



Submission to:

**Parliamentary Inquiry by the
House Standing Committee on Economics, Finance and
Public Administration**

**Inquiry into the state of Australia's manufactured export and
import competing base now and beyond the resources
boom.**

Submission by:

Geelong Manufacturing Council

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Geelong Manufacturing Council

82 Brougham Street

P.O. Box 638

GEELONG 3220

Ph (03) 5223 2999 Fax(03) 5221 2914

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EXECUTIVE SUMMARY

Manufacturing is an important and critical part of the economic fabric in the Geelong region. We welcome this inquiry and are particularly keen to participate with a view to putting forward positive suggestions on how the manufacturing sector in the Geelong region can grow in the future.

If it is to be effective, this inquiry into the state of Australia's manufactured base must be reflected in a range of positive and broadly accepted outcomes capable of having a substantive future impact on the sectors future sustainability.

A 'National Manufacturing Strategy and Plan' to grow and encourage manufacturing would assist the sector to develop and strengthen its competitive position. Such a strategy could incorporate existing sector strategies, which have proved to be effective and ensure a long-term vision is pursued.

Within the Geelong region we have developed a plan to build on our existing industry base. This also requires changes in national policies to reduce the effects of a range of factors such as appreciation in the dollar, increase in import penetration across many segments, higher commodity (input) prices and recent increases in oil prices which are currently placing stress on the existing manufacturing base.

We have industry support to move forward with our stated direction, however to be most effective our plan needs to be supported by State and Federal governments' with appropriate and significant financial support.

Our key points are in summary:

- Manufacturing is of vital importance to the Geelong community
- A strong plan and national vision is required for manufacturing
- Australian industry is subject to world lowest protection levels and for industry to survive in this environment in the future requires strong support, encouragement and improved access to overseas markets.
- Targeted sector programs such as those existing in automotive and TCF should be continued.
- Skills development and repositioning manufacturing to the general community and young people in particular is vital to the future of manufacturing.
- Increased Innovation, Research and Development are key requirements within manufacturing to being competitive in the future.

1. INTRODUCTION

The Geelong Manufacturing Council was established in 1998 by the Geelong Development Board and the Australian Industry Group to assist and promote the region's manufacturing industry. The Geelong Manufacturing Council is a non-political, not for profit group, funded by industry.

The Geelong Manufacturing Council has the vision of Geelong as a leading export orientated, technologically advanced and internationally competitive manufacturing centre in the 21st century.

Manufacturing in Geelong accounts for 50% of the region's GDP and employs 14,000 people across 500 companies. Manufacturing is the vital to the future of the regional economy and an important source of future social, community and economic wellbeing for the regional community.

This submission has been developed from the feedback received from regional manufacturers. The Geelong Manufacturing Council is keen to participate in further discussion of these areas with a view to strengthening manufacturing in the Geelong region. We would be keen to do this as a pilot program to demonstrate what can be achieved in a regional context and believe that given our diverse industry base the Geelong region would be an excellent candidate for such a pilot.

2. MANUFACTURING

2.1 General comments

It has been long recognised in many parts of the world that a country's economic prosperity is closely linked to a strong manufacturing sector. Manufacturing has long been recognised for its skills, technologies, export earning potential and high multiplier effects. Unfortunately, in Australia in recent history the reasons for this recognition and the value attached to the manufacturing sector have not been widely understood.

The Geelong and Victorian economies have largely missed out on growth in the commodities sector. It is apparent that governments have taken their eyes off manufacturing over recent decades as an imperative, preferring to ride the wave of commodities exports.

The manufacturing sector in Australia, Victoria and in particular Geelong face huge challenges from the threat from low cost countries such as China. The substantial appreciation of the Australian Dollar (30% since 2002), higher commodity prices increasing input costs, increases in import penetration of segments, aggressive industry attraction and export promotion policies of other countries has provided substantial challenges to manufacturing.

The Australian Industry Group recently released its Manufacturing Futures Report. This report provides a detailed and comprehensive overview of the challenges and opportunities for manufacturing in Australia. The report details 29 recommendations for

government in relation to manufacturing that will help to build a bigger and more robust manufacturing sector, capable of making the transition necessary for future growth.

Manufacturing in Australia, Victoria and Geelong have seen a steady stream of closures in recent years. In Geelong notable closures in recent years have included companies in textiles, clothing and footwear industries, while more recently pressure from low cost countries has caused a closure in the automotive components area.

The critical mass of the industry is under threat and further reductions and 'hollowing out' of the industry could lead to a loss of the critical mass needed for a competitive sector.

One consistent view from members is that the Australian manufacturing sector needs to redefine itself and seriously move upstream to be much higher value added and driven by upper end, high skill content manufacturing, adopting the best of new innovation and technology. This philosophy is supported in the Geelong Region, however it is making the change to reflect this strategy that requires considerable effort and resources.

The size of the Australian market requires that the manufacturing industry must also be export driven. To be export competitive is a strong test of world competitiveness.

2.2 Geelong is a manufacturing region

Geelong is an area where things are made, where its people and industries contribute to Australia's GDP more so than any other region of its size in the country. For these reasons, the future of manufacturing in Geelong and indeed Australia is of paramount importance.

Employment in Geelong's manufacturing sector has slowly declined since reaching a peak of 19,000 in the late 1960, and through the 1970's. At this time manufacturing employment represented 35% of the region's labourforce. In 2006, the number is estimated to be around 14,000 and representing 17% of the region's labourforce. During this period tariffs in general and across key sectors have declined from relatively high levels to the lowest in the world, making Australia the least protected market in the world.

The drop to below 20% of the regional workforce employed in manufacturing has been largely driven by reduced tariffs, advances in technology and increases in capital intensity and international competition.

The key manufacturing sectors in the Geelong Region are: automotive and related components supply, TCF, metals, food, timber, chemicals and petroleum. The region has 14,000 people employed in the manufacturing sector across almost 500 companies.

Each day Geelong industry produces around:

- 20km of carpet
- 450 motor vehicles, engines and other components
- 7,500 metres of automotive and technical textiles

- 50,000 kg of carpet wool fibre processed
 - 100,000 Chickens
 - 550 tonnes of aluminium
 - 16,500 tonnes of petroleum
 - 250 tonnes of polypropylene-which is made into basic commodities
- and a diverse range of timber, engineered products, food and consumer goods.

A number of Geelong based companies have been inducted into the Victorian Manufacturing Victorian Manufacturing Hall of Fame. This indicates that the region has a group of leading industry participants ranking highly within a Victorian context.

Research by NIEIR has found that 51% of the region's GDP and 41% of regional employment is derived from the manufacturing sector. It follows from these figures that the health of the manufacturing sector is vital for ongoing stability of the region's economic and social foundations.

Geelong's strong manufacturing base is complemented by its diverse industry structure and transport infrastructure. Geelong's industrial base includes food processing, TCFL, automotive component manufacture, petroleum products and other chemicals, metals, timber processing and aerospace activities. Geelong's transport network complements this industrial structure. The Port of Geelong and Avalon Airport give local industry access to national and international export markets. Geelong is part of the National Standard Gauge Rail Network and is able to distribute goods from bulk shipments to smaller lots for distribution around Victoria and interstate. The upgraded Princes Freeway and rail line give Geelong industry efficient access to the Port of Melbourne and the Melbourne labour market.

In addition to an impressive group of industry, Geelong is home to world class research and development, training and education providers. The region is home to Deakin University, Geelong Technology Precinct, Gordon Institute of TAFE and CSIRO Textile and Fibre Technology. The Australian Technical College- Geelong will greatly assist the region to develop young tradepersons for industry and will commence enrolments and teaching for the 2007 year.

The Geelong Manufacturing Council has recently developed a strategic plan for the future of the industry in Geelong. This strategy refers to the need to add \$2b to our manufacturing export base within the next 10 years. To do this we believe industry in the Geelong Region needs to:

1. Develop new markets
2. Support existing markets
3. Create innovative supply chains/clusters
4. Achieve technology transfer
5. Develop skills capacities
6. Promote import replacement culture
7. Gain positive community attitude to manufacturing

These are detailed in the Geelong Manufacturing Council strategic plan (copy attached to this submission).

We believe that the Geelong Manufacturing Council Strategic plan and the themes we are pursuing are all relevant to this inquiry. The objectives of the terms of reference are consistent with our plan as are many of the strategies and actions we are undertaking.

We require significant funding to be able to fully implement the strategy.

2.3 Recent performance of manufacturing in the region

Employment numbers in the Geelong Region have been in gradual decline since the late 1980's both in a relative sense and absolute number. This has been in line with the trend across Australian manufacturing.

In 2002, the Geelong Manufacturing Council commissioned a report by the National Institute of Economic and Industry Research (NIEIR) looking into the future of the region's manufacturing industry. The report found that the industry faces a number of challenges including low levels of investment, the need to increase skills, the need for increased use of technology and how to substantially increase the level of exports from the region.

Despite these challenges there has been many examples of successful and robust manufacturing in the Geelong region. These companies have taken significant steps to use technology in their processes to remain competitive. Reinvesting in plant and machinery has been a consistent theme evident in these successful companies.

Major recent new investments, announced or finalised include: Ford Motor Company, \$1.8b investment in Australia over 10 years; Basell's \$70m expansion of its Corio polypropylene facility completed in 2006, Shell Refining's \$160m Hydrodesulphurisation facility and Blue Circle Cement's \$85m expansion completed in 2006.

Federal and State Governments must continue to reward those companies willing to embrace innovation, high-tech processes and upskilling / training initiatives that support a heightened export imperative.

An example of an industry taking steps to be sustainable occurs in Textiles:

- Melba Textiles new investment in the Geelong plant
- Huyck-plant upgrades, new machinery
- Godfrey Hirst, ongoing major plant upgrades and environment improvements,
- CSIRO Centres of Excellence established

In many cases industry has moved forward with industry assistance programs such as the Strategic Investment Program (SIP), which will be critical to future industry sustainability. Initiatives of this type should be seen as important components of creating a stable and comprehensive policy framework in which industry can continue to invest in future.

The Research and Development, Training and Education expertise present in Geelong make Geelong a unique location and this should be further developed through stronger collaboration with industry. Recent research has reaffirmed that the CSIRO Textile and Fibre Technology, Deakin University, and Gordon Institute of TAFE are world class in the provision of services for the TCFL industry.

2.4 The Image of Manufacturing

Following years of neglect and bad publicity, manufacturing has a significantly imbedded image problem. Some of the responsibility for this must be born by successive government's lack of vision for manufacturing and general neglect of the industry over many years.

The poor image of the industry is reflected by the lack of young people wanting to enter manufacturing. There have been some significant steps forward during the last 2 years with the establishment of Australian Technical Colleges across Australia, and in time this is expected to have a positive impact.

Improving the image of manufacturing will require action on many fronts but it is dependent on a strong strategic plan for industry and for this to flow through to more jobs and investment in the sector.

Jobs and investment are critical factors as they ensure that the industry is seen as having a positive future. Parents and potential employees tend to quickly make decisions on the desirability or otherwise of careers in manufacturing based on news of closures and manufacturing going off-shore.

The importance of a long-term strategy to grow and develop manufacturing in Australia is paramount in light of the need to reposition the industry as a future employer of choice providing excellent career opportunities for young people.

3. THE NEED FOR A NATIONAL VISION FOR MANUFACTURING

We believe that our national economy could be strengthened through the development of a 'National Manufacturing Strategy and Plan' to grow and encourage Australia as a manufacturing centre. This would assist the sector to develop and strengthen its competitive position. Such a strategy could incorporate existing sector strategies, which have proved to be effective and ensure a long term vision is pursued.

We believe that we have the elements for such a strategy in a regional environment, however we need assistance in implementation. This strategy is detailed below.

4. REGIONAL RESPONSE-A PLAN FOR BUILDING A STRONG FUTURE IN MANUFACTURING

The Geelong Manufacturing Council has considered the questions of how to ensure that manufacturing is given the best opportunity to remain sustainable in the future in an environment characterised by competitive threats. In response to this the Geelong Manufacturing Council has developed a comprehensive regional strategic plan. The strategic plan has 7 key areas, which are identified in 2.2 above.

A key project, which achieves several aspects of the regional strategy, is the project detailed below known as the **manufacturing innovation cluster**.

Manufacturing innovation cluster.

This proposal broadly involves the following:

A regional centre for advanced manufacturing techniques, tools and technologies, which creates awareness activities and provides a suite of programs to assist manufacturing move up the value adding continuum. This centre will involve: Deakin University, Geelong Technology Precinct, and Victorian Centre for Advanced Materials and Manufacturing (VCAMM) and the Geelong Manufacturing Council.

Planned offerings of the Centre:

- Awareness and information programs
- Strategies and capabilities to assist in achieving manufacturing excellence
- A basis to enable technology transfer and diffusion.
- Research and Development capability with an industry focus

Program elements of the Centre:

- Increased awareness of what constitutes world class manufacturing
- Greater engagement from the manufacturing sector
- Speeding up Research and Development collaboration and facilitation

We believe that if we were able to put this plan into full effect we could bring about a significant positive difference in the Geelong region.

We would be very happy to provide further details on how we see this being achieved.

5. RESPONSE TO THE TERMS OF REFERENCE

5.1 The State of the country's manufacturing sector(and the goods and associated services) including opportunities and challenges from the expansion in global trade (in particular by China)

The proceeding sections provide an overview of the state of manufacturing on the Geelong region.

Feedback from members included the following observations:

- Australia is particularly hampered in competitive manufacturing on a worldwide scale by high labour-rate costs, relative to many countries including China. This is also linked to the resource boom which is driving rates and costs and leading to uncompetitive practices which will be hard to move away from when the boom ends.
- Duplication and waste driven by different state policies and governance systems (eg differences in workcover, IR systems etc leading to complexity and duplication) and slow, bureaucratic and politically-influenced approval processes.
- Uncertainty around energy policy especially in respect of potential carbon tax and competing state-federal objectives in this area are also issues to be resolved. This

tends to drive innovation and investment away from Australia and makes us less competitive again, plus makes the industry less attractive to talented people and drives the shortage of skilled people in our industry

- Tariff reductions introduced over recent years have not resulted in the creation of a level playing field. With reduction in tariffs over the past decade Australia's manufacturing sectors ranks as one of the least protected in the world. Due to these reductions manufacturing in Australia faces intense competition from the rest of the world. Other factors such as the recent significant appreciation of the Australian Dollar have markedly impacted on the competitiveness of manufacturing in Australia.
- Support and assistance mechanisms need to be put into place to enable manufacturing to compete globally.
- We are bombarded daily by reports of industries closing down as a result of the competitive threat from China. The risk is that if this trend is allowed to continue, then the base will be seriously eroded to the extent that manufacturing will lack critical mass in this country. Already community and business confidence which is an important driver of new investment is being undermined by lack of positive news in manufacturing.
- What is required is a turn around in confidence which engenders a positive future for manufacturing.

5.2 Policies for realising these opportunities

Manufacturing in Australia is at the crossroads. For the industry to be able to continue to develop it is vital that the correct policies are put into place that support and allow industry to move forward with its plans for growth. To do this, changes must be made to restore conditions for improving manufacturing competitiveness.

We have detailed above the need for a strong national manufacturing strategy.

Member feedback argued that streamlined policies between state and federal government need to be put into place so that existing policies can be better coordinated. An example of this occurs with environment policy where state and federal legislations can impose additional costs and uncertainty on industry and adversely impact on competitiveness

There exists considerable opportunity to reposition the industry and attract talented young people to consider careers in manufacturing. Understanding and providing encouragement for young people to enter the sector is a challenge for all involved. The importance of increasing attractiveness to young people is paramount and should be pursued.

Manufacturing is an important and substantial contributor to our economic base. Economic multipliers from manufacturing are among the largest of any sector because of the strategic nature of manufacturing. Government should support initiatives for industry to get more value added from our resources, by adding more value to raw materials and commodities before exporting. If we were able to better identify and

support the clever developments these would go some way to replacing the commodity products on which we now rely.

China is a huge growing market and also represents an opportunity to increase manufactured exports if we are able to identify the range of products, which can be sold to this market. Efforts to better understand these markets and identify export opportunities should be pursued.

5.3 Existing programs

There has been some success with targeted sector programs in recent years. Major new investment in the automotive and textiles sectors has been linked to the sector program for automotive and textiles respectively. This demonstrates that sectoral plans can work and should be pursued in future.

6. CONCLUSION AND RECOMMENDATIONS

We believe that this inquiry has come at a critical time for Australia's manufacturing sector. It provides an opportunity to take stock and address important issues, which if resolved will provide a basis for the industry to grow in the future.

At present, many factors are undermining the competitiveness of the sector in an international context, included in these are factors both within and outside Australia's control. It is important that those factors which can be positively improved, are acted upon and resolved.

The objective of the above suggestions is to redress the balance and restore confidence in manufacturing investment in Australia. The initiatives required include: renewed emphasis on skills and innovation; removing obstacles to manufacturing; increased export market access through the reduction of export barriers and improving the investment attractiveness of Australia as a manufacturing location.

Government can assist in this process by encouraging and assisting industries to restructure so they can be competitive in the future. It is important that Government work to remove export barriers that exist for Australian manufacturers to increase the potential marketplace.

In Geelong, we believe that we have a strategy and plan that will achieve a positive result in conjunction with a committed group of industry partners. We believe that we are able to provide a valuable regional pilot on how this could be achieved. To realise the full potential we need support and assistance from Government over and above the changes Government needs to put into place at a national level.

We are keen to work co-operatively with Government to ensure that manufacturing is able to achieve its full potential in the Geelong region.