

Hon Bruce Baird MP  
Chair  
House Standing Committee on Economics, Finance and Public Administration  
Parliament House  
CANBERRA ACT 2600

Dear Mr Baird

Thank you for the opportunity to comment on the state of Australia's manufactured export and import competing base now and beyond the resources boom.

The manufacturing sector in Tasmania and Australia is facing challenging times with the combined impact of a shortage of skilled labour, an ageing workforce, and a strong Australian dollar. These factors result in stronger import competition coupled with our exports being less competitive, with increasing competition from low cost producers such as China. Internal factors such as the impact of higher fuel costs adversely affect household spending on manufactured goods.

The contribution made by the manufacturing industry to the Tasmanian economy is significant. The sector has grown considerably over the past five years and, in 2004-05, was the largest contributor to Tasmania's Total Factor Income at \$2.4 billion. Employment has grown to approximately 24,000, an increase of some 4,000 since 2001-02.

## **Terms of Reference No. 1**

### ***Australia's dominance in commodities exports and the impacts of this on the economy following the resources boom.***

- Tasmanian manufacturing is dominated by large natural endowment resource processing industries with strong linkages to mining, agriculture and hydro power generation. Tasmanian mining and resource processing are capital intensive industries which, through capital and maintenance expenditure, drive significant manufacturing and service activity. The metal and non metallic processing sector contributes an estimated 25 per cent of manufacturing total factor income.
- The manufacturing industry is highly export-oriented and consequently its prospects are largely driven by external factors such as world commodity prices and the value of the Australian dollar.
- Global economic conditions have recently been very favourable for Tasmania's mineral commodities. The demand for raw materials fuelled by the surging Chinese economy has been a key factor. Other positive influences driving the demand for commodities recently have included strong US economic growth (according to the US Bureau of Economic Analysis the US economy grew at an annual rate of 5.6 per cent in the March

quarter 2006), a return to economic growth in Japan, historically low real interest rates and a weakening of the US dollar. While commodity markets have come off their peaks of late 2003 and early 2004, various analysts predict that favourable global economic conditions are likely to persist for the foreseeable future.

- The external conditions for the Tasmanian mining and mineral processing industry are likely to remain positive in the near term. For instance, the continuing interest in mineral exploration and investment has resulted in a nickel mine and processing plant with a value of \$94 million being built near Zeehan, on Tasmania's West Coast. Feasibility studies are underway investigating mining in alluvial tin, gold and sapphire in the northeast of Tasmania, scheelite production on King Island and a magnetite mine at Savage River.
- Exports of processed metallic minerals accounted for 38 per cent of Tasmania's total overseas exports in 2004-05, compared to 34 per cent in 2003-04. In 2004-05, total overseas exports from Tasmania were \$2.9 billion, an increase of \$500 million or 18.7 per cent from the previous year. Of this increase in total exports, \$263 million or 57 per cent was due to the increase in processed metallic mineral exports. This suggests that productive efficiencies gained through investment spending, together with favourable price movements, have allowed this sector to out-perform some other export sectors of the Tasmanian economy.
- Tasmania's existing mineral processing operations have made continual investment in new capital over the past decade, enabling them to reduce costs and increase productivity. These factors should enhance the viability of current operations within the State in the medium term. Given these factors, the medium to long-term future of the mineral-processing sector in Tasmania appears to be secure, with the main threat being potential rises in energy prices.

## **Terms of Reference No 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).***

- The major issues facing the manufacturing industry including tariff reductions, globalisation, the rapid rise of China, skills shortages, access to capital and the strong Australian currency, have all been discussed at the December 2005 National Manufacturing Summit "Thriving in a Global Environment" (Summit Communiqué attached) and have been highlighted by the Tasmanian Manufacturing Industry Council and other key stakeholders.
- Similar issues and challenges together with recommendations to address them are also detailed in the study released by the Australian Industry Group in April 2006 – "Manufacturing Futures, Achieving Global Fitness".
- Tasmanian exporters indicate that the impact of Bass Strait and related freight costs on finished products and/or inputs and other logistical issues such as lead times are an impediment to business.

- Preferential rates of duty flowing from the Free Trade Agreements between the European Union and parts of South America, in particular Brazil and Chile are making market access difficult for some of the major exporting Tasmanian companies. This impediment does not allow Tasmanian manufacturers to fully optimise the opportunities in South America. The National Manufacturing Forum has also highlighted such issues.

### **Terms of Reference No. 3**

#### ***Policies for realising these opportunities.***

- The Tasmanian Government is responding with a range of strategies and initiatives aimed at countering some of the challenges facing the Tasmanian manufacturing industry. These include working with industry to encourage the adoption of lean manufacturing practices increasing efficiency via process innovation, product design, technology transfer, the adoption of resource efficiency methodologies and skills development.
- The Tasmanian Government through the Department of Economic Development is working co-operatively with key sectors to build industry capability. Areas addressed include the composite manufacturing sector which specialises in emergency vehicles and wind generator housings, the steel fabrication sector, and aluminium ferry construction/marine manufacturing.
- The Tasmanian Government, upon its election in 1998, established a number of industry consultative bodies of which the Manufacturing Industry Council (MIC) is one of the more pro-active in developing its sectoral strategies. Such strategies include growth of sales and export capacity, effective training and deployment of skills, development of greater industry capability, strengthening existing industry networks and establishing new ones, ensuring an effective regulatory environment and stimulation of capability in the areas of innovation, research and development.
- A whole-of-government approach has been taken to address the future workforce needs in Tasmania. These include but are not limited to:
  - Skills for Growth – this initiative provides \$12 million over four years to directly address skill shortages and build workforce capacity in the trades and other growth industries.
  - Manufacturing Open Days – are organised by the Department of Economic Development, the Manufacturing Industry Council and the Tasmanian Minerals Council. Students and teachers are given a first hand introduction to manufacturing workplaces in Tasmania. This assists with career choices and raises the image and profile of industry.
  - Implementation of the Competitive Manufacturing Partnership Package (CMPP), by the Office of Post Compulsory Education and Training, supports new and flexible approaches to work-based training for Tasmanian manufacturing enterprises enabling employees to achieve nationally recognised skills.

- Implementation of a new senior secondary subject – Manufacturing Studies for years 11 and 12 by the Tasmanian Qualification Authority and Manufacturing Skills Australia.

## **Summary**

Tasmania believes that the manufacturing sector should be proactively supported with a range of initiatives aimed at boosting competitiveness, including greater support for both product and process innovation, design and skilling the existing workforce.

Tasmania would specifically welcome consideration and acceptance of the following initiatives, that have regional and sector benefits for all of the manufacturing industry:

- An Australian Government funded ‘Process Innovation’ program focussing on building the design and innovation capability of small to medium enterprises (SME) which contribute to the strategic supply chain and support companies serving the manufacturing sector. This program may be similar to the current Textile Clothing and Footwear small business program with flexible grants, including capital assistance, for innovative projects. Ensuring access to these funds for SMEs is vital.
- An Australian Government funded ‘Best Practice Design and Production’ national program designed to improve competitiveness through the adoption of lean and six sigma management tools by the manufacturing industry and their supply chain.
- An Australian Government funded ‘Technical Skill Enhancement and Development’ program to foster the upgrading of technical skills of existing technical and production employees.
- Australian Government to provide export and logistics assistance for heavy equipment manufacturers.

Thank you once again for the opportunity to comment.

Yours sincerely

Paul Lennon  
**Premier**  
**Minister for Economic Development and Resources**