

# SUBMISSION 26



Hon. Mike Rann MP  
Premier of South Australia

CS/210/001/152

Mr Stephen Boyd  
Committee Secretary  
The House of Representatives Economics, Finance and Public Administration Committee  
PO Box 6021  
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CANBERRA ACT 2600

Dear Mr Boyd

In response to the House of Representatives Economics Committee's inquiry into the state and future directions of Australia's manufactured export and import competing base, the Government of South Australia is pleased to forward the attached submission.

Yours sincerely

  
KEVIN FOLEY  
Acting Premier

3/8 / 2006



**Government  
of South Australia**

**Submission to the  
House of Representatives  
Economics Committee Inquiry**

**into**

**The State and Future Directions of Australia's  
Manufactured Export and Import Competing  
Base**

**July 2006**

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## INTRODUCTION

Nationally, the manufacturing sector is currently facing intense competition from lower-cost countries such as China. Australia's higher labour cost together with a shortage of skilled labour and a strong Australian dollar mean that manufacturers will not be as competitive as those from lower-cost countries for a range of "commodity" based items.

Although the Committee's Terms of Reference focus on the state and future directions of Australia's manufactured export and import competing base, this submission accentuates South Australia's unique position as an economy in transition, in light of current pressures faced by the automotive sector (a powerhouse of the South Australian economy) and recent developments in defence, mining and energy.

In South Australia, manufacturing is a vitally important part of the economy, with ABS statistics indicating the sector contributes over 16 per cent of Gross State Product<sup>1</sup>, 12.4 per cent of total employment<sup>2</sup>, 61 per cent of total exports<sup>3</sup> and 54 per cent of business expenditure on research and development<sup>4</sup>.

Traditionally, South Australia's manufacturing strengths are mainly, but not exclusively, businesses producing:

- Resource-based products such as food and beverages, refined metals, wood and paper products; and
- Technology intensive products that include pharmaceuticals, industrial machinery, electrical appliances, transport equipment including cars and parts, professional and scientific equipment, and photographic and optical goods<sup>5</sup>

The environment for South Australian manufacturing is however undeniably challenging, with increased cost pressures arising from competition from rapidly developing countries, trade liberalisation, exchange rate impacts, new technologies, supply chain rationalisations, skills shortages and growing consumer demand for environmental sustainability. The need to embrace innovation, develop the workforce, build infrastructure, increase the level of export, encourage investment and ensure sustainable growth have been identified as critical to South Australia's manufacturing future.

Conversely, anticipated major minerals resources developments as a result of increased investment in exploration and the recent focus on defence projects provide both new opportunities and challenges for South Australian manufacturers.

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<sup>1</sup> ABS 5220.0, Australian National Accounts: State Accounts, 2004-05

<sup>2</sup> ABS 6291.0 and Economic Update, April 2006

<sup>3</sup> ABS Unpublished data

<sup>4</sup> ABS Business Expenditure on R&D, Cat. 8104.0, Sept 2004

<sup>5</sup> Manufacturing Consultative Council: A Blueprint for South Australia, 2005

“Globalisation” is impacting on Australian manufacturing across the board, with manufacturing presently in a transition phase as it moves to compete internationally. In 2004-05, Australian manufacturing accounted for 12.3% of Gross Domestic Product (GDP). This compares with manufacturing generated GDP equivalents for countries such as the United States (15%), United Kingdom (15%), Germany (23%) and Japan (21%), all considered “high performers” in global competitive manufacturing<sup>6</sup>.

Manufacturing also provides a level of demand for other sectors of the economy in particular, services (e.g. transport, warehousing, business services, education, ICT, etc.) This implies that manufacturing is more important to the Australian economy than the raw figures would suggest and that this sector will continue to grow well beyond the resources boom. However, manufacturers of high-volume, resource focussed, labour intensive products will gradually give way to high-technology based sectors such as defence, mining and energy, electronics and emerging technologies including bio-sciences, virtual prototyping, nano-technology and telematics.

## TERMS OF REFERENCE

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**TERM OF REFERENCE 1: *Australia’s dominance in commodities exports and the impacts of this on the economy following the resources boom***

### Commodities Outlook

In general, Australia’s dominance in commodities exports varies according to global demands. The economic impact beyond the resources boom will also fluctuate in line with the ability to supply sector specific primary products against changing consumer needs. South Australia’s growth, economic prospects and challenges for the commodities industry are outlined in order of export importance. These include: mineral resources, wine and agri-food products.

### Mineral Resources

The South Australian mining industry directly employs around 7,800 workers (1% of the State workforce) with average weekly incomes at \$1,300 per employee (or twice the State’s \$680 per week average). The total amount of land covered by the mining industry was small, about 0.1% of the State land surface<sup>7</sup>.

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<sup>6</sup> The World Bank, World Development Indicators

<sup>7</sup> PIRSA Scorecard Data 2004-05

Developments in China are expected to have an important bearing on total growth in world refined production over the medium term. Indeed, with China's rate of economic growth expected to average around 8 per cent per year over the medium term, the total demand for raw materials, and hence the impetus that China provides to world mineral resource markets, is expected to remain strong for many years to come.

Overall mineral production (valued at the mine gate) rose by \$570 million (56%) to reach a record \$1.6 billion in 2004-05. The surge in production was driven by both strong commodity prices combined with a return to full production at Olympic Dam. The importance of Olympic Dam production is highlighted by the rise in production values in copper, up \$446 million (87%) followed by uranium oxide, up by \$89 million (68%). In both these areas strong rises in prices received (up 39% and 152% respectively) combined with production volume, increases to raise mined values.

Industrial minerals production values also rose over the year, up by \$12 million (23%) to reach \$66 million. Building material production values continued to increase, despite more modest construction activity, rising by \$10 million or 8 per cent to reach \$132 million through the year. Net Off-Site refining rose by over \$116 million (12%) to exceed \$1 billion in the year. Despite a small fall in pig iron production following the smelter reline at Whyalla, stronger iron ore, lead, and zinc commodity prices offset smaller production falls.

In line with the rise in production, South Australia's mineral exports rose by over half a billion dollars (\$552 million or 62 per cent) to reach a record \$1.4 billion in 2004-05. The value of South Australia's mineral exports has jumped by a massive 50 per cent to \$1.4 billion in the last year alone and now contributes almost one-fifth (19 per cent) of total State merchandise exports. This surge in export values means that South Australia is on track to achieve the Minerals export target (T1.12 in the South Australian Strategic Plan) of \$3b value by 2012-13.

The most significant mineral resource exports from South Australia in 2004-05 were copper (\$752 million), lead (\$272 million), uranium (\$220 million) and silver (106 million). For example, world copper prices are forecast to average higher in 2006, as continued low levels of stocks and the potential for supply disruptions support investment and speculative buying of copper. From 2007, copper prices are projected to ease as world production exceeds consumption and stocks rise from current low levels.

The South Australian mineral exploration sector grew by 60% in 2004-05, with private exploration expenditure reaching a historic high of \$66.8 million<sup>8</sup>. South Australia's share of National mineral exploration expenditure at 6.5% remains our highest share on record<sup>9</sup>.

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<sup>8</sup> ABS 8412

<sup>9</sup> ABS 8412

This strong private exploration investment bodes well for future mineral success, particularly within the metallic mineral areas of copper, uranium, lead and nickel exploration (all up over 100% over the year). The state is on its way to achieving its target of increasing exploration expenditure to \$100 million by 2007 and processing to \$4b by 2020<sup>10</sup>.

Within the next two years, billions of dollars worth of new mines will get the go-ahead in SA, including the proposed \$7b expansion of the Olympic Dam gold/copper/uranium/silver mine. The South Australian Centre for Economic Studies estimate the proposed expansion would create an additional 1,500 jobs at Olympic Dam and another 8,400 associated jobs in South Australia. Indeed, recent studies indicate a 7.6 per cent average annual growth in direct employment for the overall mining sector out to 2014<sup>11</sup>.

### Wine

The medium term prospects for world demand for wine are for a small, steady, increase. Total Australian production of wine grapes in 2010-11 is forecast to be around 1.95 million tonnes, 1.5 per cent above the estimated 2005-06 level.

Until 2000, Australia was unable to satisfy overseas demand. The past decade has seen a massive increase in plantings from 65,000 ha to the current 157,000 forecast bearing area in 2005-06. With bearing area projected to continue to increase to 163,000 ha by 2010 and prices set to decrease, the outlook is likely to include a re-alignment of demand and supply.

Exports of Australian wine were a record 661 million litres in 2004-05. Exports for 2005-06 are forecast to reach 749 million litres, 13 percent above 2004-05, with an expected value of \$2.96 billion. By 2010-11 exports are projected to reach 1.29 billion litres, with a value of \$4.32 billion. Unit values of exports are expected to continue to fall across all Australia's major markets until at least 2008-09.

The South Australian industry as a whole is immersed in the national oversupply situation, with low profitability in many small, uncontracted vineyards and small to medium wineries. With larger wineries not immune to present market forces, the current agenda is to continue to streamline production and transaction costs and remain internationally competitive, albeit at lower prices to contracted growers and lower prices for wine exports.

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<sup>10</sup> *South Australian Strategic Plan, 2004: Target (T1.15)*

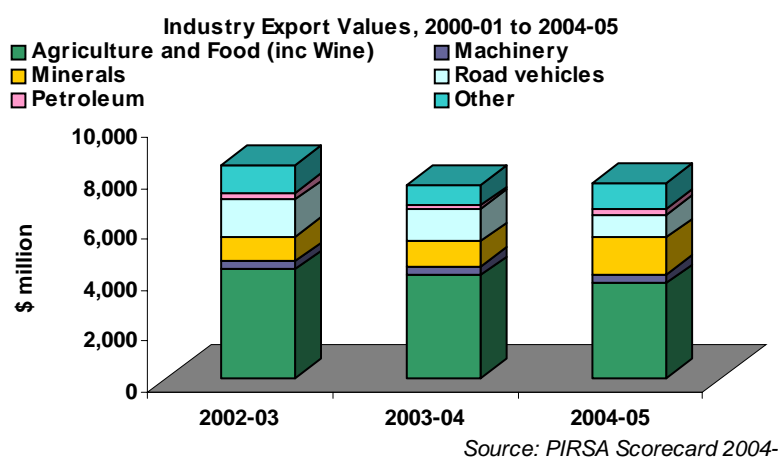
<sup>11</sup> SA Centre for Economics Studies. Mining the Labour Market: Estimated Demand for Labour in the SA Mining Sector 2006-2014

## Agri-food Products

A 23 per cent fall in overall overseas food exports over the 3 year period (2001-02 to 2004-05) was overwhelmingly influenced by the **enormous fall (42 %) in commodity exports**. Grain exports declined to levels not experienced for several years due to the effects of the lower volume of grain available for export (63% of 6 year average) and a lower price (20 % lower than two years ago).

Value-added or processed exports held their own, with only a 3 per cent (or \$38 million) decline from last year. Pleasing growth was achieved from meat exports (up 14% or \$60 million) and also dairy product exports which rose 40 per cent to \$64 million. Seafood exports however performed poorly with a decline of \$95 million or 24 per cent compared to 2003-04.

Machinery and road vehicles aside, the Figure below summarises the State's contribution to exports of agriculture and food and minerals and petroleum. The increase in mineral exports has compensated for the decrease in agriculture and food.



Based on the above commodities outlook and supported by recent declines in overall food exports, it is clear that apart from minerals resources (including energy) the commodities future is diminishing. The resulting economic impact for South Australia is a corresponding downturn in export revenue.

Earnings from the supply of commodities, in particular the export of minerals and energy resources, are forecast to rise by 7% in 2006-07. The growth in world demand for this sector set to ease over the same period, and beyond the medium term the value of commodities export is projected to decline (in real terms) mainly as a result of forecast falls in coal and iron ore prices<sup>12</sup>.

<sup>12</sup> Australian Commodities, vol. 13 no. 1, March Quarter 2006



In conclusion, although South Australia relies on a high performing manufacturing industry for long-term economic well being, the growth potential offered by the State's mining and energy sectors will more than compensate the transition from process-driven, low profit manufactured goods to knowledge-intensive and value-added, innovative technologies. Indeed, by at least doubling its current production of copper to in excess of 500,000 tonnes per year and trebling uranium capacity, Olympic Dam is poised to become the largest open cut mine in the world. The contribution to Gross State Product from the project would conservatively increase by \$1.39 billion to \$2.43 billion.

**TERM OF REFERENCE 2: *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)***

## **Market Opportunities and Challenges**

### Current State

In 2004-05, the Australian manufacturing sector generated revenue of \$322.5 billion, representing an increase of 5.2 per cent compared to 2003-04. The majority of revenue was contributed by the food beverage and tobacco sector (23.4 percent), followed by metal product manufacturing (19.2%) and machinery and equipment (19.0%).

Throughout the year, this sector generated gross product of \$100.0 billion and accounted for 12.3 per cent of total Australian GDP in 2004-05. Australian manufacturers exported \$67.4 billion of goods in 2004-05, compared to imports of \$138.0 billion. Manufacturing employed almost 1.1 million people in 2004-05, up by 1.5 per cent compared to 2003-04<sup>13</sup>.

A recent AMWU report warns that manufacturing is in crisis in Australia and that its decline has accelerated since 2004. Output or production has actually fallen for the first time in ten years, while manufacturing exports are underperforming compared to the rest of the economy at a time when there has been a surge of imports dominated by manufactured goods.

Australian manufacturing has failed to attract sufficient levels of foreign direct investment, and it continues to trail the rest of the world in terms of developing knowledge intensive industries. Although productivity growth in Australian manufacturing outperformed the overall economy over the last 9 years (22.4% compared to 16.4%), it has dropped in 2004-2005<sup>14</sup>.

The report further points out that a prosperous manufacturing sector is vital to the long term sustainability of the Australian economy, and that without a "strong, vibrant and growing manufacturing capacity, Australia will lose its economic and manufacturing independence"<sup>15</sup>.

<sup>13</sup> IBISWorld, *Manufacturing in Australia* 2006

<sup>14</sup> AMWU *Australian Manufacturing: A Vision for the Future*, December 2005

<sup>15</sup> *ibid*

To counter this decline, the paper proposes a number of policy actions which, if adopted, would allow Australia to develop an internationally competitive economy concentrating in knowledge-intensive exports rather than a high-debt, resource focussed, low wage economy sensitive to the impulses of global commodity markets. In some instances, select industry sectors may need to consider transitional strategies as the risk of further decline threatens to impact on continued economic viability.

### Barriers to Growth

An Australian Industry Group (AiGroup) study titled “*Manufacturing Futures: Achieving Global Fitness*” released in April 2006 examines the effects of global engagement on Australian businesses. It highlights the need for business to be lean, to make use of global supply chains, to become more capital intensive, and to be innovative in order to remain competitive. Under the heading “the dynamics of change”<sup>16</sup>, the study also noted a number of cost related barriers to growth.

These include:

- ***An uncompetitive currency:*** Specifically, as the exchange rate increases beyond the US\$0.70 mark, even the most sophisticated manufactured exports become uncompetitive on world markets.
- ***A faster pace of import comparison:*** The steady fall in final product prices has created a rapid increase in import penetration.
- ***The squeeze on margins:*** As a result of increasing input costs, manufacturing profit margins growth declined from 32.7% in 2000-01 to 1.7 in the 2005 June quarter.
- ***Global sourcing and supply chains:*** Increasingly, Australian manufacturers are sourcing a greater percentage of input components, in particular automotive, from low-cost countries.
- ***The emergence of China:*** With the rapid growth of China’s manufacturing sector, some Australian manufacturers are struggling to compete with increasing levels of low cost imports.
- ***Weakness in manufactured export growth:*** With forecast growth associated with the so-called “BRIC” economies such as Brazil, Russia, India and China, Australian manufacturers continually vulnerable to a declining market share for exported goods and services.
- ***A net outflow of manufacturing investment:*** From 2004, the pattern of net international investment in Australian manufacturing has shifted from within Australia to offshore interests.
- ***Skills shortages:*** Increasing demands for more skilled workers at each occupation level is forcing manufacturers to invest heavily in workforce development activities.
- ***Growth of the regulatory reform:*** Increased business expenditure associated with number of extra tax related costs such as planning regulations, industrial relations, environmental regulations, training arrangements, etc. has placed a continued burden on manufacturers.

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<sup>16</sup> Ai Group Study, “*Manufacturing Futures: Achieving Global Fitness*” April 2006

Further to concerns over skills shortages is the link between the supply and demand of high level skills in competing industry sectors. For example, because the minerals boom is attracting workers from other sectors of the economy, there is some overlap in the skills required by mining and manufacturing (e.g. engineering professionals). Manufacturers, already having their margins squeezed, may not be able to match the high salaries offered by mining.

While manufacturers understand they carry the main responsibility for change and implementing processes that will increase their productivity, they also recognise that Governments have an important role to play in removing obstacles and encouraging innovation and improvements in competitiveness. Indeed, in the view of industry, the highest priorities in relation to action by government (with more than half of firms strongly agreeing) were better company tax and depreciation arrangements and reducing business regulation. Also important was enhancing skill development (with over 38% strongly agreeing).

As a result, Ai Group has identified a total of 29 major proposals designed to help build a bigger and more robust economy that will be better equipped to adapt swiftly and effectively to shifts in the economic environment. The recommendations are also aimed at reinforcing the ability of manufacturing to build the capabilities necessary for its future growth.

On a positive note, the Ai Group's study comments that despite the problems and uncertainties facing manufacturing, this sector remains crucial to the future wellbeing of the Australian economy. Indeed, it makes the observation that manufacturers are already preparing the foundations for a new phase of growth, and reports a need for manufacturing to develop new methods and different approaches to address the challenges it faces from globalisation, increasing competition from China and the strong Australian dollar<sup>17</sup>.

### Potential Growth

Notwithstanding the high costs associated with production, Australian manufacturers have a comparative advantage on high value-added manufacturing products which require a superior level of skills, technology and capital in low-volume "niche" production. When Australian businesses cannot compete with other countries on labour intensive products, they will need to focus on capital intensive activities. That is, invest in innovation and R & D, attract talented employees, and increase their scale production.

While manufacturing involves the transformation of a raw material through a value added process, it is not a homogeneous activity. It involves a wide range of industries, sectors, and technologies. Further, the nature of manufacturing is changing dramatically with a requirement to be focussed on the provision of a solution rather than a product. As a result, the boundaries between services and manufacturing are becoming increasingly blurred.

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<sup>17</sup> ibid

Manufacturing is also a dynamic industry with some mature firms and product groups contracting while other parts of the nation's traditional industrial base are showing signs of new growth. In order to remain dynamic, manufacturing in Australia needs to maintain an element of technology intensity.

Future opportunities for manufacturing exist in terms of both emerging industries and emerging technologies. For example, a number of traditional service industries such as software development, support a sustainable manufacturing base both in terms of enabling technologies for new product development, as well as for increasing efficiency in process manufacturing and the integration of business processes. They also serve to overcome isolation from the market place, often an issue with Australian manufacturers.

Governments can support manufacturing through early stage awareness raising initiatives focussed on new technologies and techniques which have the potential to impact the current and future competitiveness of the sector. Emerging technologies related to nano-materials, control systems and automation, telematics and the interface between smart technologies, environmental technologies, desk top manufacturing in the form of virtual prototypes and evaluating and testing, all have the potential to change what manufacturing produces and how it produces.

Life sciences offer a substantial opportunity for new areas of growth for Australian manufacturing, related to issues such as alternative health products, design and development of pharmaceuticals such as biotechnology and synthetic materials, tools and computer equipment for chemical analysis and bio-detection, medical devices and prosthesis and the whole area of bio-mimicry.

The Government should champion an improved understanding by manufacturers of these new areas of growth potential and future markets and importantly, improve the linkages between Universities where knowledge and scientific expertise exists which could be combined with the know-how of the manufacturing process to result in the introduction of new products and new processes.

<b>TERM OF REFERENCE 3: <i>Policies for realising these opportunities</i></b>
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## **Current Government Initiatives**

### South Australia's Strategic Plan

South Australia's Strategic Plan was launched in March 2004 after extensive consultation with government agencies, business organisations, community groups, and respected individuals across a broad range of fields. It has been welcomed by government departments, local government authorities, community institutions and other interested groups.

Initially proposed by the state's Economic Development Board, the Plan sets goals in six broad areas with ambitious targets that will be reported against every two years to reflect changing circumstances, new opportunities and the views of the community.

South Australia's Strategic Plan is about setting new directions, bringing fresh perspectives and forging new outcomes to lift the quality of life for all its citizens. This whole-of-state plan requires involvement by all sectors of society to succeed and over the next 10 years aims to reach 79 measurable targets. Some have already been achieved, while others will require many years of focused attention.

The State Government is currently reviewing the Plan by engaging with the South Australian community through a series of forums under the banner "Have Your Say". The purpose of this review is to elicit community views on how the Plan is progressing and to assist in shaping the next phase of implementation.

#### Manufacturing Consultative Council (MCC)

The Manufacturing Consultative Council was established in 2003 to provide advice to the various stakeholders on issues pertaining to the State's manufacturing sector and to promote communication between the manufacturing sector and the State Government.

The Terms of Reference of the MCC include:

- Assist in the development of strategies and programs to support the growth and international competitiveness of South Australia's manufacturing sector;
- Raise issues affecting manufacturing for consideration by the Minister for Economic Development and the Minister for Industry and Trade and which may be subsequently referred back to the Council for further work;
- Provide feedback on the impact of Government policies and programs on the manufacturing sector;
- Advise the Minister for Industry and Trade on specific matters that have been referred to it by the Minister; and
- Ensure strong linkages exist between the MCC and other advisory bodies.

In May 2005, the MCC provided the State Government with a report titled, "*A Blueprint for South Australian Manufacturing*". The Blueprint aims to strengthen the "foundations of competitiveness" of the local manufacturing supply chain through a series of initiatives designed to improve the productivity of South Australian manufacturing.

## Global Horizons Framework

The State Government's manufacturing strategy, *Global Horizons, Local Initiatives*, was launched in June 2005 and establishes a framework to promote the future growth of the manufacturing sector in South Australia.

The report acknowledges that the sector is facing unprecedented challenges from rapidly developing economies, new technologies, trade liberalisation, exchange rate impacts, supply chain rationalisations, skills shortages and growing consumer and public demand for environmental sustainability.

Key objectives in the framework include:

- Maintaining South Australia as the most competitive business location in Australia for the sector as a whole;
- Differentiating ourselves internationally as a destination for innovation investment;
- Providing attractive career paths for people of all ages;
- Ensuring that the sector makes a significant contribution to our export target of \$25 billion by 2013;
- Providing infrastructure that is timely and efficient; and
- Becoming more sustainable and being recognised for it.

Manufacturing is a significant part of the State's economy, and to maintain it will require ongoing change, innovation and an increased focus on exports.

The framework contains several new initiatives, linked to South Australia's Strategic Plan, in the areas of:

- Innovation
- Workforce Development
- Infrastructure
- Exports
- Supportive Government and Business environment, and
- Sustainable Growth

The framework represents a commitment by the Government to improving the environment for the sector with initiatives to be delivered in partnership with key stakeholders.

Firstly, a new Centre for Innovation has been established. Functioning through the Department of Trade and Economic Development (DTED), this new Centre provides specialist services to businesses and acts as a catalyst for high growth South Australian companies to innovate.

These services include:

- Innovation support through the promotion of advanced tools and techniques and providing specialist training and advice in lean techniques, supply chain management and product development.
- Commercialisation support through the Techfast Program of the Australian Institute of Commercialisation.
- Collaboration to link industry with service providers including universities and providing access to state, national and international expertise.

To enhance industry's access to these vital services, offices of the Centre for Innovation have been established at Mawson Lakes in the northern suburbs and Technology Park in the south.

Other key initiatives include the creation of the Mawson Institute for Advanced Manufacturing by co-locating the University of South Australia's Advanced Manufacturing Centre of Excellence (AMCOE) and Centre for Advanced Manufacturing Research (CAMR).

The Australian Minerals Science Research Institute is being established at the Ian Wark Research Institute at Mawson Lakes to support the development of new technologies for mineral processing. This will deliver lower costs, higher yields and reduced environmental impacts.

The Industry Capability Network (SA) has been set up to assist local firms in securing a greater share of manufacturing opportunities from major public and private sector projects. It plays a critical role in identifying, supporting and assisting South Australian businesses in several key areas including defence, mining and manufacturing.

The work of the Industry Capability Network will be underpinned by the State Government's new Industry Participation Policy which will assist in facilitating a flow on impact from major projects to jobs and industry participation for the state.

The Government has provided funding in 2005-06 to establish a new South Australian Manufacturing Up-Skilling Program. This program encourages manufacturers to upgrade existing employees' technical skills and to develop the numeracy and literacy competencies of new skilled migrants.

The Government is also supporting several new industry and regional skills development programs including a Maritime Skills Centre in support of the Air Warfare Destroyer project, the Electronics Industry Education Initiative (ei)<sup>2</sup> to develop linkages between students and the electronics industry, pre-vocational programs in the northern metropolitan region to support the ongoing expansion of the automotive sector at Edinburgh Parks, and pre-apprenticeship programs to address identified skills shortages in manufacturing related occupations in the regions.

Even though the current climate is characterised by some significant challenges, it must be recognised that accompanying those challenges are some real opportunities for the manufacturing sector in South Australia to position itself for prosperity into the future.

### Workforce Development Strategy

Since 2002 the South Australian government has initiated a number of reforms and strategies which provide a strong foundation for the development of the State's current and future workforce needs, including:

- Introduction of the *Training and Skills Development Act*;
- Formation of the Department of Further Education Employment Science and Technology (DFEEST) to integrate the employment, training and innovation sectors;
- A review of the Technical and Further Education TAFE sector and formation of TAFE SA;
- Introduction of SA Works; and
- The establishment of 9 Industry Skills Boards.

The Workforce Development Strategy – *Better Skills, Better Work, Better State – A Strategy for the Development of South Australia's Workforce to 2010* – builds on these reforms in a way which also supports the Government's broader Economic Development and Social Inclusion agendas. At the government level, the Strategy now forms the basis for any workforce planning and development for major projects, including Primary Industries.

Examples of coordinated government action include:

- Growing Prosperity – Workforce Development Implementation Plan (ExComm)
- Whole of government work with the Department of Premier and Cabinet (DPC), DTED, Department of Primary Industries and Resources of South Australia (PIRSA), Health, the Office of Public Employment (OPE) and the Department of Transport, Energy and Infrastructure (DTEI) to progress a workforce development response to a number of common targets contained in South Australia's Strategic Plan. This work has a particular focus on the Economic Development and Social Inclusion targets.
- DTED, DFEEST and PIRSA working together with industry to better plan for the workforce development needs of the mineral resources and heavy engineering sectors.

### Trade Schools

The State Government announced in March 2006 that it would establish a total of ten trade schools over the next five years to connect with industry and business across the State, and to address the specific needs of individual regions.



The initiative is part of a broader senior education reform agenda to address the changing needs of students and the increasing demands of a diverse workforce. This includes plans to connect school to work through a revised South Australian Certificate of Education (South Australian Certificate of Education (SACE)).

The first three pilot trade schools, to be established in 2007, will be located in areas with industries such as manufacturing, high technology, bioscience, winemaking, defence and mining.

Each trade school will be linked to a network of up to 20 secondary schools, TAFE institutes and campuses and local workplaces, to bring together the combined expertise of schools and TAFE. The placement of schools and variety of vocational training offered will ensure that students are able to access personalised education, training, and work programs in areas of skills shortages.

The Federal Government has commitment to opening three Technical Colleges in South Australia. It is anticipated that each of the colleges will be operational, commencing with a small intake, in the school year of 2007.

While this is a Commonwealth initiative, both the proponents of the technical schools and relevant staff within the State education system, recognise the need for close collaboration and communication to ensure the best possible outcomes and to avoid the potential duplication of effort with existing and possible future state government initiatives.

### Labour Adjustment Fund

Large scale retrenchments at Mitsubishi and General Motors (GM) Holden have led the Commonwealth and South Australian Governments to jointly implement significant labour adjustment programs to provide assistance to affected workers and their families.

Following the announcement by Mitsubishi Motors Corporation in May 2004 of the closure of the Lonsdale Engine Plant and further additional voluntary reductions from the Tonsley Park assembly plant, the Commonwealth Government established a \$10m Labour Adjustment Program.

The program was delivered by the Department of Employment and Workplace Relations (DEWR) through the Job Network structure at the Federal level and the Department of Further Education Employment Science and Technology (DFEEST) at the State level. The program was promoted by Mitsubishi, the unions and through staff information sessions, kiosks and staff information packs. In the final event, some 1337 redundancies were experienced out of Mitsubishi of which 1161 registered for assistance with Job Network Providers and 861 (74% of registrations) were placed in work or full time education.

In response to the announcement by GM Holden that the company would reduce its SA operations by 1400 positions by mid 2006 due to declining volumes arising out of the impact of increased fuel prices, the Prime Minister and the Premier agreed to establish a \$10m Holden Labour Adjustment Package to assist displaced workers in both Holden and tier 1 suppliers who were directly affected.

The scope of services covered included:

- Information workshops
- Career advice and counselling
- Skill profiling
- Skills assessment and certification, recognition of prior learning
- Case management
- Job matching and job placement
- Training to meet regional demand
- Funding of training for induction or up-skilling related to a new job
- Relocation assistance
- Wage subsidies
- Self employment options

In broad terms the South Australian Government focus is on training and re-training and the Commonwealth on job matching and alternative employment. The outcome of the Holden program was 1432 redundancies to end May 2006 (with a further 400 to come by July 2006) of which 594 registered with Job Network and 379 were placed in jobs or full time training.

The State Government has subsequently expanded its elements of the Package to include redundant workers at ION Automotive, Tenneco and a further reduction at Mitsubishi.

Labour Adjustment Programs are regarded by both Governments as valuable mechanisms to minimise the fall out where major redundancy programs are involved and to better match redundant workers with training and skill requirements of industries requiring additional workers.

#### The Structural Adjustment Fund for South Australia (SAFSA)

SAFSA is a \$45 million fund jointly established by the Commonwealth and South Australian Governments to assist companies with projects that will have a positive impact on the South Australian economy. The establishment of the fund followed Mitsubishi's announcement to close the Lonsdale engine plant and reduce the Tonsley Park workforce.

A high-level Task Force has been established to provide advice to the Federal Industry Minister, the Hon Ian MacFarlane MP and the South Australian Deputy Premier, the Hon Kevin Foley MP, on the merit of funding applications. As of 25 May 2006, a total of 16 expansion projects have been approved and announced.

The following manufacturing specific projects exemplify the value and importance of the SAFSA initiative:

- **Cubic Pacific:** A first tier supplier to Holden, Cubic Pacific has established a print decorating line in its new painting facility in Edinburgh Park using licensed technology from Japan. With an investment of \$2.97 million, 35 additional new full-time equivalent positions have been created. This project received approval for \$954,000 from SAFSA.
- **Alloy Technology International:** In a joint venture involving the University of South Australia's Advanced Manufacturing Centre of Excellence and CSIRO, ATI will establish a foundry in Wingfield with a research and development laboratory for developing light metal manufacturing for the automotive industry. An investment of \$6.763 million will create 32 new full-time equivalent positions and has received approval for \$1.812 million from SAFSA.
- **Intercast & Forge:** This company will expand its foundry based in the Wingfield Cast Metals Precinct by establishing a new cast metals moulding line to produce cast iron components for the automotive and rail industries. This project will generate 68 new full-time equivalent positions.
- **PBR:** As an automotive component manufacturer based in Victoria, PBR has leased space to manufacture and assemble brake and suspension components for the Mitsubishi 380. It is also preparing to install new equipment to manufacture other components at Lonsdale for Holden's new Commodore, due to be released in mid-2006.
- **Redarc Electronics Pty. Ltd:** Awarded \$1.6 million as part of a \$4 million expansion of its electronics business, Redarc, which presently has only 28 employees, plans to build a facility at Lonsdale, in Adelaide's southern suburbs. This project is expected to create 62 new direct and indirect jobs.
- **Fibrelogic Pty. Ltd:** Fibrelogic was awarded \$5.9 million to support the establishment of a new fibreglass reinforced water pipe manufacturing plant in Southern Adelaide. This \$22 million project is expected to generate up to 140 new jobs in South Australia's southern area.
- **ResourceCo Pty. Ltd:** Although not specifically considered manufacturing, ResourceCo provides this sector with a range of resource recovery, recycling and crushing services. This company has been awarded \$3 million as part of a \$10.8 million expansion of its established waste processing business.

## **Future Strategies and Recommendations**

### National Manufacturing Strategy

The National Manufacturing Forum has been established by all state and territory governments as an outcome of the National Manufacturing Summit held in Melbourne in December 2005. The role of the Forum, which is Chaired by former Chief Executive of the Australian Industry Group, Mr Bob Herbert, is to develop a National Strategic Action Plan for Manufacturing by September 2006. The Commonwealth Government has not accepted an invitation to contribute to the work of the Forum and the development of a National Strategic Action Plan.

The Forum held its first meeting in April and agreed to the following Terms of Reference:

- Oversee the development of a National Strategic Action Plan for Manufacturing to be presented for consideration by Ministers by September 2006.
- Develop and agree a project plan, research program and mechanisms for stakeholder consultation as key inputs to the development of the Action Plan.
- Develop and agree the structure and format of the Action Plan, including key areas and themes to be covered.
- Oversee and provide guidance to the Forum Secretariat in the undertaking of research, data gathering and analysis and stakeholder consultation.
- Guide and review the drafting of the Action Plan, including the development and agreement of priorities for policy action to be identified in the Plan.
- Oversee the production and presentation of the Plan to Ministers.
- Individual members of the Forum are expected to act as advocates for the Action Plan within their organisations and to commit, on behalf of their organisations, to the strategic priorities outlined in the Action Plan.

The Strategic Action Plan is expected to build on the key issues discussed at the National Manufacturing Summit relating to innovation, skills, investment and the global environment. The plan is expected to provide context to the need for a national plan of action for the manufacturing sector, focussing on the competitive drivers and current state of manufacturing domestically and internationally, and the initiatives being pursued overseas to support manufacturing.

Manufacturing stakeholders who attended the National Manufacturing Summit are being engaged in the process, as are the various state-based manufacturing consultative councils, to identify policy priorities for future action. A final report is expected to be presented to State Ministers with responsibility for manufacturing in September 2006.

## Recommendations

The South Australian Government believes that existing Government policies and programs can be reinforced and strengthened in the following ways.

### *Recommendation 1: Emerging Technologies and Industries*

Opportunities exist for manufacturers to engage in developing emerging technologies beyond their core business focus and in line with future growth prospects. These include the use of nano-materials, control systems and automation, telematics and the interface between smart technologies, environmental technologies, desk top manufacturing in the form of virtual prototypes and evaluating and testing.

It is therefore recommended that the Commonwealth Government support manufacturing in these new areas of potential growth by championing early stage awareness raising initiatives and promoting linkages between industry and public research institutes. A range of research-based initiatives could be implemented in conjunction with State Governments in areas of manufacturing, mining, defence and agriculture.

### *Recommendation 2: Improve Industry Competitiveness*

Manufacturers need to remain competitive through the implementation of lean principles and practices, the effective use of global supply chains and the need to become innovative. In some instances however, select industry sectors may need to consider an “exit plan” to new markets and products as the risk of further decline in traditional markets and product groups threatens to impact on continued economic viability.

It is therefore recommended that a national program be funded to develop manufacturing capability in areas of lean manufacturing, product development and the integration of business processes. For those sectors where improved processing techniques will not be enough to sustain future capability, it is recommended the government support the formulation of “exit plans” to assist affected industries in making the transition into more viable market segments.

### *Recommendation 3: Workforce Development and Skills*

Improving industry competitiveness will depend on the development of a highly skilled workforce, particularly in areas such as advanced trades and professional engineering.

It is therefore recommended that the Commonwealth Government increase resources for the up-skilling of existing workers in the manufacturing industry at post-trade, technician and professional engineering levels, in addition to increasing funds for engineering places within the university system.

*Recommendation 4: Labour Adjustment (as required)*

The South Australian and Commonwealth Governments have successfully implemented labour adjustment initiatives over the past two years in the automotive industry to assist workers with skills assessment, accelerated training and skills development for new automotive and non-automotive employment opportunities.

It is therefore recommended that the Commonwealth Government be ready to implement, in partnership with State Governments, similar programs for the manufacturing industry in general, should further rationalisation occur.

*Recommendation 5: Supporting Export Growth*

Exports are crucial to the future viability of manufacturing, with in-market knowledge and expertise at the industry level vital for many export oriented manufacturers.

It is therefore recommended that Austrade engage in-market industry specialists in areas where Australia has particular manufacturing strengths such as electronics, mining and resources, and engineering services.

*Recommendation 6: National Manufacturing Strategy*

A National Manufacturing Forum has been established by all state and territory governments as an outcome of the National Manufacturing Summit held in Melbourne in December 2005. The role of the Forum is to develop a National Strategic Action Plan for Manufacturing by September 2006.

Given the Commonwealth control of the economic levers that drive growth, it is therefore recommended that the Commonwealth Government join State Governments in working toward the establishment of a National Manufacturing Strategy.

*Recommendation 7: Relieving Government Red Tape*

Increased business expenditure associated with the implementation of government regulation and more importantly, the cost of compliance, is acknowledged by manufacturers as a key impediment to international competitiveness, particularly with many competitors in low cost economies not having to share similar restrictions.

It is therefore recommended that governments reduce the aggregate regulatory and compliance burden as a priority policy action and where necessary, investigate the possibility of removing unnecessary existing regulation altogether. The South Australian Government has already committed to such a process, although business rarely distinguishes between the different tiers of government.

*Recommendation 8: Automotive Industry Future Direction*

The automotive sector is at the cutting edge of manufacturing. Current vehicle technology not only incorporates highly advanced electronics and materials, it is also manufactured using advanced process and management techniques which filter into other aspects of manufacturing.

With the industry facing global pressure, it is critical that Australia maintain its capacity to produce a world class vehicle. The Commonwealth applies substantial resources under the Automotive Competitiveness and Investment Scheme (ACIS) and sets the “policy” environment nationally.

It is therefore recommended that the Federal Government review the policy settings prior to the scheduled 2008 timeframe in order to provide certainty to the industry going forward. In addition, Federal funding should be focussed on supporting a move by Australian based automotive manufacturers into alternative technologies. ACIS could be used to ensure Australia is the preferred location for future generations “niche” vehicles building on alternative power trains.