth. On the demand-driving side of things, whilst aviation capacity is a supply-side factor, I think that's where the two things can come together. That's the attraction for the airlines in working with a national tourism organisation like ourselves. They've got to fill their seats both ways—and that's another critical factor. They've also got to fill the hold of the aircraft. If they can work with partners who are going to help them with the marketing side of that, it's very beneficial.

As to the forecast, where we see international growth to 2030, I'd need to check this on the record but I believe we're looking at a required 60 per cent increase in international seats in order to match the growth that we're anticipating through to 2030. So aviation is a critical part of it all.

Mr RAMSEY: As a side issue, how big a threat do you consider the new practice of flight shaming is going to be to the Australian tourism industry? I tend to think these things are gathering traction and are likely to start discouraging people from going on long-haul routes.

Mr Seaton: That's a very interesting point, and it's something that we've been talking about quite a lot at Tourism Australia.

Mr RAMSEY: What should we do about it?

Mr Seaton: Firstly, a bit of context, I think, is important. Obviously, we read a lot in the press about overtourism and those sorts of issues—people talk about Venice and so forth. Firstly, there's the context of Australia: we get nine million international visitors, we have a population of 27 million and we're a big country. So, yes, we do have some overtourism issues, but I think we're not comparing apples with apples. We're probably not in the same boat.

I think the flight shaming thing absolutely is an issue. Probably the thing that is important for us as a marketing agency is to demonstrate to international passengers who are considering flying but have a sense of guilt or questioning that, when they do come to this country, the kinds of products and experiences we can offer them do have a social conscience and are sensitive to leaving a footprint on the land. That's an important part of the story for us—in particular, as a marketing agency—and the states and territories. There is a real opportunity to get better at telling that story, because the stories are there; there are plenty of great examples of experiences and products out there that are doing the right thing. With even the Great Barrier Reef, for example, I suspect not many international visitors know that, for every visitor who goes there, $6 goes into a fund that is put back into environmental issues. So I think there is an opportunity to tell our story better.

We can't change the facts of time, distance and cost. They have always been the perennial challenges for Australia just because of where we sit. But what we probably can do is recognise, exactly as you said, that it is an issue and demonstrate our credentials in that area. A lot of our best tourism product is nature based, and a lot of it is very respectful to the land. I would argue that tourism operators fully get the need to be sustainable and conscious in this area, because, if they didn't, they would lose their businesses. But I think there's a marketing element there as well, and that's something we're quite keen to demonstrate. We can do that in many ways. On our social media channels, for example, we're the most followed destination in the world, which is fantastic—whether that's Facebook or Instagram or—

Mr RAMSEY: We are the most what?

Mr Seaton: We are the most followed. In terms of any other destination on this planet, with Australia there is more engagement and there are more followers. One reason for that is that we don't overcorporatise it. We allow

Australians to help curate the interaction and engagement. I think there's a perfect opportunity. We already use those channels to hero industry. Whilst some might say it's pretty pictures, if you look carefully at how we operate our social media it's really around linking it back to industry, passing people on to their websites to convert into business. It's telling a story, and I think that's one of the areas.

Also, we host international journalists from all around the world. We send them far and wide around the country. I think there's a fabulous opportunity there, within those itineraries that we put together and through the industry heroes that are so important to this industry, to shape some of those journeys and some of the itineraries so that, when journalists from the UK or China or wherever are writing in *The Sunday Times*, as part of that wonderful story about Australia and our unique wildlife and our wonderful food and wine, they're also telling a better story—going to your point, the environmental and sustainable story, which is a way of countering what is a growing phenomenon, for sure.

Mr RAMSEY: I've got another question.

CHAIR: We'll go to Senator Van, then back to you.

Senator VAN: You talked before about the Tourism Australia-Austrade partnership and that it was leading to investment in hotel development—just elaborate a little bit more on that. Are there incentives or is there a program? How does that work?

Mr Mander: That's my area as general manager of investment for Tourism Australia. Back in 2012, Tourism Australia and Austrade and the then Department of Regional Australia, Local Government, Arts and Sport, which had tourism as part of its remit, signed an agreement to jointly work together to attract tourism investment. In practice, how that works is that Tourism Australia bring to the partnership our networks of industry contacts, our marketing credentials, capability and industry insights, and Austrade bring their offshore network of overseas investment specialists, who are out there talking to foreign investors every day about Australia. My role within that partnership is to package up insights and opportunities that the Austrade sales force, for want of a better term, can use to sell the tourism investment opportunities to their network. So it's probably quite a unique partnership within government—two separate agencies working almost hand in glove towards a common goal. It's been very successful in terms of being able to attract investors' interest.

When we established that partnership back in 2012, it was all around capital city hotel accommodation. That was identified as the pinch point that could potentially curb our ability to reach those 2020 ambitions. As Leo said, coming towards the end of the 2020 strategy, there has been a lot of investment around our capital cities in new hotel accommodation, so the partnership's approach has been to pivot slightly and focus on how can we attract investment—and when we are talking investment it's foreign investment—into our regions. So investment in new product and new experiences that lift the level of offering makes the region more competitive and encourages dispersal out of the gateway cities.

CHAIR: I noticed you said it's mainly foreign capital coming in to do a lot of these major tourism developments. What's the problem with unlocking domestic capital? Why isn't it flowing into new tourism products? We've got Daydream Island and other islands throughout my part of the world which are now owned or planned to be owned by foreign companies. Obviously we've got Hamilton, which is a mainstay and it's still Australian, but all the new stuff seems to be foreign investment. I'm wondering if you have any feedback for us about why that might be the case.

Mr Mander: From Tourism Australia's perspective, our remit is foreign investment attraction because we are in partnership with Austrade, who are the national investment promotion agency looking to attract foreign investment into Australian industry across a number of sectors. So that's our remit from within that portfolio. I agree there has been a lot of foreign investment in the Whitsunday Islands, for example.

But that's not to say there isn't domestic investment happening. We're seeing across the regions and capital cities that the growth of the tourism sector is starting to make those investment decisions or opportunities more attractive from both foreign investor and domestic investor perspectives. I think maybe that access to capital on the offshore side—the cost of capital—is having an impact in terms of the ability of certain groups to make those decisions.

Mr RAMSEY: Could I chip in on that point? What I want to ask is related. Foreign investment in physical assets in Australia, in my uneducated view, probably has a natural advantage because it brings a market with it. If you've got a large investment from, let's say, Malaysia, when they own that hotel, facility or island they will be marketing that back into Malaysia. Do we have any empirical evidence on the difference between where the investment comes from and the likelihood of its success as a result? If you look back to the 1980s and nineties, you see the Japanese investment in Queensland brought an enormous surge of Japanese tourists at the time. Now, it sort of dried up when the dollar came up to the parity point, but I would have thought that, with Australian investment in those same facilities, we would have struggled to market that to Japan at the time.

Mr Mander: I'm not aware of any work that's looked at the correlation between where the investment has come from and the success of that particular investment, but I'd like to make the point that the domestic tourism market is currently and foreseeably going to be the major source market for a lot of these operations. I think you ignore the domestic market at your peril as an investor or operator, because it does make up the majority of the visitors to those properties.

Senator VAN: You mentioned making visas earlier for tourists coming in. What more can we do to make visas easier? I was under the impression that they were pretty easy to get from most countries these days.

Mr Seaton: I think the regime is pretty good, but one of the particular areas is the importance of repeat visitation to our tourism industry. This is anything to do with multi-entry visas, for example. What we found a few years ago, when we were able to introduce multi-entry visas within Indonesia and moved to a 10-year visa, is that they had very positive effects. I think that is certainly one thing for us, because of course our marketing is around getting the first-time visitor, but, critically, it's about showing those visitors such a great time that they'll come back again. I think the importance of that is that then you get into the really good regional dispersal. Once they've got their confidence up, on their second trip they're likely to go a little bit further. They'll go deeper, they'll spend more and they'll often stay more. I think a product of that is having a visa package that encourages that type of trave behaviour. We fully recognise that there is a whole series of factors when it comes to visas—security and all of those things—and I think that's why this benchmarking work is so critical. We need to look at what other countries are doing and whether there are areas for improvement. I think certainly the online element is critical, as is the idea of repeat entries. I think those would be critical elements.

Senator VAN: Thank you.

CHAIR: If there are no further questions, I thank both of you very much for your testimony here today. I don't think there was anything else we asked of you. If you do want to get any other information to us that is an addendum to your submission, which we have, please do so by Tuesday 17 December. You will be sent a copy of the transcript of this and given a chance to correct any errors that might be in that transcript.

PEREZ, Mr Eric, Chief Executive Officer, Queensland Seafood Industry Association

Evidence from Mr Perez was taken via teleconference—

[13:30]

CHAIR: Welcome. I have to go through a quick legality. The hearing that we're currently in is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today is being recorded by Hansard. It attracts parliamentary privilege.

I now invite you to make an opening statement before we proceed to questions and discussion.

Mr Perez: Thank you for the opportunity to provide feedback to the committee. The association is the state's peak commercial fishing body. In terms of the committee's work, the existing export and investment architecture that could assist more businesses in the Queensland seafood industry is in some respects either non-existent or unknown to this sector. A robust investment and/or investment architecture requires a commitment from government to develop the necessary frameworks and regulatory environments for businesses to interact in that system, particularly when you're talking about exporting. For clarity, we as industry are not looking for a handout or a hand-up in terms of exporting opportunities; we just don't see the environment currently or in the past that as allowing us to venture in a bigger way into the export markets. I'll get to that shortly.

In terms of regulation, which is a key issue facing us in Queensland and I'm sure has been touched on by other submitters, our small businesses—the majority of the fishing fleet in Queensland is micro to small businesses, so family-run businesses in the main—are facing a lot of regulatory burden. We were understanding that, at least from a Queensland context, red tape was something that both parties were looking to reduce in the state. Unfortunately, the current so-called reform process up here has impacted our ability to do business, let alone look at reinvesting in our businesses or look at exporting.

Vessel monitoring is one of those costs. As of 10 months ago we've been legislated to have vessel monitoring on our boats. This is a per-boat cost, and some operations have multiple vessels and will have multiple VMS costs. This is essential, according to government, so without VMS we can't go out to do business.

CHAIR: Explain VMS. People from other states aren't familiar with it.

Mr Perez: Sure. Vessel monitoring was introduced into the state by the current fisheries management regime to monitor where our fishermen are doing their fishing. In any part of the state—I'll use the example of the Great Barrier Reef or any of the state marine parks that have been set up—there are no-go areas, called green zones, where you can't fish and areas where commercial fishers can fish. Up until VMS was introduced, government couldn't exactly track what our movements were in those areas, so in some respects they had to rely on the commercial industry logbooks, which are statutory documents which you have to submit every time you catch a fish in the state. It shows where you fished and where you caught. That wasn't enough for government, so vessel monitoring was introduced. Now, in theory, they can track where any one of our commercial vessels in crab fisheries, net fisheries, line fisheries or trawl fisheries is. The trawl fisheries, for the sake of completeness, has had VMS for more than 10 years. They can now track where we operate. That's not free; there is a cost to industry for having that monitoring happen, and industry, unfortunately, has had to bear that cost. So that's VMS in a nutshell.

The other burden that we have—and we still don't understand why we're paying for this—is food safety accreditation. Under the state regime, we have to pay $300 to $400 a year to be able to go fishing. That accreditation says, 'Right, you catch fish. When you've got the accreditation we'll allow you to sell that fish to whoever you like, as long as you've got a safety management plan on your vessel to ensure that the product is safe.' We have tried to use any amount of statistics with government to say that we are a low-risk industry, because in the catch sector that the people that I predominantly represent are catching the fish, it's then moved onto a retailer or another processor to look after that product. Why we have to pay for that convenience of being able to go and catch fish we're still not sure. Yes, there has been some flexibility in that you can sell directly off the vessel, but the majority of commercial fishing boats in this state don't sell from their vessels to the public, so there is no danger to public health where that's concerned.

Finally, and one that we still don't know what the cost implications of it are going to be, is the introduction of quota management. To define quota management very simply, the state government has decided as part of its so-called reform process to limit what we can catch in our key fisheries—so the mud crab fishery, net fishery—by saying you can only catch a certain amount of tonnage here, there'll be a certain amount of vessels in the fleet that can catch that tonnage. As a result, the government has created a new market for quota, and we don't know what the end result will be in terms of the cost per unit of that quota to industry. Unknown No. 2 is the cost of the fees we will have to pay to government to run this new system.

So on those three alone, let alone other legislation that we must be compliant with, it sets the environment that there is really no incentive for small businesses—at least in my industry, from the feedback that I've been receiving—to look at exporting when we're trying to secure our industry as it stands here at the moment. There is one more point, I guess, to this. The question might be from the committee: other than those things, why is it that you don't want to invest in exporting or reinvest in your business? The answer is that we don't have security of the resource. At any given time, the government can, at the stroke of a pen, legislate our access to the marine resource out of existence. That can happen. It can take time, but it can happen, and it's defined in some detail in our submission to the committee around the net-free zones policy up here. No science, no understanding of the ongoing impact that that policy had.

So, again, if you're worried, as a business person up here, about whether you're going to maintain access to the resource, risking opening up export markets is just not on the cards. That's my introduction. Thank you for that.

CHAIR: Thank you very much. I commend you on the thorough submission that you've put forward as an organisation. It really details the issues. In a nutshell, it seems that you are saying that there would be a desire to grow the export sector for commercial seafood in Queensland, but, because of a range of different policies that are restricting the catch that's just not possible. Would that be a fair summary of the situation?

Mr Perez: Yes, it is. And export markets expect continuity of supply. So from one year to the next if you don't know that you're going to maintain your access to part of the fishery, it's a big risk to take. I'm sure you've heard from other submitters that once you burn an export market once it's going to be that much more difficult to try and regenerate that in the future, if you take my meaning.

CHAIR: Obviously the Queensland government would say that they've got reasons for this—and, as you've noted here, you've received unwarranted and unsubstantiated vilification by Green groups, and no doubt there's an environmental purpose behind all of this. But what evidence do you have that that's really not what's being achieved here? Do you have any evidence that the fish stocks or the crab stocks that are currently being restricted are not in a unsustainable catch rate at the moment?

Mr Perez: No, and that's the ironic thing. The government up here, as part of its so-called reform process, says, 'We're doing this for the sustainability of our fisheries,' which, on the face of it, sounds okay—if there was something wrong with the sustainability of our fisheries. The department, Fisheries Queensland, the regulator of commercial fisheries in this state, works with ABARES and the Fisheries Research Development Corporation to put together statistics around the sustainability of our stock, and, in all the stock areas where we're going to get quota, from my understanding—and I can provide this data to the committee; I don't have it with me now, but I can provide it—our stocks are imminently sustainable.

What the department should have said and what the minister should have said is, 'We're doing this reform to cap your ability to catch that seafood.' When you dig into why that cap needs to exist, then you go back to their white paper that says, 'We want to achieve'—for example—'a 50 per cent biomass.' All that means is that they want to conserve as much of the unfished part of the fishery as they can into the future, which is not an unreasonable goal. Yet, in best practice fisheries management, in the levels that are set—even amongst the Commonwealth fisheries—between 30 and 40 per cent of biomass is considered a conservative level of looking after your biomass in any given fishery. Why aren't we taking the lead to 60 per cent? No-one's been able to explain that science to us. We've queried that and there's no scientific evidence to say that it's going to do anything other than restrict our ability to catch seafood.

So, for the government to achieve what it wants to achieve, it needs to introduce quota management, and that's going to be to cap what we can catch. If you understand anything about the dynamics of any given fishery, year on year you might have a couple of bad years, but in the preceding two or three years you might have very abundant years. So, if the cap for, let's say, a fictitious fishery was a hundred tonne for a year but the sieve system plays out to 200, 250 tonne, that goes unfishable. We can't harvest that part of the marine resource. For us, it's difficult to understand why we've gone the way that we've gone.

There is evidence to say that our fisheries are sustainable. For the record, this association never went public and said, 'We can't have a discussion around what reform might look like.' That never happened. We were told what reform was going to look like, but there was never a conversation with industry about what that might look like. That's what we've got at the moment.

CHAIR: Well, that's a very, very bad situation, of course. This whole thing is about identifying removal of regulation. This whole inquiry is about identifying what regulation could potentially be removed to enable our export markets to grow. If you were the person in charge for a day, what would you do—what are the regulations that you want cleaned up?

Mr Perez: I'm happy to answer that. The first would be to ditch the net-free zones policy in this state. The second would be to have a conversation with industry about what resource management looks like so that we don't keep losing our access to the marine resource. The third would be to discuss what a robust framework for exporting in this state look like when you've got a majority of small businesses. That requires a department or regulator that is prepared to look at industry development issues, and at the moment we have a regulator whose sole focus in life is the regulation of the industry, not the development of that industry. That is counterintuitive, given that a lot of the media that we see coming out of Queensland is a very big push to invest in aquaculture. I'm a seafood industry advocate. So, spend money on developing domestic industry as much as you like, but what we're not seeing in Queensland is that focus on my sector but a very big focus on the aquaculture sector. That needs to be reviewed if we're going to look at what exporting opportunities might look like.

And the other bit is in education around what the opportunities are and what you need to do to be an active exporter and how you create those markets. Those discussions lend themselves to industry development and an understanding of what foreign markets look like. I know that at the federal level there's assistance to do these things, but we also need that at the state level. I represent state managed fisheries. In that context there's a lot we could do.

And probably the last one is the removal of this instability around the access to our fisheries. If we could draw a line in the sand today and say that the state government will no longer give up fisheries access to commercial fishers and you'll keep what you've got forevermore, that would create some stability in the industry and would send a very powerful signal to the banks, to finance hubs and to industry itself that whatever happens we're not going to lose access to our fisheries. That would be my ideal situation, but there's the politics of fisheries up here, as in every state. That would be my wish list.

Mr RAMSEY: You're in the area, talking about red tape and complexity, but you cited the specific example of the mud crab fishery—that they did not proceed with the export, because there was too much red tape. But at which end was that? Was it to get it into the designated market, or was it to get it out of Australia?

Mr Perez: It was to get it out of Australia.

Mr RAMSEY: Do you have any specifics on that?

Mr Perez: Other than what's in the submission, no, but I can follow up. If any of our fisheries would be potentially lucrative into a foreign market, it would definitely be mud crabs.

Mr RAMSEY: Would that be a live export?

Mr Perez: Potentially—but again, in terms of the historic context of this, it's quantity that you can get out into a market. If you look at what our cousins in Western Australia are doing with rock lobster, they've got the template for what we might be able to do—

Mr RAMSEY: Which is farming—farming and export, because that rock lobster is largely a farm product, is it not?

Mr Perez: In WA, no, it's wild caught.

Mr RAMSEY: Oh, it's all wild caught, is it? I thought there was some farming there.

Mr Perez: There is some aquacultured rock lobster, and I think that's in the north of this state, and potentially down south, but I stand to be corrected on that.

Mr RAMSEY: No, not that I'm aware of, in the south, but maybe I'm wrong.

Mr Perez: I know that in WA it's definitely a wild industry, and it's valued at about $1 billion to that fishery. So, there's a market for certain species of seafood in this country. So yes, the opportunities are there.

Mr RAMSEY: And while we're talking about fisheries—and I know that this is a little off-target, but the chair may give me permission to stray a little—

CHAIR: Go for it.

Mr RAMSEY: I was the chair of the committee that wrote the last report on country-of-origin food labelling—the one that was consequently adopted—and now we see quite a different system in Australia. At the time, we were aware that the Northern Territory had country-of-origin labelling for fish, but that was the only jurisdiction. There was quite a bit of difficulty around that area in bringing in a similar system Australia-wide, even though the committee could, in my memory of it, see some merit in it.

Having said all that, I note that we recommended that COAG should further examine the issue, from the point of view that we wanted to see change in labelling that could see us getting really caught up in this issue of labelling a product like fish, as opposed to meat—blah, blah, blah. So do you have any view on that and how it might affect your industry? Would you see it as a positive, and is your industry pursuing country-of-origin labelling for the sale of seafood at any given point in Australia?

Mr Perez: At a national level and, I think, at a state level, country of origin is still an active issue for us. I think there are historical issues around why it hasn't got up, particularly around the food service sector. There's always been a spurious argument that we're going to cause millions, if not hundreds of millions, in costs on menus. It's more about there being an advantage in being able to tell the average punter that your seafood is either locally caught, farmed or imported. I think some elements of the food service sector don't want that to be the case, because their choice of product in the marketplace—and they're very welcome to make that choice, because we live in a free market system—is to buy cheaper imported product. That's fantastic, but there is an alternative out there, and that's wild-caught or domestic aquaculture if that's the way that those businesses choose to go. So I think it's an ongoing issue. Yes, better country-of-origin labelling would be welcome, but it's still a vexed political issue, and we're still waiting to see where it might go into the future.

Mr RAMSEY: Thank you.

CHAIR: Just on the back of that, in one of the findings that you put to us in your submission you make note of the perception in the industry that it's easier to import lower-quality seafood in Australia. It probably ends up being cheaper, actually, because there is less regulation and fewer rules and none of the green tape and all the rest of it that your members see in the industry in Queensland. Is that more than just a perception? Is that borne out by any facts that you've run a ruler over?

Mr Perez: That it's easier to import?

CHAIR: Yes, and also that the products are cheaper because of the lesser regulatory burden that they're going through.

Mr Perez: Yes, sure. In a country where 75-plus per cent of our seafood is imported, we don't see where the burden to import is. Imported product is coming in by tonnes and tonnes year on year. Part of that, I guess, is the increase in production in aquaculture in the South-East Asia region. They're ramping up their production, and they're looking for markets to throw that product into. Again, under the free market system we've got, we can't do anything about it; it's going to come in. But that system, unfortunately, also led to the white spot outbreak. If we had all the burdens that we think need to be there to make sure that potentially tainted product doesn't come into the country, we wouldn't be having the conversations about white spot, what that means for the biosecurity system and what that's meant for the commercial fishers in Moreton Bay who have had to endure this since it was detected in Moreton Bay. I think it's self-evident that the amount of imports that are coming in and the outbreak of white spot suggests it isn't too difficult to get product into this country.

As to whether or not we get the same treatment going out, again I can't speak to that, because we're not actively engaged in exporting, from a Queensland perspective. That's not to say that there aren't some businesses in this state that are exporting, but there is something to be said about the size of business. If you've got a larger operation, you're a larger retailer or you've got commercial catch holdings and you've got a vertically integrated business, then your capacity to take that punt is a little bit easier than for the single-person operation or family operation. That's always going to be the case. We're not railing against that. I've been in this role for at least 11 years and I've not had my door knocked down by people saying, 'How do we export, Eric? How do we get our product out of the country?' It's a conversation I'm yet to have with anyone in this industry, unfortunately.

CHAIR: You talked about the reduction in quotas that is happening within Queensland because of the state laws. I have heard of some people who've had their quotas halved. Some people in the crabbery area have had their quotas cut by 80 per cent. They may be anomalies, but what I'm gathering is that there are some fairly frequent anomalies that are popping up in this process. Have you run a rule over what the average reduction in quota is going to be to your members?

Mr Perez: No. You're correct, there are some horror stories around. The draft quota allocations, which are still a draft, were based on historic catch. The department applied a formula, which we're not privy to. I think what went into that formula determined what the quota allocation would be, which is problem No. 1.

CHAIR: But everyone's being reduced, or most people are being reduced?

Mr Perez: There has been a hit across the board. I haven't heard of anyone saying, 'Wow, I kept what I've got,' or, 'I've got more.' That's a product of them being Fisheries Queensland and through representations of government that they want reductions or caps in the fisheries. Once the allocations become law and we know exactly what's there, we'll get some sense of an average, across-the-board reduction. It's a little difficult to make judgements on draft allocations until they actually become real.

CHAIR: Thanks very much for that, Mr Perez. I think you said you were going to get us some more information. Can you get that to the secretariat by Tuesday 17 December. You will be sent a copy of the transcript of the evidence you've given today and will have the opportunity to request corrections to that evidence if there are errors. Thank you very much.

Mr Perez: Thank you.

PIETSCH, Mr David, Chief Executive Officer, Australian Sugar Milling Council

[13:58]

CHAIR: Welcome. You've probably heard me say this, but I have to go through it. This is a legal proceeding of the parliament. False or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Evidence given today is recorded by Hansard and attracts parliamentary privilege. We'll open to you for an opening statement before we go to questions and discussion.

Mr Pietsch: Firstly, good afternoon, members of the committee. Thank you for the opportunity to join you this afternoon and discuss the lifeblood of Queensland's sugar industry, trade and investment. You will have noted our concise submission, so I won't seek to cover that ground again in full. I want to highlight why I've travelled down from Queensland on behalf of my members to speak with you today. While the raw sugar industry is noted as a vital contributor economically, socially and culturally to many communities in Queensland, we're conscious that a number of the members of this committee are from other Australian states, and perhaps it's not well understood south of the border what that contribution is. Therefore we embrace any opportunity to share our story more broadly.

Our $4 billion economic contribution, which is substantial to many regional communities up and down the coast of Queensland, supports more than 22½ thousand jobs. Our co-production of livestock feed, biofuels and renewable energy is enough to be largely self-sufficient in operating our sugar mills and to power more than 100,000 homes and our aspiration for the future. Even at this very difficult time that the sugar industry is experiencing due to poor seasons and depressed global prices, our ambition is not just to survive but to thrive and grow. Our industry relies completely on two-way trade and investment. Indeed, we are one of its success stories. There has been $1½ billion dollars per year in export income and more than $2 billion in much-needed foreign investment in our milling companies over the past decade alone.

Given our reliance on exports, trade policy liberalisation and improving market access are key priorities to enhance the sector's future prospects. We understand the very difficult negotiating job that our trade negotiators have—and they do a tremendous job at it. However, as an industry we make it clear that our expectations for future negotiations, including those in front of us, such as with the EU and UK, are that we cannot accept or support agreements that don't result in acceptable market access improvements for Australian sugar. We do strongly support the current Australian government action, alongside the Brazilian and Guatemalan governments, at the World Trade Organisation against Indian sugar subsidies that have distorted world markets and negatively affected prices. This case is a must win for us and the world is watching it closely.

Yes, the industry is currently experiencing challenging times but there is room for optimism. Much of the industry's miller and grower leadership accept it has some heavy lifting to do commercially and structurally in order for the industry to continue to be a mainstay of Queensland's economy. We hope that governments of all levels also recognise the increased burdens that they have placed on the industry through regulation and increased charges and seek to provide greater relief and support. Regulations in the areas of marketing, electricity, water, environmental management, port access and transport, just to name some, all make it more difficult and costly for our industry to operate. In closing, I look forward to the interaction. Thank you again for the opportunity to highlight the contribution of our industry and the emphasis we place on an industry government partnership approach to trade and investment.

CHAIR: I have a few questions but I'll open to someone else. Does anyone else want to have a crack at it?

Senator RENNICK: In your submission you say you're

… losing productive land due to competition from other uses - and our productivity growth has stagnated.

What do you mean by 'other uses''?

Mr Pietsch: Just the nature of our geographic position. We're challenged by urban encroachment in many of those communities. Also expansion of industrial solar developments, including a few very notable ones on prime agricultural land. We're strong supporters of renewable energy, so that's not the issue; it's that in some cases—

Senator RENNICK: But there's renewable energy and there're renewable energy. There's hydro and biomass and stuff like that, and then there's wind and solar. There are varying degrees.

Mr Pietsch: Sure, and we like to highlight our—

Senator RENNICK: I like hydro and dams, myself.

Mr Pietsch: Our competitive position is being reliable, renewable and despatchable. We can fill a lot of gaps in that electricity market. The other competitor for land use is other crops. Our industry goes up and down in cycles. Particularly in the southern region we've seen a real expansion in tree crops.

Senator RENNICK: When you say:

… over 90% of revenues are derived from raw sugar—

as opposed to what?

Mr Pietsch: As opposed to some of those other sources: renewable energy, ethanol, molasses and those sorts of things. What we're seeing in other countries, particularly Brazil and Thailand—some of our big competitors—is that they've had pretty strong government and industry initiatives to broaden their revenue base, which gives them more flexibility.

Senator RENNICK: How many of our mills are Australian owned?

Mr Pietsch: Certainly there has been a massive change in that regard over the last year. There are still a couple, but the great majority now—not 100 per cent owned; some still have equity with the growers that supply them. You're going to see over probably 90 per cent of the capacity is majority foreign owned. In many cases, they were the single available purchaser for those assets. One of the things we like to try and get across is that it's not a commentary generally about foreign investment in agriculture or agribusiness. I don't want to comment on other industries.

Senator RENNICK: No, it's a commentary on our superannuation industry that can invest $600 billion overseas but can't invest in its own Australian agricultural industry.

Mr Pietsch: That may well be part of it. I think what we're saying is that in our industry that available foreign investment has been critical.

Senator RENNICK: I can understand why you've had to do it, but it's a shame that our capital markets in Australia, through what I would consider poorly placed, idealistic intervention, have let this happen. Whereby our upstream, upscale manufacturing, because we're obviously processing raw sugar into other things and exporting is the first step in a long chain of manufacturing, I just find it very disappointing that big fund managers can't invest in agriculture, but other countries can. Sorry, take that as a comment.

CHAIR: Anything else?

Senator RENNICK: No.

CHAIR: With the regulatory burdens that you cited before—I think there were about five of them, but I can't remember them all. You cited marketing, you cited environmental regulation, you cited water, you cited electricity—what were the others?

Mr Pietsch: Port access and transport.

CHAIR: Talk us through some of those, and the impacts.

Mr Pietsch: Certainly one of the things that we're looking for in the next few months is a comprehensive look at all of those regulatory burdens on the industry, and where we can seek to give relief or make improvements. Just to name a few of those, you'd be aware, in terms of environmental management, we're dealing as an industry, more on the growers side, with enhanced reef regulations in Queensland. This is not to say that the industry isn't fully cognisant of its position near the Great Barrier Reef. In fact, they're very strongly focused on their custodianship of that land.

We, though, are firm believers in an industry-government partnership approach, rather than the heavy hand of regulation. There are some pretty incredible and innovative things being done on farms in the Great Barrier Reef catchment. I guess your fear is that if you're just legislating for practice, you're really putting a line in the sand around future improvements that could occur. You're sort of saying to them, 'Don't try and innovate; don't try and go over and above with your best management practice.'

CHAIR: Are you also putting a line in the sand in terms of productivity, and therefore export growth potential?

Mr Pietsch: Look, productivity is a real challenge for our industry. We're growing at about 0.3 per cent, which is not enough. You really want to be one to two per cent in agriculture to stay level in terms of your terms of trade. We're not keeping up with that. There are a multitude of reasons for that. It's not just environmental management, it's also very difficult to get genetic improvement in sugar compared to other industries.

CHAIR: Just to stay on environmental regulation for a while, I understand that one of the components of it is that any new land that comes under cane has to go through a very rigorous environmentally relevant activity process that is not guaranteed to be approved. It's something that will be subject to pretty stringent reviews. Some people have styled it as akin to establishing a new coal mine. I don't know whether the burden's that high, but, still, there is now a burden there that was not there before. I'm going to make a comment, and then I want a comment from you. My comment is that I'm alarmed by that, because while there is desire, at least amongst the milling sector, and I guess the industry overall, for the industry to turn the corner and actually start branching out and growing, this is almost a sign of government saying, 'No, we don't want you to grow.' At the point where you've got that imprimatur on you, well, you're in terminal decline. I'm just wondering if you could comment on that?

Mr Pietsch: It goes to the discussion we had before. We are competing against other uses of land, so you're really looking to try to make up for that in some other area. That could be vertical expansion, where you're getting better at productivity and development, and certainly the industry is trying to do it, but it also means horizontal expansion, where it can occur. What our members are telling us and what the growers are saying is that the new regulations just increase that hurdle rate in terms of your ability to expand. There are certain thresholds, which trigger the sorts of things you're talking about. It's just another impediment to us being able to reclaim some of that productivity or production that we're losing in other areas.

CHAIR: Okay, continue on if you want to talk about other regulatory burden.

Mr Pietsch: I guess it's the increases in charges in a lot of the inputs, particularly for the growers that are supplying the mills. We have a need for a certain amount of production, or a mill area just becomes unviable. There's a waterfall event that occurs. So anything that impinges upon our growers' ability to improve their productivity and grow a good crop is therefore directly affecting our viability. Electricity charges and water charges—these have been well canvassed in the media and by the grower organisations.

Mr RAMSEY: But you're not using electricity.

Mr Pietsch: They use electricity for irrigation, most specifically. We'd like to look at some creative solutions, because we're a generator. You've touched on a bit of a key point for us: can we remove some of the impediments that allow us, as a co-generator of electricity, to cycle that back to growers so that they're not necessarily paying the full retail price of electricity to help grow their crops—they're getting some relief in that regard, and we're getting an ability to supply them with some of our generated power.

CHAIR: But Ergon don't allow you to do that, or the Queensland energy policy?

Mr Pietsch: It's currently really difficult. We are having discussions. There's a renewed desire to make something happen in that area because of where we find ourselves.

CHAIR: Can I move on to one other point. You've raised in several different parts of your submission something that senator Rennick talked about before:

> Our biggest competitors – Brazil and Thailand – are pursuing multiple strategies to reduce dependency on volatile raw sugar markets whereas Australia has no such plan …

You go on a bit later to say:

> What is currently missing is an industry/government strategy that acknowledges the policy and financial barriers blocking growth and investment on a commercial scale.

You talk about industry collaboration with government there. Sorry to have a bit of a provocative question, but why does government need to get involved in setting up a plan for the industry? Why can't the industry do that on its own? It's a genuine question, as provocative as it sounds. I'm trying to seriously understand why.

Mr Pietsch: I guess there are a few elements to what such a plan might entail. Some of it is very much commercial. That's something the industry needs to address. Collectively, I think, there's an appetite for that discussion with grower and miller leadership at the moment, and I'm hopeful that will lead down that path. But there's also the regulatory burden that we face, which can be an impediment to the investment that's needed to further diversify the industry. We've touched on some of those. Our opposition to the existing marketing regulations, specifically the code of conduct, is well known. That's been canvassed through a review of that process. Some recommendations have been proposed. Some have been accepted by the previous government, before the election. That government has been returned. We'd like to see those amendments made.

But there are also opportunities, I think, for things such as we talked about before in terms of renewable electricity and being able to provide that to growers. There are some regulatory hurdles we'd have to address to allow that to occur. Similarly, in terms of energy policy, we just haven't been able to find the sweet spot that we fit into—pardon the pun. We have this proposition that we bring to the electricity market—reliability. We're renewable. We're dispatchable. But at the moment we're sort of getting lost in that mix and that discussion that's occurring between the wind-solar type debate and then the coal fired debated at the other end. We realise we're the little dog in this fight, and we've got to take every opportunity to try and explain that there's that opportunity there now. Whilst, at the moment, we're about 25 per cent of the renewable energy in Queensland, we've got the capacity to triple what we are currently providing.

Mr RAMSEY: And that would be using residues?

Mr Pietsch: In terms of our bagasse—the fibrous material from the crushing process. At the moment there's a latent capacity to utilise that under the right circumstances.

Mr RAMSEY: I'm amazed that somebody doesn't want to put money into that and do that. I can't see what the impediment would be. Anyone can set up a solar farm or whatever and get a licence to feed that back into the grid. Particularly in Queensland, where you've got such low levels of renewable energy, I can't see why that would be an issue.

Mr Pietsch: There are challenges on the cost side and the regulatory side that would give you the confidence to make that investment. We're not the cheapest source around for this power.

Mr RAMSEY: But not only are you renewable; you are dispatchable—

Mr Pietsch: That's right.

Mr RAMSEY: which makes you a very rare and invaluable product in that electricity mix.

Mr Pietsch: Agreed.

CHAIR: It is a bit higher-cost than other sources, but it certainly wouldn't be higher than other sources of renewable and dispatchable.

Mr RAMSEY: That's the market you need to be in.

Mr Pietsch: That's it. We have a fairly unique proposition in that regard. It's about fitting into the market in that regard and getting the right price.

Mr RAMSEY: I have an unrelated question, but you have touched on it before, about your productivity. In the figures I've been given here, your real price has been going down by about two per cent a year since the 1970s. I googled some figures while sitting here. I have been a wheat farmer for most of my life; I don't think wheat is any different, and I suspect most other coarse grains are not. In the case of wheat growers, we have to find efficiencies and new technologies to help us compete. Your efficiency is climbing very slowly. Is the rest of the world going to grow more and more sugar beet and then leave you behind, and you won't keep up? Are you facing an inevitable demise because the rest of the world is better at growing sugar than you are? I understand that sugar is probably one of the most corrupted markets in the world. For industry to progress, we have to clearly recognise the issues that we are facing and what our future is if we do nothing.

Mr Pietsch: I think that's a terrific analysis of a lot of the different points that we are facing in this area. At the moment we are certainly within the lowest quartile of cost efficiency in the world, so we are very competitive. There are other competitive advantages we have such as our terminals and our ability to supply at different times of the year infrastructure that a lot of other competing nations don't have.

There is no doubt that sugar beet has exploded around the world. They're having their own difficulties, though, in terms of restrictions on inputs. I was in Europe last week talking to the French beet farmer representatives, and they've got restrictions on some of their much-needed chemicals and other inputs into their system that are going to put pressure on them as well. It's a very competitive and dynamic global market, without question. It's not helped by the subsidy regimes that you're alluding to there, hence why we're taking on India. At the moment we are seeing those who are less efficient rewarded through government support, while those who are more efficient, such as ourselves, are really struggling.

Mr RAMSEY: Such is the meat of subsidies full stop, everywhere.

Mr Pietsch: Exactly right. Having said all that, that's a lot of external stuff that we don't necessarily have the ability to control. We have to really focus on the things that we can control, like this productivity challenge. We've got to do better; there is no doubt about that. There is no silver bullet. If there was, we'd be doing it. There are some changes being made to our breeding programs and other things like that to try and accelerate improvement; we are supportive of those. But I really think, as an industry, we've got to focus more attention on this.

Mr RAMSEY: I know this is no good for the sugar milling industry, but are there alternative crops for this land that have anything like the returns of sugar?

Mr Pietsch: There certainly are. There is a little caveat there; it's alternatives over a longer period of time. The one brilliant thing about sugar cane is how resilient it is to the weather conditions that it's exposed to.

Mr RAMSEY: We're not wet enough for palm oil, are we?

Mr Pietsch: There are other crops that are being experimented with. There's cocoa, there are bananas in some places and there are tree crops in the southern regions. Twenty years ago, growers didn't have the option to diversify; they were regulated on that land to grow sugar cane. Now they have those options. So far as they fit as part of rotations, we are actually quite supportive of that. Where we struggle is when we lose that land permanently. But we've got to face up to it. They're our competition, so we got to look for ways to make the growing of sugar cane more attractive.

CHAIR: Are there any more questions?

I think that probably does us, Mr Pietsch. I don't think there was any other information that you were going to provide us. If you do want to provide anything, could you provide it by 17 December. You will be sent a copy of the transcript and you'll have an opportunity to correct any errors. Thanks very much.

Mr Pietsch: Thank you. I appreciate it.

HICKLING, Mr Harry, Managing Director, Australian Performance Vehicles

[14:20]

CHAIR: I welcome the representative of Australian Performance Vehicles. I have to go through some quick legalities. This hearing is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard. It attracts parliamentary privilege. I ask you to make an opening statement and then we'll go on to questions and discussion.

Mr Hickling: It's a pleasure to be here. Thanks for your time. I'm representing Australian Performance Vehicles. We are a medium-sized enterprise based in Campbellfield in Victoria. We specialise in keeping people safe. That ranges from industrial testing services, which includes testing child seats that are either manufactured in Australia or imported into Australia, through to full vehicle safety testing for the car companies and ANCAP. The test laboratory also supports a lot of Australian industry and SMEs in product development, so we have good exposure and understanding of that segment of the industry. We are also an OEM manufacturer of seatbelts.

Mr RAMSEY: What does 'OEM' stand for?

Mr Hickling: Original equipment manufacturer.

Mr RAMSEY: Thank you.

Mr Hickling: That means that, for a customer anywhere in the world who is designing a new seat and has to integrate and test it within a vehicle, we have the capability to design the restraint system and test it at the restraint system level or the seat level to meet the overall system level requirement, as opposed to a low-cost manufacturer who would simply replicate a current seatbelt. OEM level manufacturing of safety products has a much higher cost of production. It's a much higher value-added part of the industry. We're quite proud of the fact that we've transitioned to the point that 40 to 50 per cent of our manufacturing and revenue is exported. As a company we are totally dependent on having a successful export strategy because the local market is not big enough to sustain a company like ours. It's quite simple: either you find a way to export or you're not going to survive.

CHAIR: Where are your biggest export markets?

Mr Hickling: Our largest export markets are New Zealand and the United States of America. We export into Europe and we're starting to get exports into Mexico as well. There's very little into Asia obviously.

CHAIR: Do you do some work in the defence industry space?

Mr Hickling: Yes, and we would be one of Defence's most successful SME exporters on volume of product. Basically, we supplied the military occupant restraints, or seatbelts, for the Bushmaster and for the US protected vehicle fleet, for Navistar, during Afghanistan. So we were a first mover. We applied Australian technology, which was the retractor in an automotive car, in the defence environment. That made people safer because, all of a sudden, they could easily wear their seatbelts, so, all of a sudden, the soldiers were wearing them. Also, in a blast scenario, the faster you can get your seatbelt on in a hostile environment the safer you are. Those restraints are in blast-protected, amphibious and land vehicles, and they're in most of the next generation land and amphibious fleet for the North American market.

CHAIR: Is there anything more that you want to add?

Mr Hickling: In preparation for coming here, I thought, 'Where does APV sit in the industrial landscape as an exporter?' That is quite interesting. Forty-one per cent of merchandised exports, as opposed to services, is generated by medium and large companies. APV falls within the medium enterprise level. As you would know, there is a lack of growth in the medium enterprise sector within Australia. Together, medium and large enterprises account for 99 per cent of Australian merchandised exports across all industry segments. Mining, as we know, is Australia's largest exporter, but manufacturing remains second at 24 per cent. This is from the Australian Bureau of Statistics for 2017-18, so they're quite recent stats. Companies, including APV, that have greater than 51 export transactions per annum represent 10 per cent of the exporters, or 91 per cent of the export value, and the top 26 per cent of average export volumes is in excess of $1.5 million. APV has 57 employees and 40 per cent export. Our revenue base from exports is typically running at $3 million-plus per annum. I was surprised by that number because it tells me there are very high value exports coming out of mining—small transactions but very high value—and then, coming down this exponential curve, Australia's export capability is diminishing very quickly. It's actually concentrated in a small group of companies that can sustain it, and they're actually at the medium to large enterprise level.

The highest value-added export industries are also medium to large enterprises, and that's a measure of, fundamentally, profit—the growth margin. That measure is output versus input costs, which includes raw materials and direct manufacturing expenses. APV typifies that as well. We have 57 employees and 65 per cent of our employees are qualified trades people, technicians, engineers or above. High-value export industries are innovative, they've got high-value levels of technology and they've got a high-value employment base. So it's a very important dynamic in terms of Australian industry to try and foster, support and grow that group of industries, whether it's agriculture or manufacturing. That's where we sit within the industry base. One of the challenges, as I said in my submission, is how, from an Australian perspective, we grow the SMEs—how we support the medium enterprises to grow into large enterprises; how we grow and protect our IP and commercialise it.

CHAIR: I was a bit alarmed to read in your submission about your experience with the EMDG. That seems very bizarre. Did you seek any political support to help you with that matter? It seems crazy that you're ineligible.

Mr Hickling: EMDG is put into the context of—for SMEs that have an ambition to export, you have to have a local presence and understanding of the local market you're trying to export into. EMDG provides that assistance by subsidising the cost of those exporters in those markets, so it's an incredibly important government initiative. As a result of purchasing the company from an international company—they were excluded after 11 EMDG claims, under section 94, in 1987-88. That has got no relevance to my business today—none at all. Something which happened nearly two decades ago prevents me now, as an Australian company, from getting government support to put local resources on the ground overseas. The consequence of this was that we employed, on a contract basis in the US, some support in that market. That person actually opened up that opportunity with Navistar for us, which got the export market. We put in our claims understanding we would get them approved. We went through a year-long process and then we got that determination. So it was quite unsatisfactory.

CHAIR: If you've got the paperwork, there's a good Victorian senator down the end of the table that might be able to drive the process for you.

Senator VAN: Very happily. I'm glad the question was asked for me.

Mr Hickling: The difficulty with this is that I believe the determination is correct under the current Australian legislation, so it requires a legislative change.

CHAIR: I understand. Is there something you wanted to add to that, Rowan?

Mr RAMSEY: No. I was going to bring up that point, but in general terms I'm presuming it doesn't explicitly say that you were a company solely providing to the Australian car-manufacturing industry which has adapted as a result of the closure of the industry?

Mr Hickling: Correct.

Mr RAMSEY: And there are a number around that have done so. Congratulations for that. I think it's a great feather in your cap that you're now obviously internationally competitive, because you're not getting much help and you're doing it. So well done. I would have asked about the EMDG.

CHAIR: I want to ask about two more points that you've raised. One is on the Efic experience. I find that disappointing. I find that probably not surprising. It seems to me that some of these finance vehicles that we set up from a government level make things unnecessarily hard—harder than they are in the commercial space. Could you provide us with a little bit more detail about your experience with Efic?

Mr Hickling: I would like to put it in the context, as well, of the government announcement this week about access to joint venture capital for small business.

CHAIR: Which hopefully is not going to have all the difficulty of other schemes that attach to it.

Mr Hickling: Yes.

CHAIR: That is the danger. That is why really I want to hear your view on this Efic stuff, because I think we sometimes get it so wrong.

Mr Hickling: The difficulty is, when you break it down, there's taxpayer money being used to support Australian industry. There's a risk involved with that and there's a risk involved in supporting SMEs which are trying to industrialise their bright ideas and IP. We have to accept, in terms of all levels of industry and politics, that there are going to be some failures, and we need to make it accessible to the companies which can actually do the heavy lifting and become successful exporters with high-value exports. In the Efic situation, my experience with Efic was that we dealt with them for a long time, and they are so risk averse that they're behaving like a bank. At the end of the day, that took so long that APV got to a point that we finally convinced the bank that they should provide us those financial facilities. What that says is that Efic failed, because, in the two or three years before that, I really could have dealt with their help. The impediment was—to be totally open with you—that we had arrears with the Australian Taxation Office, and Efic view was that they could not lend to any company which owes money to the Australian government. We owe this money to the Australian government, with agreements to the tax office under agreed repayment plans. As you observed, we were trying to rework and recover out of the collapse of the automotive industry. We literally went from being a $35 million turnover company in 2008 to $24 million turnover overnight. We had real estate leases and all of the overheads you have supporting a $35 million turnover company, and we were trying to transform the business. So raising capital—getting financial support for capital investment—was impossible. That's why we were trying to deal with Efic. We had a lot of nice correspondence from them, but we could never get it across the line. By the time they did get it across the line, the letter of offer still included personal guarantees and bank guarantees, and the directors of the company couldn't take any remuneration from the company or it would be limited, which was more onerous than dealing with the bank.

Senator VAN: I'm not sure what dates you're talking about with that. It might have predated the Efic Defence Export Facility. Or was it under that?

Mr Hickling: It did predate that. When we finally got to the point of a letter of offer, that was when the Defence Export Facility became available.

Senator VAN: Have you had any cause to look at that facility? Is that any easier or any better for your circumstances than the general fund?

Mr Hickling: You could probably view some of my comments on Efic as a bit dated.

Senator VAN: You do say that.

Mr Hickling: I do say that, to be fair. Fundamentally, what happened—without naming the bank—is that we ended up having the bank step behind us. They could see the growth and projected trajectory and the profitability of the company, and we have very good financial facilities in place now, which includes facilities for investment in capital equipment, trade finance and invoice financing. So, really, the need for us to deal with Efic has gone—for us as a company. But, as a concept for supporting small to medium enterprise, I think it's very important.

I'd also make one point, because we saw this. Efic was originally, to the best of my understanding, set up so the government was taking the financial risk for SMEs to provide that collateral to allow the SMEs to get the finance. But with that whole attitude, when you come to letters of offer that say, 'You as a company director are personally obliged to underwrite the risk,' something has gone off the rails.

Senator VAN: Yes, it's not serving its original purpose.

Mr Hickling: That would be my view.

CHAIR: Mr Hickling, you've made a comment here about payroll tax.

Mr Hickling: We don't have any outstanding payroll tax obligations—just to make that clear. We're quite current, as we are with the Australian Taxation Office. My view is that we pay GST. We pay a lot of GST revenue as a company. That is basically a state based revenue stream, but payroll tax is an input tax, and it's a tax against employment.

All SMEs have very deep product and innovation capabilities, but they are run by their business owners in an incredibly lean fashion in terms of management and financial management resources. You're paying one to two per cent against revenue in payroll tax when you've got a company like ours, where, as I said, 67 per cent of our employees are skilled employees. So you've got a high salary structure which outstrips the traditional view of what an SME might be in terms of revenue versus salary. That reflects the fact that it's a high-value, safety-critical product. So any SME which is trying to develop and launch IP, I think, undoubtedly will have high engineering costs within their organisations and therefore will get hit with a higher payroll tax in proportion to their revenue.

To put it into absolute context: in the last five years, I could have employed a financial controller in my business for the amount of payroll tax I give to the state government. I could have employed two graduate engineers or I could have employed a product development engineer. Any one of those three tools would have made a huge difference to my business. From my perspective, I pay my portion of GST, which eventually goes to the state. Why is it that we're then having double taxation on SMEs on payroll tax?

Senator VAN: There is lots of sympathy on this panel for that position.

With the LAND 400 phase 2 project being developed, are you getting product into the boxer? Is Rheinmetall a current client?

Mr Hickling: The answer to that is no, but I would definitely like to put on the record that we are providing product which is part of the survivability package of the platform. I commend what LAND 400 did in terms of going out to industry and encouraging industry development; I think it's a great model. But, when you come into the survivability package, Rheinmetall have a problem. They go through blast testing with the Australian Army with their vehicle with overseas seats, overseas restraints and overseas platform. Then to recertify and retest the vehicle to change something for our restraints to go into it is hard work. There's no real risk in it in our situation, because we've provided the restraints in those vehicles for a long time, and in the US they're battle proven, but I do understand how difficult it is for the project office and the primes to navigate that after they've had their vehicle blast-tested.

Senator VAN: Thank you.

CHAIR: Thank you very much. I don't think there's anything further you need to provide to us, but, if you do, please do so by 17 December. You'll be sent a copy of the transcript of this to correct the errors if there are any in it. Is there anything else you wanted to add?

Mr Hickling: There are probably two things that I would add. First of all, there have been a couple of discussions today about the interaction between government and industry. I would commend that the model that's been adopted in Defence in terms of collaboration with industry and then industry collaboration across industry, including all those stakeholders and our customers, is very important. It's got to be seen as one of the models for helping develop the manufacturing related export industries. There are a lot of hurdles to overcome to be successful in those markets.

There's a lot of discussion about regulatory burden, and one point I would like to make about that is that we do have in the transportation area, as you can imagine—people take seatbelts for granted. They used to take airbags for granted, and you can see there's a need to have various controls on those. The ADRs and other regulatory controls in terms of quality are actually quite important pillars in ensuring that the public remains safe with those products. Where there's a difficulty is that products can be imported into Australia which don't necessarily stand up to the same level of robustness. On the regulatory burden side of it there are some places where regulation is probably very appropriate and you have to support it and make sure it's in place. But the Australian manufacturers often have to go through a higher cost for that regulation than somebody who can import it.

CHAIR: How do they check the imported stuff?

Mr Hickling: A lot of the time people are taking for granted, like with the seatbelt example, that the label on the seatbelt actually is legitimate, but there are a lot of traps, and there's insufficient due diligence with it.

CHAIR: I think that pretty much wraps us up. We have one more witness, but I think we might take a five-minute break.

BELL, Ms Kylie, Executive Director, Trade and Investment, New South Wales Treasury, New South Wales

[14:52]

CHAIR: Welcome. These hearings are a proceeding of parliament. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. The evidence given today will be recorded by Hansard and attracts parliamentary privilege. I invite you to make an opening statement. We have the New South Wales government's submission. You can speak to that or on other matters and then we'll proceed to questions and discussion.

Ms Bell: Perfect. I'd like to articulate a little bit about what the New South Wales does in the space of trade an investment and, importantly, how we see synergies between the work that we do and the work the federal government does. We as a state have a team of export advisers across New South Wales. Similar to Austrade and DFAT, we have a network of international offices overseas that work with businesses from the state to provide advice and assistance to help them establish new export markets and to attract investment into the state.

We believe firmly that the New South Wales economy is very much reliant on trade and investment as a source of growth. Within our state around 16 per cent of the economy is derived through exports alone. As a diversified state, probably the most diversified across Australia, it's really critical to us that we work to enhance trade and export performance but also attract foreign investors and capital and the ideas and talent that they bring to New South Wales to ensure our growth and prosperity. We are already home, we think, to around about 600 global multinationals that call New South Wales home. They're attracted to our state for a range of reasons, but because of the access to customers, the access to talent and a skilled workforce and, of course, the access to infrastructure and lifestyle that we afford.

Last week the New South Wales government launched what we call the NSW 2040 Economic Blueprint, which is a guide for us as a state to how we'll ensure future economic prosperity, and trade and investment is a key part of that work. What the federal government does in the space of trade and investment is critical to us as well. As I mentioned, exports account to around about 16 per cent of our GDP. Last year we exported $90 billion in goods and services, so important for us. Yet only around about three per cent of our businesses across the state export. That figure is pretty consistent across Australia, but as a diversified state it's probably lower for us than say Queensland or Darwin where probably everyone exports something. So we would like to, I guess, see how we continue to grow that because one per cent growth in exporters could mean $20 billion to our bottom line. As I mentioned, we have the international network. We run a series of programs including the export capability program. We see that we as a collective state, federal and industry led coalition could do more.

In the work that we do both here in Sydney and across New South Wales we see barriers to export. We also see that a lot of the businesses that we work with, including the tech companies, often don't even know they're exporters. So how we work with a changing pool of businesses—for example, we in Sydney have 60 per cent of Australia's fintechs. Many of those businesses first clients are not Australian customers but international. How we can support the tech sector, and some of the other industries that are particularly strong in Sydney and New South Wales, grow is also important to us.

We do a lot of work with exporters. We've been told that some of their barriers to export—and I'll just read them. I think they're in the submission. There's a lack of information provided by both us as a state—we take responsibility here as well—and the government as well on international opportunities. It's hard for businesses to find where those opportunities—like where we share those insights with companies is not always clear. They still need work in building capability and capacity, particularly for SMEs exporting is expensive. It's risky. It's easier to stay at home and do business here sometimes than it is to invest in new people, travel and the resources required to succeed overseas, and so that is a gap that we might be able to fix together. Still trying to understand—Austrade's website or DFAT's website—basic trade requirements, regulations, and for specific countries it's hard to track down. The high costs associated with complying with those regulations. And, basically, inadequate access to trade finance. They're some of the things that we continue to hear. The cost of travel for most businesses to go overseas, particularly in the services sector which is important to New South Wales, means that businesses are investing significantly in exporting, and so there's a requirement of greater support from, I guess, all governments not just the federal government.

In our submission we've provided several ideas for the type of support we could see. We're happy to go through them or answer questions on them. I know it's Friday afternoon and therefore they might be brief! But we also wanted to throw our support into the government's strategy around negotiating free trade agreements. We believe free trade agreements are good things. We're very supportive of the government developing more, particularly with high-growth markets, so that we can get in at an early stage of the development of trade and economic relations, maybe before our competitors, so that we can make a difference.

If there's an early mover advantage in Vietnam or other emerging markets, for example, and if we can get in early ahead of our competition in the US or in India, that gives us time to build some longstanding relationships that make it harder for us to then lose market share down the line. So we're supportive of free trade agreements and look forward to working with the federal government not necessarily in negotiating them but inputting into them to ensure that the needs of our businesses in New South Wales are met. I'd put the UK in that category as it moves from the EU as well.

CHAIR: There's an opportunity. Thank you very much for that comprehensive overview. I did note that your submission seemed to be telling us that barriers to trade, particularly for SMEs, are a lack of knowledge, lack of guidance and lack of easy-to-access information. That's noted. I think that those five concepts that you've put to us are fairly self-explanatory, so thank you for that. To kick it off, besides mining and agriculture, what are the other significant export markets that you have out of New South Wales?

Ms Bell: People would assume our largest export market is coal; it is for now. But, for us, our second largest is international education, followed by tourism and then, I think, financial services. So, as a state, we are moving away from traditional commodities that might be big exports for the rest of Australia, and we've seen a dramatic shift in the last five years or so toward services. I think that reflects our economy as a state, in that mining is becoming less and less of a contributor to our GDP comparative to some emerging sectors. We've also got strong demand for a lot of our technology exports, which typically come out of Sydney and Melbourne, for example. They're our big growth markets at the moment.

Mr RAMSEY: One of the first initiatives that the submission points out is an export accelerator grant program. We have one of these in South Australia. It's not open at the moment. It's open periodically. It's open, I think, in January. I think it's matching funding up to $30,000 or something or other. Is that what you have in mind?

Ms Bell: Yes. The export—

Mr RAMSEY: Why then, particularly, for the South Australian government to have it? Believe me, New South Wales knows more about exporting than South Australia when it comes to growing a number of businesses, at least. But why do you see this being a federal responsibility and not a state one, given that it's already the state government's responsibility?

Ms Bell: My understanding of the Export Market Development Grants program, which is the federal government's leading grant, is that it's been around for probably 20 years or more in a very staid format. We haven't seen any—

Mr RAMSEY: We've had quite a discussion on it and the fact that the funding hasn't been rising.

Ms Bell: Yes, the funding hasn't been rising—

Mr RAMSEY: But the applications are.

Ms Bell: Yes, the applications are. But a lot of companies have already gone through that program and are no longer eligible for it. Say they've spent the last eight years developing China and the US. There are a lot of new, emerging economies that won't be able to use the EMDG grant for but could use it, for example, to accelerate their growth into India as a one-off. We would see that there's probably demand over and above the export market development grant for specific funding for specific projects in a very targeted way.

Mr RAMSEY: It's got an eight-year time line on it, currently, without worrying about other intricacies within it. Should it be limited to a market capitalisation or something like that? Are you talking about small companies getting their foothold in or are you talking about medium-sized companies that should have continuing assistance?

Ms Bell: We see that there are opportunities for both. The first is that the SMEs often don't get to the point where they can actually take hold of the Export Market Development Grants for the first few years of their existence, because they don't meet the threshold of expenditure. They'll just be very focused—and I'm going to keep going back to Vietnam, because it's easier than raising lots of different examples—they may spend only a small amount of money in building that market in the first few years, which means they don't reach the threshold to take advantage of EMDG but still are making the investment into Vietnam. We would consider some kind of small funding, and we think it should be matched. Companies should have skin in the game if they want to be able to export—but then help them through that first wave of development before they then start taking advantage of the EMDG.

Mr RAMSEY: So, you're not opposed to the eight-year time frame?

Ms Bell: No. But then there's a second group that have new markets. If you're an exporter, you may be very comfortable in the US for five or six years, but things shift, things change, particularly in the world environment that we're seeing at the moment, and you may no longer be eligible for EMDG and you may be a $5 million company but then, because of changing conditions in the US or in China, you may need to redirect your international marketing efforts to new markets and you've used up EMDG. We would see there that there's also a business case for a small injection of funding, once again matched, to take advantage of new market opportunities that haven't been on your business plan in the past.

And I don't have to talk about the changing geopolitical climate around the world, but a number of companies we're working with are having to diversify their export markets because things have changed from where they were, and they can't use EMDG to do that. A small accelerator fund for a particular market, for a point in time, for a particular project or for a particular customer could get them to that next opportunity. We're not saying we discount EMDG at all; we think it's a fantastic product. But it hasn't changed in a very long time, so there might be a need for additional products in addition to EMDG.

CHAIR: I have a final question. What foreign markets are the ones that are being exported into by New South Wales businesses?

Ms Bell: China is our largest export market, as I'm sure is the same for—

CHAIR: Do you know what percentage?

Ms Bell: I think it's about 25 per cent. It varies by industry. Our exports to China are heavily focused on services, actually. Coal goes to Japan and Korea, for example. So, we do have different markets for different products. We had our export awards lunch last week, where our award winners across the 15 categories come together, and we asked each of them what their biggest opportunity was in 2020 and what their biggest challenge was in 2020, and the answer, except for two companies that sell to the US, was China. And that is from companies that have $500 million revenues and it's from companies like channel 7, all the way down to SMEs that are in their first year of business. So, for us, the resounding interest is China, and how we play with China both as a nation and as a state is very important to them, because most of them—and certainly the companies we spoke to last week—derive half of their revenue, not just in Australia but globally, from China. So it's important.

CHAIR: That's a very interesting question, and the flipside can be true, too: how do we ensure that national integrity and security is kept—

Ms Bell: Hence the challenge and the opportunity for all of them. The other thing, which surprised me, is that the US is still a really important market for our companies, particularly given the strength of the tech sector in Sydney in particular. We've got a lot of companies that are exporting film services, animation and technology enabled services, and the US is still their largest market. So, our big goal at the moment is helping companies to diversify their international portfolio.

CHAIR: There are no further questions, so, thank you very much for your presence here today. I don't think there's anything that you're going to add to your submission. You'll be sent a copy of the transcript of your evidence here today. If there are any corrections that need to happen, you can do that—any errors. I'd like to thank all the members of the committee and all the witnesses for your time here today.

Committee adjourned at 15:09