

The Company Man – Mark Paterson, Department of Industry, Tourism and Resources

Mark Paterson was an outsider when he was appointed head of the Department of Industry, Tourism and Resources four years ago. A former head of the Australian Chamber of Commerce and Industry, Paterson had no experience as a senior public servant. His brief stint in the public service in his younger days was in the state service in South Australia and ended in 1981, providing little training for the job of leading a major federal department.

On his first day in the job, Paterson called his leadership group together and asked them to fill out three pieces of paper. On the first they were asked to describe their relationships inside the portfolio, with other parts of government, and with organisations outside the service. This would provide Paterson with a relatively quick map of who the department dealt with. On the second piece he asked them to identify any key decisions that had to be taken by the executive in the next six months. And on the third he asked them to tell him what they would do if they were in his shoes.

Responses to the third request identified some unnecessary bureaucracy and unnecessary reporting in the department. Paterson's unconventional approach to handling the job was brought home to me when I emailed him seeking an interview for this article. An hour later I got a call, "Mark Paterson here. When do you want the interview?" I was a little taken aback: a Secretary who not only reads his own emails but one who makes his own telephone calls?

Paterson's lack of recent public service experience may well have proved an advantage in bringing about change in his department. As an outsider he had no reason to be bound by the conventional bureaucratic processes. "There used to be sub-committees of committees that met endlessly," he says. "But on examination I couldn't find that they'd actually produced anything. So we got rid of them. We didn't lose anything by doing that."

The department also got rid of a lot of the "wasteful unnecessary internal reporting". Paterson says he thinks coming from the private sector brought a different perspective to the task. "You're not steeped in all the traditions of the public service so you might approach things differently, in ways that people in the past either haven't done or have felt constrained by process from going down that path. I think we were able to ... approach change in ways that hadn't been done in the past." Because few people had come from the outside to the position of Secretary, there was little to prepare him for the task.

Paterson points out that there is now an Australian Public Service Commission publication setting out the key governance requirements for agency heads, but notes that such a resource “certainly wasn’t available when I started”. He says he had to be acutely aware of what he didn’t know and what he needed to know. He says now the department does not have “an undue internal process, so I’m not constantly in internal meetings.”

A key program managers’ meeting is held every Monday, mapping out key strategic issues for the week and the major things that need to be delivered for government. The meeting invariably lasts less than an hour. “We don’t need long meetings,” he says. “We’ve cut down the notes that were prepared for that, to be sharp and succinct, so that we reduce the process time that stands behind it. “But ... it’s a very useful forum, a very open forum. People come to it well prepared.”

Every month they have a traffic lights report which tells them what is on track, slightly off track, or fundamentally off track. “We can see things that might be going off track and take remedial action, or if things have gone completely off track, we can start to work to get them back on track and decide whether we need to take alternative decisions.”

Paterson did his university training part-time, gaining a Bachelor of Business from the South Australian Institute of Technology after study at four universities. “I moved from South Australia to NSW when I was part-way through my degree and I was confronted by the then inability of the Higher Education System to recognise one university’s work at another,” he says. At three of the universities he attended he was regarded as a non-degree student, but he managed to persuade the people back in Adelaide that what he’d done at the three universities was equivalent to the outstanding parts of his business degree.

Paterson’s first full time experience was as a clerk in the Engineering and Water Supply Department in South Australia. He moved to the then Public Service Board. The early part of his career was in industrial relations and human resources related activities. Paterson left South Australia in 1981, moving to Sydney where he worked for the Australian Medical Association as a federal industrial officer. From there he went to the Chamber of Manufacturers of NSW in a variety of roles, consulting, and then on to the Retail Traders Association in NSW. In 1996 he came to Canberra when he was appointed chief executive of the Australian Chamber of Commerce and Industry.

Paterson says there are certainly substantial barriers to people from outside coming into senior positions in the public service. “I was an active investor and a reasonably active trader and I had to very quickly fundamentally change all of my financial arrangements because really in the nature of this portfolio I couldn’t be a direct holder of shares in anything, because there was always the potential of conflict,” he says. “I had to very quickly re-arrange all of the

financial affairs, not just of myself but of my wife as well. So that was a very significant shift, unfortunately probably also, a very expensive one.”

Paterson says that on his first day he was aware that people might have said, “Who is this bloke? Or what’s he been sent here to do?” “I made it quite clear that I didn’t come with a particular slash and burn agenda. I believe in growing the best out of individuals and organisations and that was my commitment to them.” Nevertheless the department undertook a significant adjustment, in both priorities and resource allocation and staff were cut. “I knew we had to reduce the staff numbers,” Paterson says. “I wanted a strategy which enabled us to manage that process. I looked at what our turnover was. It was clear to me that if we managed it appropriately then we could make the right sort of adjustments and we did it without a single redundancy at the time.

Overall staff numbers were cut by about 10 per cent. “I was open with people about what we were going to do ... I recognised that, knowing what was to happen, they wanted certainty. But I wanted to consult and make some priority decisions before we decided which course of action we would take.” When the final decisions were taken, an all-staff meeting was called where Paterson and the executive presented their planning.

Paterson says today his job is to ensure that there is a key sense of strategic direction and to properly identify what the priorities are. “There are many good things that we could be doing, and many good things that people could urge us to do and governments might want us to do,” he says. “But we’ve got limited resources. So we have to make key priority choices. One of my most important tasks is to make sure that we take the decisions of what we’re going to do, and what we’re not going to do and the Government understands that. You can’t just constantly load new activities on to organisations and just expect that they’ll do everything that they’ve always done ... I think the mistake that we sometimes make is not deciding what we’re not going to do.”

Paterson is well aware of the interest groups that vie for government support. “Every dog is somebody’s pet,” he says. “Every bad bit of regulatory intervention has a champion behind it ... it may be a dog, but someone cares for it, and nurtures it, and wants to keep it. And that’s not necessarily in the best interests of trying to reduce red tape.”

When Paterson was appointed secretary the Industry department was already in the process of managing the cut in protection of Australia’s manufacturing industries. Today, with quotas gone and tariffs significantly reduced, some might argue that the department no longer has a role. Paterson says they still have two significant sectors, the textile, clothing and footwear sector, and the automotive sector – where they’re continuing to lower tariff protection and assist adjustment. He says they’re also doing a significant amount of work with the Defence department in demonstrating Australia’s core capabilities to

participate in global supply chains. For the joint strike fighter project, for example, they had a Team Australia approach to have Australian industry participating in global supply chains with US Defense contractors. "The industry feedback that I have is that that's been a very powerful program and has delivered real outcomes for Australia", he says. "We will be able to roll that model out in relation to other Defence acquisitions."

Broadly Paterson sees the department's role as playing its part in developing Australia's overall economic architecture and framework. "We don't go out and advocate significant interventions in the marketplace," he says. "I think one of our key roles is trying to make sure that we pull government back from its intervention in the marketplace, that we try and remove the barriers that government over time may have imposed, or that the regulatory system over time has imposed on business. "You eventually get to as light handed a regulatory structure as you can, while still meeting the expectations of the community."

Lifting what he sees as the current deadweight cost of regulation is one of the major challenges. Hanging on the back of a regulation, there is often someone trying to keep it in place. The regulation was imposed in the first place because someone wanted the Government to "fix this problem, overcome this challenge, address this market failure or support this sector".

Paterson acknowledges that there have been a host of investigations and reports into cutting red tape in the past. But he says he thinks now there is "a genuine momentum for change" and points to the taskforce led by the Chairman of the Productivity Commission, Gary Banks, and the work the Council of Australian Governments is doing in the area. This, he believes, will make substantial inroads. "It's difficult and I don't shy away from the fact that it's challenging to try and reduce the regulatory burden," he says. "If an HIH collapses people come to government and say, 'this must never happen again.' But is ramping up the regulatory impost on every business in that sector the right way to go? I think we've got to seriously question that. Sometimes it would be nice if we had the opportunity to say, 'well, you might want government to fix it, but is that really the best way for us to go?'"

He says it is not only federal regulation which must be tackled but state and local government regulation as well. His expectation is that the Banks' taskforce will go beyond the broad sweeping statements of the past and come up with specific regulations to be dismantled.

Shortly after his appointment, Paterson told a luncheon that there were people putting out their hands for serious amounts of money and they are "the most belligerent, obnoxious correspondents I have ever seen". "I did say that ... I stand by what I said at the time," he says. "But I don't see as much evidence of that now." He says he thinks many people in the private sector don't fully understand public policy and the process of public policy development. "That's

obvious when you see people come to town,” he says. “They argue invariably from a position of vested interest, or of their interest at least. And they don’t think about how that links in with broader government policy, they don’t think about the second and third round effects of what they might be advocating, which are some of the things that we need to do in providing advice to government. You can take what may be a simple proposition that somebody comes to town complaining about, but you’ve got to think about how does that fit more broadly and how does that fit in the architecture of the regulatory structures we have? Who’s that likely to have a negative impact on?”

Paterson says his department’s interest is the national interest. “I think having a relatively consistent philosophical approach to many of these issues helps guide us in the advice that we provide to government. So if we have a shared understanding within the portfolio of the broad parameters, then it means we can be providing consistent advice irrespective of who the person coming in from outside might be, and whatever their particular interests might be.”

The department covers a wide range of industries from manufacturing to the booming resources and energy industries, and tourism. Paterson defends having a whole division devoted to the single service industry of tourism while, for example, the Manufacturing Division looks after the automotive, textile, clothing and footwear, aerospace and building industries and another two divisions look after all the policy issues of the major export earning resources, minerals and energy industries. “Yes, it’s a service industry,” he says. “But there’s a whole series of components to it and no one group controls the chain, so you’ve got accommodation, you’ve got events, you got the variety of potential experiences that people have, you’ve got airline capacity ... there is a very strong argument to say that government should be involved in supporting the tourism industry because the individual businesses can’t capture directly the value that might be spent on broad media and marketing campaigns in key offshore markets.”

Asked if he thinks it is essential for Australia to have a car industry, he says, “I think there is a very strong level of support, both politically and within the community generally, for maintaining domestic manufacturing capacity. The component suppliers build core skills, you get critical mass. There are those who would argue that we’ve got a strong medical devices industry because of the engineering and design skills that support the automotive industry. So I think it goes beyond just the iconic, ‘should we have a car industry?’ to ‘well what’s the broader nature of the skills base, the industry capability that we want for defence purposes, for demonstrating capacity in a whole range of other areas?’ New industries like medical devices are often the combination of some good science, some great engineering, some ICT technical capacity and how you blend that together, and some market pull, understanding what might be needed in the market.”

The car industry, he says, continues to be challenged. "Clearly it was much easier for them to compete internationally when the dollar was below 50 US cents than now with a 47 per cent appreciation in the dollar from that low. It is much more challenging. There's globalising capacity. There's some real challenges for the head offices of some US based companies, two of which operate in Australia. Their legacy health care costs for former workers and existing workers in the US are very significant challenges for those businesses, so we need to work very actively, and government is working very actively to support both the manufacturers and particularly the component suppliers to help get them into global supply chains, in a way, not dissimilar to what we've done in the defence area."

Paterson nominates energy market reform as a department success story. "We might not have met everybody's expectations but I think, if you tested it in a historical sense, very major progress has been made in energy market reform," he says. "Energy is a critical component in any developing economy. It's particularly so where you've got energy exports in the way that we have. Our energy intensive exports are really important to us, so having much more efficient energy markets, much more transparent processes, competitive sources of supply, removing the regulatory burden that's been imposed by having state-based regulators across a whole range of areas, I think very significant progress has been made there."

He is also proud of the work with Defence, where the aim is to lower the transaction costs for a global prime contractor to deal with Australian companies. "If we want Australian companies to participate in those sorts of global supply chains, both in design and in manufacture, we've got to be able to demonstrate their capability," he says. "Quite often they can't do that on an isolated, company by company basis.

He says it is important they are able bring the companies together to demonstrate their capabilities and lower their transaction costs. As a result of this action, companies have won contracts in the design phase and on-going contracts are expected in manufacture and the life support programs for projects.

Administratively the biggest thing that has gone wrong in Paterson's time with the department was the suspension of the core research and development support program, R&D Start. "I started on the Friday," he says. "That happened on the Monday." He says they had a complex grants programs which on an accruals basis could be managed over time but faced difficulties in staying in line with annual appropriations. "We have contracts that vary in dollar size, vary in duration from three to five years, and the actual spend rate is determined by the private sector person who's the recipient," he says.

The grant recipients had traditionally underspent and the department would then get criticised for not working the program hard enough. Before Paterson

took up the job, the department had tried to recognise the historic slippage and factor that into the allocations that were being made. It “cranked the program up” but at the same time unforeseen, economic circumstances in the business community meant that many people brought forward their plans and increased their spending and therefore increased the demand they made on the program. It could not be kept open because the department would not have been able to fund it. So Paterson suspended it. “That was a particular challenge on day two and it took a while to work those issues through,” he says. “We were criticised for having done it.”

He says the experience highlights the challenge of managing multi-year contracts where the spending pattern is in the hands of other people, all doing legitimate things, while having annual appropriations on a cash basis and accrual accounting. With the wisdom of hindsight, could it have been handled better? “We recognised at the time when we examined it that we could have done some things better and we could have done some things earlier than we did,” he says. “We’ve put in better processes to overcome that. We’ve changed the contractual terms. We’ve got better planning arrangements between us and the individual companies in terms of spending profiles. We’ve got greater profiles We’ve got greater flexibility in the new grants about how we make the payments and the timing of those payments. We didn’t have that flexibility before and historically it hadn’t been needed because historically these things had always underspent. It was when we got more active in terms of trying to get the program out there to overcome that underspend, and had a significant increase in spending patterns by the individual companies that, when aggregated, put us in a really difficult wedge.”

Paterson is not overly concerned about Australia’s falling self sufficiency in oil. “We’re very rich in gas,” he says. “We’re very rich in uranium We’re very rich in coal. We have hundreds of years of supply of those products. We’re a net energy exporter.” He says liquefied natural gas prices are influenced heavily by the price of oil in international markets. Some of our crude oil is heavier and gets exported into other markets while we buy some light sweet crude for petroleum manufacturing and import some petroleum predominantly from Singapore.

The Government has provided on-going strong support for further exploration. The departmental agency, Geoscience Australia, does a lot of pre-competitive geological work, which is then put out as part of acreage release by the department’s Resources Division. There are also new tax treatments in frontier areas where people have not previously explored and where the pre-competitive geological data suggests there may be potential. Very significant private sector capital is going into drilling in deep water, in frontier areas with no guarantees of success. “Over time we’ve been more successful in finding gas than oil but I

remain optimistic in relation to opportunities for us finding future oil," he says. But we're an open trading economy, so if we're short in one area, then we'll import that and export other things that we've got in abundance."

On the question of using more gas, he says much of Australia's gas is in the North West Shelf while demand is in the Eastern seaboard. "At the moment it's more efficient to export that gas to other markets and get a price in those markets that justifies the transportation costs and the extraction costs," he says. "There are other potential opportunities. There's a lot of talk in relation to the PNG pipeline, feeding into the eastern seaboard market, being able to underpin our gas stock on the eastern seaboard. Using LPG or CNG for transport fuels will depend on the economics over time and I think it ought to depend on the economics."

He says the Government has an excise regime that recognises environmental contributions that also recognise energy content. It also has a bio-fuels strategy where it is committed to achieve the target of 350 million litres of bio-fuels by 2010. "I think the work that we've done in recent times means that we're reasonably on track to meet that target."

Before his appointment the portfolio lost responsibility for the major science agencies of CSIRO, the Australian Nuclear Science and Technology Organisation and the Australian Institute of Marine Sciences when the decision was made to link them with the Education department rather than Industry. "I think you can run both arguments about location," Paterson says. "What we have to do is make sure there is active engagement between this portfolio and the DEST portfolio to make sure there isn't a disconnect between industry and the publicly funded science and innovation community."

He says he's worked very closely with the Secretary of DEST, Lisa Paul, to ensure that there are no silo barriers. He points out that when Industry lost science it also inherited the Office of Small Business from the Employment and Workplace Relations department and gained the Business Entry Point, as it was then called. This has now become part of the department's e-business division, which runs a very large transaction based website www.business.gov.au. This offers the 6,000 odd forms that the three levels of government require of business to get a licence, to start a business and to operate a business. The department is working on ways to can make that interaction a much more efficient.

Asked why, if he favours cutting red tape, there are 6,000 forms for business, he says, "We don't control all of those. Many of those are state and territory based forms." Later when musing on the department's future, he says, "I don't think that the portfolio will stay the same size and shape, constant over time. The nature of change in relation to tariff protection, moving away from that and other areas, we'll evolve over time. Once we've achieved substantial reduction in the regulatory burden, found ways to manage that 6000 forms in a much

smarter way than is done at the present time, then we'll move on with other priorities."

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