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Inquiry into the Australian manufacturing industry.

Dear Senators, readers

Thank you for the opportunity to make a contribution in a timely inquiry into the state and future of manufacturing in Australia. Please accept my submission with respect to select *terms of reference*.

a. What manufacturing capacities Australia requires for economic growth, national resilience, rising living standards for all Australians and security in our region;

Today climate change is the defining global security and economic challenge of our time. We are right now teetering on the precipice of the biggest transformation and manufacturing opportunity in human history – Decarbonisation, Electrification and Climate Adaptation (DECA). Like the agricultural, industrial and digital revolutions before it, DECA will transform the wealth of nations and our way of life beyond imagination.

History also reminds us that the countries and peoples leading the research, development and production of the tools giving rise to the revolution will capture the greatest value and employment opportunities. The DECA revolution will be no different.

Here now is our opportunity to help shape the vision, framework and investment needed to attract and build future relevant and critical manufacturing industries in Australia. Our net zero emissions climate change policy is the natural vehicle with which we could build future relevant technologies manufacturing in Australia.

Of course Australia must meet our Paris agreement targets. Every half a degree of warming significantly impacts climate extremes and we already face seemingly insurmountable climate challenges with the existing one degree Celsius of warming. This however is no excuse to hand over wholesale our nation's wealth, future capabilities and family jobs to manufacturers in other countries.

Many other countries already use climate change emissions policy to invest in future critical technologies development and manufacturing. In the US an EV proposal led by Senator Debbie Stabenow, a Michigan Democrat, would boost the US\$7,500 tax credit by US\$2,500 for vehicles assembled in the United States and another US\$2,500 for cars at facilities whose production workers are members of, or represented by, a labor union. This is the underlying theme of all US climate policy – local manufacture. The US is also working to invest significant public money into critical minerals processing, semiconductor, battery and pharmaceuticals manufacturing. We can say the US is “tooling up” to win the 21st century.

Similarly, the UK is investing in offshore wind manufacturing by requiring 60% local content for offshore wind projects by 2030. Interestingly, the UK no longer subsidises roof top solar as they see it as an inefficient way to decarbonise the national grid and now prefer much lower total cost and easily integrated large scale solar projects.

b. The role that the Australian manufacturing industry has played, is playing and will play in the future;

Manufacturing had a long history of providing many secure and well paid jobs in Australia. Manufacturing jobs helped to successfully integrate waves of new and young Australians and empowered them to keep stable family homes. We find the children and grandchildren of such migrants and Australians now swell the leadership ranks of government and industry. Herein lays my interest in Australian manufacturing - it offers meaningful secure work, good pay, community connection and therefore stable homes for children.

c. The drivers of growth in manufacturing in Australia and around the world;

The Decarbonisation, Electrification and Climate Adaptation (DECA) revolution.

g. The role that government can play in assisting our domestic manufacturing industry, with specific regard to: i. Research and development; iii. Supply chain support and iv. Government procurement

AEMO could review its Integrated System Plan (ISP) given its objective is only “to meet power system needs while optimising net market benefits.” This objective does not give AEMO the incentive to design an ISP with local manufacture in mind and as such facilitates a fully imported net zero solution. In my view this objective can only result in a system which meets emission targets and provides investment certainty. The problem is meeting targets and providing investment certainty has nothing to do with developing Australia’s future competitive advantages and family friendly jobs. As such I’d like to see AEMO give due consideration to an ISP which puts local manufactured products at the front and centre of the ISP.

In Victoria this year the government outlined a \$4 Billion path to net zero with a staggering \$3 Billion subsidy for imported small scale solar and battery kits. My sense is that whilst this spend may reduce emissions, it does nothing at all to develop future relevant industrial capabilities, options for growth or family friendly jobs in Victoria.

Like the US, UK and some EU countries, Australian federal and state net zero emission climate policy spends should aim squarely at solutions that foster local minerals processing and future relevant industries and manufacturing. This should be of relevance to the Clean Energy Finance Corporation, the Australian Renewable Energy Regulator and the Future Fund.

I remind the Senators and readers of the comments by Professor Clinton Fernandes noted in the The Economics References Committee: Greenfields, cash cows and the regulation of foreign investment in Australia Report (August 2021). It states *“the national interest is what you make of it and argues against being bound by a ‘very narrow, unambitious version of the national interest’. The national interest should recognise the need to develop Australia’s economic complexity. For Professor Fernandes, policies that would give effect to a more ambitious understanding of the national interest would increase Australia’s economic complexity by diversifying exports into higher value-added sectors.*

An economically complex country can ‘combine new capabilities with a wide set of existing capabilities, resulting in new products of higher complexity than those of countries with few capabilities’. A country’s level of economic development is associated with the complexity of its economy.”

h. The opportunity for reliable, cheap, renewable energy to keep Australia’s manufactured exports competitive in a carbon-constrained global economy and the role that our manufacturing industry can play in delivering the reliable, cheap, renewable energy that is needed.

It’s often claimed that abundant, cheap renewable power will lead to a renaissance in Australian manufacturing. Unfortunately this is untrue. Just as cheap labour is immaterial in high technologies manufacturing so is cheap electricity today. Germany is one of the world’s leading export manufacturers and yet they pay very dearly for electricity and labour compared to their competitors.

We need more than just cheap renewable energy to create future competitive advantages in Australia. Government policy must develop the complexity of our export economy if we are to thrive in the DECA revolution. We could take our lead from the US in this regard. They say ¹ *“...secure and resilient supply chains are essential to our national security, our economic security, and our technological leadership. The work of strengthening America’s critical supply chains will require sustained focus and investment. Building manufacturing capacity, increasing job quality and worker readiness, inventing and commercializing new products,”*

I hope you and all readers are inspired to think more about how climate change emission policies should, could and must build new manufacturing industries with family friendly jobs in Australia. My recommendation is to follow the 'local content' example of both the US and UK by aiming our climate change policy squarely at developing Australia's economic complexity and manufacturing capabilities. I hope you can make it your recommendation too. Thank you.

Yours sincerely, Rocco Perna.

1. "BUILDING RESILIENT SUPPLY CHAINS, REVITALIZING AMERICAN MANUFACTURING, AND FOSTERING BROAD-BASED GROWTH", 100-Day Reviews under Executive Order 14017 June 2021 A Report by The White House.