

## SENATE STANDING COMMITTEE - AUSTRALIAN MANUFACTURING INQUIRY FOLLOW-UP QUESTIONS TO APPEARANCE BY J. GOENNEMANN

**1. Your submission noted that Australia might need to pursue better monitoring and transparency about the demand side of the supply chain, given the increasing risks of Australia being overly depending on supply chains in countries that are particularly vulnerable to supply chain disruption. Beyond Covid-19, do you see a continued risk of disruptions, and do you think that Australia has a broader problem with being overly reliant on imports from countries which may, for geo-political reasons, suddenly restrict access to key imports needed.**

Australia is a small country distant from major international economic and population centres. Therefore, Australia must embrace global trade for its future opportunities and economic prosperity, and that requires global connectivity.

Seventy-five per cent of international trade is in intermediate goods. These are components made in multiple countries to be assembled in a final market. Australian manufacturers are encouraged to seek even greater opportunities to be part of global supply chains to build resiliency into the system.

Diversifying our local manufacturing capability is crucial to ensure this high level of resiliency. In AMGC's research findings, Building Resilience in Australian Manufacturing, we stress that the loss of one customer to an Australian manufacturing business would result in a significant loss of revenue of up to 30 per cent. While 10 per cent would be forced to shut their business. Hence, the necessity for Australian manufacturers to be flexible and forge links into multiple jurisdictions.

By overlooking and underinvesting in manufacturing capability, we will never completely understand where our strengths and risks lay. The pandemic has shone a light on gap items such as semi-conductors, latex/rubber, and many constituent ingredients for end products, but we need to conduct a deep dive to truly understand our pinch points.

Once these are understood, we can then take steps to address supply chain challenges - identify onshore capability we need to step in to fill the void where necessary and commercially viable, or firm up supply agreements, ideally from more than one external source. There will also be products that we just cannot substitute. EG: Latex/rubber gloves from Malaysia – but it helps that Ansell is Australian-owned.

If we understand what capabilities are needed, then we can then work with businesses to have the know-how to pivot from daily operations to fill the void. An example would be Textor in Victoria that increased spooling operations to meet the demand for melt-blown and spun-bound materials for PPE.

**2. Following on from that, you noted the role that AMGC played in creating the Covid-19 Manufacturer Response Register, which helped to provide domestic production of PP&E, sanitisers, ventilators, and the like. There have been some complaints from companies recently that companies which were encouraged more broadly to scale-up, are now seeing a drop-off in support and procurement, leaving some of them in the lurch. Many of these companies invested significantly in new technology that may now be sitting still. In your view, how can we ensure that, beyond Covid-19, these domestic manufacturers continue to be supported, and is there a role for government in supporting these businesses through domestically supportive procurement policy?**

Launched in March of 2020, AMGC's COVID-19 Manufacturers Response Register was devised to collect and collate information relating to raw material supply, individual skills, and manufacturing capability.

Early in the pandemic, AMGC became aware that thousands of well-meaning manufacturers would be pivoting their operations to support the Nation's response to the pandemic. By establishing the COVID Register, AMGC wished to avoid the exact situation you outlined where an uncoordinated response to undetermined market needs led to items being manufactured that were not needed in the long term and / or being commercially viable.

It quickly became evident that the hand sanitiser market would reach saturation. AMGC focussed on conveying WHO and later Federal standards for hand sanitiser to all Register users who had identified manufacturing capability for this product. This ensured that 40 Australian manufacturers could supply an approved product into the Australian and wider market.

Via various Federal COVID Taskforces, AMGC repeatedly requested information relating to market requirements, orders, or bills of materials to then interrogate this information into the Register to ensure that any market need was met.

By identifying clear market needs and an order to back up this need, manufacturers were guaranteed funded work. This was demonstrated in the Notus Invasive Ventilator program in which a \$30 million purchase order was signed, and 1,700 invasive ventilators were delivered.

This same approach was advocated by AMGC when it came to the administration of the \$2 million PPE fund. AMGC put forward recommendations regarding where this fund would be best placed to achieve maximum returns and long-term impact based on knowledge gleaned from the Register. Unfortunately, the funding took too long to reach manufacturers and as a result, impact and long-term opportunities were missed as the urgent need was fulfilled by international sources.

This well-intentioned, yet poorly implemented funding stream was compounded by various levels of government making direct representations to market, which were never followed through, despite industry acting in good faith. As a result, industry became disenfranchised with the lack of meaningful action.

Feedback from industry expressed further frustration due to limited co-ordination between Federal and State Government and misrepresentations when it came to procurement. NSW announced that it would become manufacturers biggest customer when it came to PPE, yet weeks later it was revealed that the business promised was never to eventuate with NSW procuring over \$1 billion worth of PPE from China - <https://www.skynews.com.au/australia-news/politics/made-in-china-nsw-spends-1-billion-on-foreign-ppe-instead-of-using-local-companies/video/028555bae16623c3ef8256af081c43a0>

The feeling from manufacturers is a continued lack of trust in Government at any level, frustration at poor procurement policy and a hesitancy in responding to or investing in any future requirements for fear of being left worse off.

AMGC's industry-led Register allowed it and businesses to identify demand and act accordingly. This was proven in the supply of bottles to manufacturers for hand-sanitiser, identification of constituent ingredients, sourcing of manufacturing suppliers for assembly of PCR test kits, design and assembly of emergency hospital beds, and ultimately local manufacturer of emergency ventilators, among many others.

Until the establishment of the AMGC Register, there was no single source of information for demand and supply – it is something that has significant potential beyond COVID to inform industry and Government.

In closing, we wish to advise that it is very difficult if not impossible for a country like Australia and of its living standard, paired with high wages, to competitively manufacture simple PPE products.

**3. Your submission suggested that TAFE and other tertiary students should be required to gain first-hand experience in manufacturing to raise awareness of the industry and shift perceptions among young people specifically. Several other submissions have highlighted the need for better connections between industry and our skills training bodies, so I was hoping you could expand on what that might look like, and what the role of the federal government could be in supporting these sorts of initiatives.**

Industry needs to take primary responsibility of educating its next generation of skilled employees. Industry knows best what skills, now and in the future, are needed to deliver to existing or create new customers.

Industry is not well served to distractingly point the finger to TAFE. TAFE or universities (with degrees below bachelor level) are best placed to support industry for the generic, more theoretical part of the curriculum. The practical, company-specific part of the education of apprentices should happen in industry and by industry.

The role of government is to set a country-wide framework so that skills are transferable from one jurisdiction to another. Upholding the education standards of students should be done by industry because this is the organisation closest to market needs and trends. This is a crucial task of the enterprise and must not be delegated to TAFE or other external organisations.

**4. Your submission was supportive of measures to improve Australia's economic complexity, including policies to support innovation in the fields including recycling, green hydrogen, renewables, the circular economy, algae and seaweed, robotics, quantum computing, recycling, and hydrogen generation. Notwithstanding a recent focus on technology, and notwithstanding the so-called 'innovation nation' agenda before that, the hard truth is that Australia is still ranked 86th on Harvard's Economic Complexity Index, down from 55th in 1995. What else do you think needs to be done to help Australia increase its economic complexity, so that we are not left economically reliant on industries that are themselves heavily export dependant on countries which may themselves be becoming more geopolitically risky as export destinations.**

This connects back to setting long-term ambitions supported by achievable short- and mid-term goals to encourage local investment and activity. Given the size and market power of Australia, focussing on six-national manufacturing priorities is a great start.

In the past, many manufacturing agendas have lacked a proper feasibility study on the capabilities of our domestic manufacturing. As such, the agendas were too broad and unattainable. The six-national manufacturing priorities announced in 2020 force us to focus on what we are already good at or on what we intend to be good at. With proper mapping of manufacturing capabilities, coupled with a tool that helps to guide manufacturers toward more diversity and complexity, Australia will start to shift its ECI, especially in the country's focus areas.

Take for example the space sector, a highly complex and valuable sector, yet a nascent industry.

We must look at the capabilities required to support a space industry and encourage manufacturers to diversify into this vertical. The good news is that we have many of the skills and capabilities to support the growth of the industry, but we need to do more to support its growth. AMGC's recent co-invested project with Australian manufacturer Omni Tanker is an example of how capabilities in adjacent industries, in this instance carbon composite road tankers, can be transferred to support a burgeoning space industry.

By encouraging industry to widen its view and to leverage its capabilities in adjacent sectors, we will lift our overall complexity and in turn build a more resilient industry. Support does not mean greater incentives, or grants for machinery, it does mean long-term policy initiatives, that instil confidence for manufacturers to invest along the entire manufacturing 'smiley curve' and in some cases try something new. This involves programs that support industry's transformation and demonstrate success to broader industry – such as those offered by AMGC.

**5. Your submission cautioned that SMEs in manufacturing are often unable to find willing lenders to fund growth or new equipment purchases because of a perception that they're high risk. This makes it hard to do things such as the necessary reshoring of production and redesigning production processes. You also noted that scaling to commercialisation remains a challenge, and that we need to see more risk capital provided to capable manufacturers. What do you see as the government's role in addressing those issues?**

AMGC spoke with manufacturers in early 2021 regarding access to capital. Feedback from industry is that there is exists a deep misunderstanding of manufacturing within financial institutions. This stems from an array of circumstances including the misrepresentation of manufacturing by the Australian Bureau of Statistics.

The government's role should be around setting the example of investing with small amounts into a large number of Australian manufacturers who match those amounts. By continuously advocating and investing in the manufacturing industry via industry-led organisations, such as, AMGC which has the knowledge and experience of wise investments with capable companies (versus 'grant raiders'). The government will set an example of who has continuous support and what is important for economic growth for the country and its chosen areas where we want to win.

Loans, uncoordinated capital, and set-and-forget grants do not work. They get swallowed up into the business-as-usual process. AMGC's co-investment in stages, like that used by banks to fund the build of a house, keep a manufacturer on task, allow for intervention to head off issues, and to ensure that the project is achievable and deliverable – if not the funds are redeployed.

Further, by publishing the impact and learnings from co-investments, AMGC can inform industry as to what kind of return it can expect and further highlight to investors what kind of return can be expected from subsequent investment into industry.

AMGC's proven grant process has achieved substantive results and return on investment. From a public purse of just \$19.6 million (for our first 80 projects) AMGC has trebled the investment amount with co-contributions from industry, while expecting to generate circa 3,000 jobs and return \$1.2 billion to the economy – no other initiative can claim such impact.

In short, financial institutions need reassurance their investments will result in a return. To achieve this, manufacturers need consistency in policy direction, guidance to grow and support when all other avenues to raise capital have been exhausted.

Many small, government-supported co-investments will lead to a triaged group of manufacturers with proven innovations which become bankable. Those investees will find it easier to then raise larger funds from the market, which in turn leads to the much-needed scale of domestic manufacturing companies.

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