

From: [SeniorClerk, Committee \(SEN\)](#)
To: [Economics, Committee \(SEN\)](#)
Subject: FW: Submission to the Australian manufacturing industry Inquiry - Gerard Flood
Date: Friday, 10 September 2021 10:47:57 AM

From: Gerard Flood <[REDACTED]>
Sent: Friday, 10 September 2021 10:35 AM
To: SeniorClerk, Committee (SEN) <SeniorClerk.Committees.Sen@aph.gov.au>
Subject: Submission to the Australian manufacturing industry Inquiry

10th September 2021

Committee Secretary
Economics References Committee
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Submission to Inquiry into The Australian Manufacturing Industry

About the Author

Gerard Flood is an Australian political activist with a particular focus on national industry and economic policy advocacy, expressed through two national NGOs, including the Society for Australian Industry and Employment, one Victorian NGO, and one political party.

For publication, please.

Submission.

First Reference Term

" a. The Australian manufacturing industry, with specific regard to: what manufacturing capacities Australia requires for economic growth, national resilience, rising living standards for all Australians and security in our region."

Submission: that the Committee find and recommend that :

1. Australian Manufacturing be acknowledged as integral to imperative regional and national security readiness.
2. Australian Manufacturing is considered to be totally inadequate to fulfil that role in its current performance capabilities.
3. The most urgent 'whole of government' consideration must be given to rectifying the deficiencies, as identified by a specialised process rigorous scrutiny.

4. The scale, urgency and imperative necessity of the required reforms and rebuilding will require the establishment of a very significant government entity or commission with executive powers to determine priorities, to raise and allocate very significant funds, to oversee very significant and urgent infrastructure projects, especially urgent in base load electricity generation.

5. In the area of international trade,

[a] import replacement manufacturing of essential supplies, including Liquid Fuels must be secured, due their irreplaceable role in our transport-dependent economy and urban polities.

[b] absurd distortions of "free trade" need to be reformed, as when foreign tenderers undercut Australian manufacturers by operating in an unregulated environment, and Australian governments must protect our most critical requirements by invoking the World Trade Organisation's provisions for "Strategic Industries" status be declared for identified products, the status which protects the declared industries from the WTO and Free Trade Agreement rules.

6. Regarding the scale of finance required for the re-instatement of Australian Manufacturing on a scale commensurate with similar economies, and to address our specific geostrategic vulnerabilities and needs, it must be born in mind that this proposal is one to engender Hard Industries production, production which 'pays the bills', replaces imports, generates income, and has significant down stream multiplier effects and generates taxes; it is not a proposal based on mere services like the Victorian Government's \$10 billion Train Level Crossing removals, or its \$50 to 100 billion for a passenger Ring Rail.

7. It is imperative that Australia can demonstrate to the USA that the USA's military protection of Australia's vital interests also protects the USA's vital interests. Accordingly, Australian Manufacturing re-industrialisation ought be commenced on a scale sufficiently large so as to demonstrate Australia's determination to produce as much as possible the industrial "sinews of war" in military materiel, and by doing so, to demonstrate to our international allies, especially the USA and the Republic of China, that we fully qualify to contribute to, and to benefit from, the protection of our alliances, especially in the face of current overt hostile threats, spying and gratuitous trade disruptions by the government of the PRC.

[8] The occurrences in NSW, 2020, where the AEMO was forced to issue 'insufficient capacity' warnings at a record rate of up to one every four days, revealed a crippling impoverished and avoidable "Third World" standard of basic infrastructure capacity in Australia's largest - by far - state, with over a 32% share of the national economy, and that liability must be removed urgently as a state and national priority.

Notes in Support.

[A] The Regional and National Security Historical Background

[1] The Committee must recognise that Australia's national government has a fundamental constitutional responsibility to give absolute primacy to external-facing National Security in all its aspects, compared to internal, domestic and state-focussed governmental functions like Health and Education.

[2] The proper context for any government's permanent commitments of finance, political, industry, training, procurement etc to Security includes:

(a) the "insurance principle", ie that the necessary costs of Security can rightly be considered as an "insurance premium" against harm or catastrophe,

(b) the "lead time", or time lag, between when a government decides to acquire physical capability [eg major military hardware, Hard Industries capacity, major electricity generating capacity, nuclear-generated electricity], and the time before that decision is delivered, eg in the case of a submarine or capital warship, is measured in decades.

[3] The specific current context for the Committee's assessment of our *manufacturing industry, with specific regard to: what manufacturing capacities Australia requires for security in our region* includes:

(a) Australia's inherent geostrategic vulnerabilities: our significant financial dependence on our mineral exports, and on critical imports [eg liquid fuels] requires security of maritime trade through the South China Sea and the Malacca Straits, narrow routes which are increasingly vulnerable to interdiction, either by a state actor's hostile activity or by other contingency.

(b) Australia's inherent geostrategic vulnerabilities in time of conflict : we could well be physically isolated from adequate re-supply of essential Defence Materiel ex distant allies.

(c) There is a strong correlation between Australia's ability to supply our own Defence Materiel and selected Manufacturing Industries capacities.

(d) Our allies may well expect that we produce our share of Defence Materiel as a condition of our alliances.

(e) Australia's current capacities to produce a reasonable contribution to regional security is deplorably absent, and is diminishing further. [Note in support: Australia has fallen from a "Top Ten" OECD manufacturer to near the bottom of the 38 nations. Our Heavy Engineering, Iron, Steel Aluminium smelting, Ship Building, Vehicle production etc have been largely demolished.]

(f) The following special factors which the Committee ought to consider when weighing the above points in the light of Australia's imperative military, security and diplomatic protection under our alliance with the USA:

The history of the USA's failures to support Australia's expressed concerns:

- Before Japan attacked the USA at Pearl Harbor in December 1941, Australia sought assurances of US opposition to Japan's cruel invasions, especially southwards towards Australia, and the USA told us that they had four higher priorities than opposing Japan's forces.

- In 1959, when The Netherlands Government wanted to exit its territory of West New Guinea, and an unstable Indonesia's President Soekarno wanted to take it over, Australia sought the USA's support to oppose Soeharno's takeover, but the USA refused us, and we were too enfeebled to act unilaterally in our interest: we were the mandate government of Papua New Guinea, which shares a 800km border with Indonesia in West NG And today, that failure of Australia's interest threatens to

destabilise our regional standing, because Indonesia's current serious human rights abuses of the Indigenous of West NG may raise questions of Australia's support for, alternatively, our regional state ally, Indonesia or the needs of our diplomacy to defend the human rights of those indigenous neighbours of our ally, PNG in Port Moresby.

- In 2019, President Trump **unilaterally** negotiated behind the back of his allies, ie. the Afghanistan and Australian Governments, with our enemy the Taliban in Afghanistan, to withdraw US forces from Afghanistan.

- In 2021, President Biden unilaterally and without notice to the same allies withdrew precipitately and catastrophically from Afghanistan.

- "China", viz. the PRC, maintains a current posture which incontrovertibly includes:

- The PRC's politically-directed abuses of international commodities trading obligations, directed against Australia.
- Threats of hostile military and quasi-military coercion in the South China Sea against the Republic of China
- Demands that foreign vessels accept the PRC's declaration of its territorial sovereignty within the Nine Dash Line, thus repudiating both the Freedom of the Seas principle and also that such international dispute must be processed under UNCLOS
- The PRC sent not one but two surveillance ships to spy on Exercise Talisman Sabre 21 which involved forces from the Australian, United States, Canada, Japan, New Zealand, the Republic of Korea and the United Kingdom, with Australia-based personnel from India, Indonesia, France and Germany observing the exercise.
- The PRC is thought to have capacity to deliver nuclear missile attacks on the USA in Hawaii and its continental west coast.

[B] One Projection of Future Contingency in Regional Security

Bearing in mind the established historical record of the USA's performance vis a vis Australia and other allies, it is relevant to consider the potential actions of the USA if the PRC attacked the Republic of China or another ally, or interdicted our exports en route [or engendered the same], and then threatened to attack the USA if the USA were to intervene.

It is irrelevant for our current purpose to recount all the USA's actions which have supported Australia's interests, because prudent responsibility requires that Government consider what has happened, and what may well happen, whenever our allies' interests diverge from our interests, and their subsequent actions inevitably fail to help us.

It is imperative that Australia can demonstrate to the USA that protecting Australia vital interests also protects the USA's vital interests.

Second Reference Term,

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

I submit that, for my purpose here, "the role that the Australian manufacturing industry has played" is to **demonstrate Australia's inherent vast capacities to achieve whatever we decide, consequent on our direct access to a very wide range of essential factors of production in raw materials, land area, built infrastructure, widespread training facilities, a highly desirable destination for ambitious professionals and workers, a history of successful industrial innovation.** To take one example, that of Water, in contradiction to the statistic that Australia is the "driest" continent, Australia with, 51000 litres available water per person per day, ranks third globally after Russia and Iceland, while the USA enjoyed 24,000 litres per person per day, and the UK 3,000, [ref World Resources Institute 2004]

Examples of superlative Australian industrial design include the Wayne Stuart piano, and the Gippsaero GA8 aircraft: While these both are at the pinnacle of world excellence in extremely competitive sectors, they have both been damaged and crippled by, respectively, malignant official government-controlled obstruction, and utterly counter-productive government "assistance".

I submit that the only constraints on the role it will play in the future will be generally self-imposed, with the exception of highly specialised niches, eg. Korea's supremacy in the mundane item of electronic keyboard production.

Third Reference Term,

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

I submit that, historically, the driver of Australian manufacturing was the **post-WW2 Federal Government's in-principle decision, for imperative national purposes, to vastly and quickly expand the nation's population**, and for that purpose and plan, the government established a comprehensive and integrated strategy involving mass immigration, massive fundamental infrastructure projects for Water, Electricity, Housing, Manufacturing etc. on the basis that a "Population Expansion" policy requires prior advanced provision for housing and services, supply of household supplies, readily available employment, basic water, power transport etc to facilitate industrial production etc.

I submit that the driver of **dismantling of Australian manufacturing since 1970 is the imported Business and Government ideology which claims that the commercial success of transnational corporations would be a net benefit to Australia**, and that the loss of Australian on-shore manufacturing was, on balance, a beneficial policy.

One factor which is often associated with corporations' decisions to "off-shore" Australian manufacturing is the claimed relatively high price of the Labour component in a product's selling price, but that assessment is not born out by cost accounting: The Labour component of the cost of vehicle production is insignificant when comparing plant operation costs in different countries and making plant-siting decisions, and ignores the fact that half the world's cars are produced in high-wage economies [ref: Australian Productivity Council Exec Dir Craig Milne, specialist Vehicle Manufacturing economist].

Wage costs per se are not a barrier to growth of Australian manufacturing.

A significant factor in the viability of any Australian commercial enterprise is the

successful integration of the hopes, aspirations, engagement and commitment of the enterprise's Labour workforce into the purposes of the whole enterprise. If the Australian industrial environment continues to fail to engender greater "common cause" among Labour, management, ownership and other integral "stake holders", then external assistance, eg government programs, may be insufficient for an entity to achieve viability and stability.

There are instructive examples of German corporate models where Labour representatives share board responsibilities and 'shop floor' operations development with Management appointees with proven success.

I submit that :

The weakness of Australian Labour to an attitude of shared responsibility for the viable of employers' enterprises, and the poor attitudes of some employers and their officers to the needs and aspirations of their enterprise's workforce is a threat to the viability of some manufacturing enterprises.

Government could do much to build an environment to counteract the negative aspects of these natural characteristics of Australia's environment.

As an indication of valuable resources in this direction, I urge the Committee's attention to a 41-minute speech, "The Necessary and Beneficial Role of Trade Unions" by former Fair Work Australia Commissioner John Ryan [ref. socialactionaustralia.com/project/66-the-necessary-and-beneficial-role-of-trade-unions-a-talk-by-john-ryan.html]

Fourth Reference Term,

"d. the strengths of Australia's existing manufacturing industry and opportunities for its development and expansion"

Opportunities will arise in the rapidly growing, densely populated nations, currently to our near north, and in the medium and longer term on the African continent.

One opportunity may arise where currently, Israeli technology in advanced water and fertiliser sealed reticulation is being installed in Mindanao, Philippines, to facilitate rice growing on undulating terrain, for the multiple purposes of utilising otherwise unavailable terrain, for guaranteeing crops in time of drought, for producing three crops per years, for minimising the volumes of water and nutrients required, and for increased food security. Australia has the capacity to produce and supply and install those systems on a mass scale. Australia also has the incentive to develop these techniques, because as nominally the 'driest' continent, we also have the world's most volatile climate for agriculture, and such technological advances as the Israeli water and nutrient reticulation may well be critical to some of our own agricultural needs

Notwithstanding any identified opportunities, the threat of the Australian Government's demonstrated propensity to slaughter viable opportunities ought make any entrepreneur to consider avoiding any avoidable contact with Government. I refer here to my above, "Examples of superlative Australian industrial design include the Wayne Stuart piano, and the Gippsaero GA8 aircraft: While these both are at the pinnacle of world excellence in extremely competitive sectors, they have both been damaged and crippled by, respectively, malignant official government-controlled obstruction, and

utterly counter-productive government "assistance".

Fifth Reference Term,

"e. the sectors in which Australian manufacturers enjoy a natural advantage in energy, access to primary resources and skilled workers over international competitors, and how to capitalise on those advantages."

[1] The "**Comparative** Advantage of Nations" versus the "**Competitive** Advantage of Nations" Part One

I submit that this Reference is based on the principle of the "comparative advantage of nations", and so the Committee will have no difficulty in identifying Australia's many, vast and strategic natural resources, identified by the globally-authoritative periodical survey, Jane's World Armies, which in 1996 categorised these assets as "a glittering strategic prize" in the specific context of the history of international struggles for advantage over other nations, and the expectation that Australia would face coercive challenges for control of her natural assets

I submit that the scale of our natural resources is vast, and any utilisation of them may well require large-scale investments of various types: capital finance, heavy industrial processing, significant transport infrastructure, large-scale education, training and employment through-put capacities, world-standard [or better] robotisation.

None of these advantages can be realised without low priced, reliable dispatchable electricity and liquid fuel on a sufficient scale, and the chronic proven lack of such capacity for the foreseeable future will prevent the growth of manufacturing accordingly NSW electricity users were intolerably subjected to AEMO's official warnings of 'insufficient capacity' at records rates of up to four times per week in 2020, and with the imminent closure of the Liddell PS's 1.7GW, plus the official announcement that replacement generation will be less than the pre-existing supply, the inevitable consequence is the continuation of the demolition of manufacturing capacity, not one of growth.

[2] The "**Comparative** Advantage of Nations" versus the "**Competitive** Advantage of Nations" Part Two

This reference, viz " ... natural advantage in energy, access to primary resources and skilled workers over international competitors .." may suggest that that the "**comparative**" advantage of nations has been considered, but not an alternative concept, viz. the "**competitive**" advantage of nations.

Under the paradigm promoted in "The Competitive Advantage of Nations" [Michael E Porter] the **comparative advantage** of nations based on natural resources, geography, workforce demographics has been comprehensively superceded by the **competitive advantage** of nations, indicated by the engendering of clusters on interconnected, symbiotic firms, suppliers, related industries, and institutions for mutually-reinforcing advantage.

Case in point: The cessation of mass motor vehicle production led to the closure of the large German-owned Hella Lights vehicle plant in Mentone, Melbourne in 2019. This facility was no mere production facility - it included an advanced research laboratory developing high tech vehicle lighting systems destined to replace 'new generation'

lighting systems which have been developed but not yet installed in new vehicles. Similarly, another internationally-owned Melbourne lab was designing advanced, 'new generation' vehicle brake systems. Those innovation and design personnel have been lost to Australia. Their products were foreign-owned, but if the personnel were still on-shore, their presence adds to our knowledge base, even if tangentially.

The application of "competitive advantage" strategies for Australian manufacturing requires urgent government attention in a fast-changing, fast-advancing, competition-intensifying industrial, commercial, geopolitical and geostrategic world environment.

Sixth Reference Term,

"f. identifying new areas in which the Australian manufacturing industry can establish itself as a global leader"

On the face of it, this Term is mis-placed because, if the purpose is to enhance Australian Manufacturing at a time when manufacturers are, on average, far more likely to be terminating operations than be starting up, in this environment, the higher priority needs to be to identify the factors for the survival of normally-viable and promising enterprises and try to institute remedial action, rather than the search for new enterprises.

In this regard, the re-instatement of an Australian mass car manufacturing capacity has been amply demonstrated by the proposal of the Australian Productivity Council head, Craig Milne but at a time when the Australian Government is adamantly opposed to that direction on perverse political, not economic, grounds.

May I say again that **Australian governments which** have a record of suppression of firms for reasons of illicit manipulation or "Yes, Minister" incompetence or indifference, as detailed above, and **are currently overseeing the on-going utter destruction of manufacturing capacity, are in a poor position to seriously entertain proposals for new manufacturing, when governments' studied and deliberate abandonment of absolutely basic electricity generation capacity, in circumstances where our physical capacity to provide for abundant electricity generation capacity is virtually unlimited. In these conditions, the otherwise-assured commercial success of any new "miracle" product would die at birth in Australia, if it requires low cost, dispatchable electricity for its production.**

Seventh Reference Term,

"g. the role that government can play in assisting our domestic manufacturing industry, with specific regard to [six areas]"

I submit that **government** - through the national Executive Government, through COAG [or its substitute], and through the states' constitutional responsibilities for eg electricity - **must play a primary leadership role in all these areas because of the high urgency, vast scale, and imperative obligations for national and state leadership for regional and national security, resilience, economic growth and and conditions for improved standards of living.**

I submit that **the scale of the challenge requires government to immediately convene councils of the very best authorities** to firstly identify our most critical requirements for short term resilience in a theoretical contingency of an interdiction of essential imports, and to propose measures to address those emergencies. The activities which flow from those considerations would indicate the consequent f-direction and content of action to address a vital component of each of research and development, attracting investment, supply chain support, government procurement, trade policy, and skills and training.

Eighth Reference Term

"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."

[1] It is neither true nor helpful to describe the "global" economy as "carbon-constrained" when our regional neighbours, China, India, Japan, Indonesia and Vietnam, are currently arranging to **increase** coal-fired electricity generation by a total of 300GW, while Australia's total AEMO-calculated requirement is a mere 19GW.

It is highly problematic to describe the Australian economy as "carbon-constrained" when Australia and Australian exporters are integral to the supply of raw materials, including very considerable quantities of coal and gas to several of our regional neighbours, including those which will **increase** coal-fired electricity generation by a total of 300GW, while Australia's total AEMO-calculated requirement is in mere 19GW.

It is problematic to describe the Australian economy as "carbon-constrained" when the profits, employment and downstream multiplier effects of Australian coal and gas production supply and exports jointly remain an indispensable and integral staple to the stability of the national economy, including via government imposts of corporate and state taxes, personal income taxes, state royalties, and all other government imposts, and that situation of indefinite continuation of these exports to our regional northern neighbours must persist if Australia is to maintain sufficient economic, industrial and financial strength which alone underwrites Australia's required "economic growth, national resilience, rising living standards for all Australians and security in our region", bearing in mind our geostrategic dependence on trade through vulnerable maritime routes, the increasing hostility of the PRC, and the remoteness of the USA from that arena of most regional concern to Australia.

[2] The role of Nuclear-generated renewable electricity is both currently obviated by legal and political impediments, and also subject to a multi-decade lead time from the time of any government commitment until the time of first production.

[3] The opportunities for new Hydro-Electric generation projects is problematic in a political environment which sees the Murrumbidgee Irrigation Area, which produced 40% of national horticulture, now subject to denial of essential irrigation water on the basis of claimed environmental flows and needs, and where approvals for new dams and H-E plant are demonstrably hard to achieve, conspicuously in Queensland, and absent in Victoria due to political opposition.

[4] The capacity for alternative sources such as wind turbine, solar, ocean wave etc to make up the supply deficits in the AEMO-calculated national requirement, is not only

non-existent, the lead time for its achievement is contingent on prospective discoveries, developments, production, commissioning and maintenance, all with unknown costs.

[5] Bearing in mind the very considerable lead time required to bring new electricity supply 'on stream', and the imperative requirement for dispatchable, base load electricity for manufacturing industry applications, **there is no current alternative to urgently maintaining and augmenting coal, gas and liquid-fired generation, if manufacturing plants are to avoid shutdowns.**

[6] **The occurrences in NSW, 2020, where the AEMO was forced to issue 'insufficient capacity' warnings at a rate of one every four days, revealed an impoverished "Third World" standard of basic infrastructure capacity in Australia's largest - by far - state, with over a 32% share of the national economy. That avoidable intolerable crippling liability must be corrected urgently as a state and national priority.**

yours faithfully,
Gerard Flood.

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[Redacted contact information]