ACTU RESPONSE TO TRANSCRIPT

I wish to amplify my comments on transcript in relation to two issues raised by Mr. Ciobo.

1. On page 20 of transcript (Wednesday 22 November 2006, EFPA, Draft 20), Mr Ciobo stated:

   "The impression I am left with ... is that Australia, in comparison to other countries around the world, does not have senior management that focus on winning international business opportunities and that have long-term plans to achieve this on a comparative basis. Is that what you are saying?"

   I am satisfied with the answer I have given. However, I would preface my answer by the comments contained in the ACTU submission to the National Manufacturing Forum (see Attachment One Overhead). The fact that the global competitive environment has changed so dramatically in the last five to ten years suggests there is a need now, more than ever before, for a substantial upgrade of manufacturing firm's organisational capabilities and management systems. This is the thrust of what the current and former auto industry executives making up the ASIAG meant when they said:

   "Australian industry is at a critical point – its ability hasn't decreased, the game has changed."

2. On page 24 of transcript Mr. Ciobo makes the point that:

   "... it is clear that costs are decreasing across the board ... and then there is a large component cost, which is labour, which is increasing."

   I am satisfied with how, previously, in response to a similar question, I have discussed this issue. However, the two attached graphs from the ACTU submission to the National Manufacturing Forum suggest the issue is somewhat more complex. In addition:

   a) as suggested by your witnesses from Blue Scope Steel, and confirmed by ABS 6427 (Producers Price Indexes particularly the series on the cost of materials used in manufacturing), this resources boom has meant many manufacturers are experiencing a significant increase in their major cost, the cost of raw materials.

   b) despite this cost pressure, the two attached graphs (Company Profit Margins and the Wage and Salary Share of Total Factor Income in Manufacturing), suggest a reasonable and broadly based improvement in manufacturer's profit margins accompanied by the long-term trend of a falling wages share in total factor income.

   This is despite the fact that the resources boom and skill shortages have put upward pressure on wages in manufacturing and other sectors. However, at the end of the day the real issue remains improving productivity.

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Attachment One

SECTION TWO:
What Is To Be Done?
Recommendations For Building A Stronger, More Prosperous and Productive Manufacturing Industry

The global competitive environment has changed dramatically in the last decade. As a group of business leaders making up the Automotive Strategy Action Group (AISAG) put it recently:

"Australian industry is at a critical point – its ability hasn't decreased, the game has changed."

(ASIAG: Support of the Automotive Manufacturing Industry Through ACE and Related Initiatives, Paper presented to Victoria's MICC, August 2005)

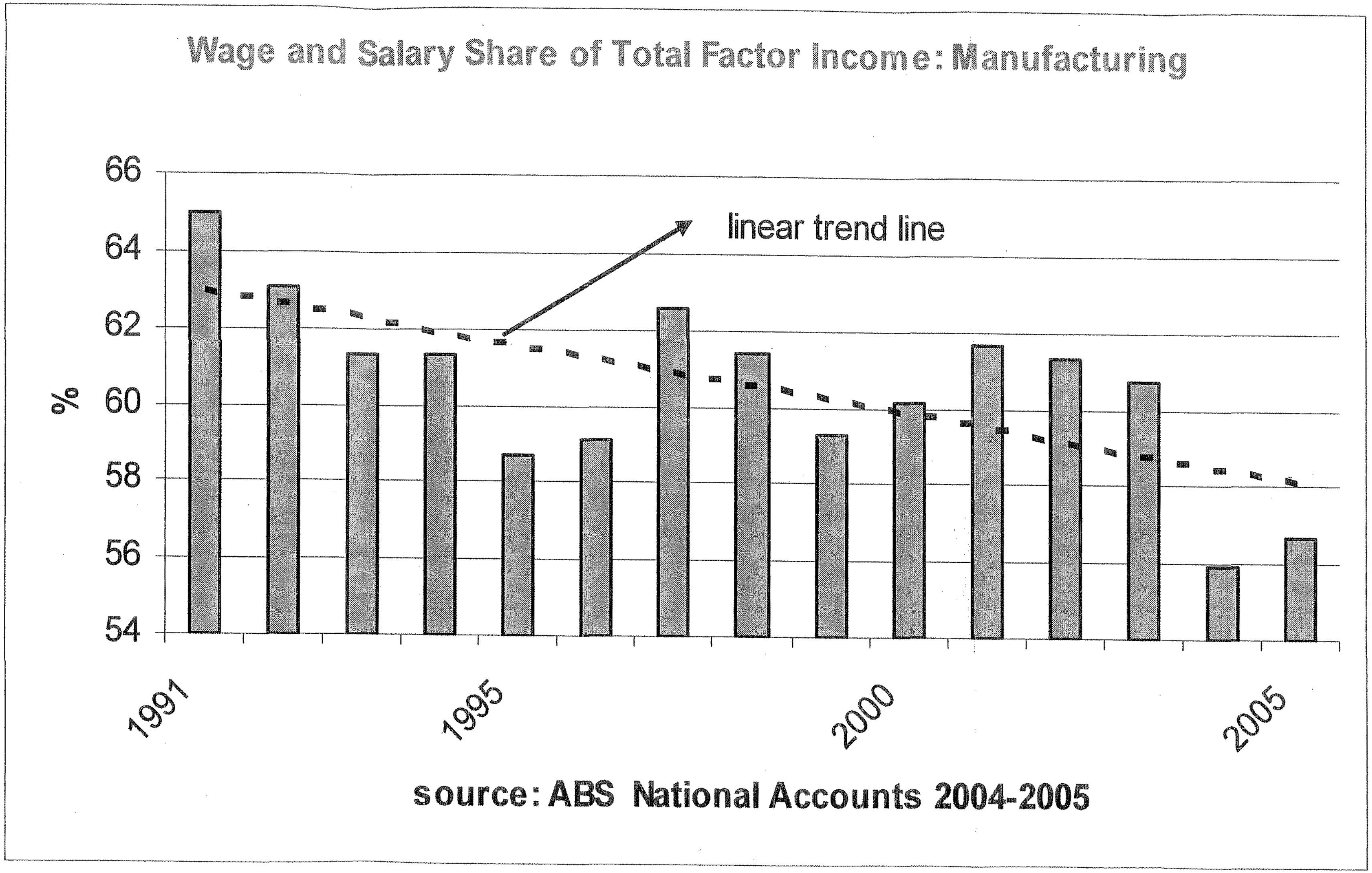
The game has changed and as a result, Australian-based manufacturers face enormous challenges. The resources boom has pushed up the exchange rate and there are significant skill shortages. China, India and other East Asian challengers are moving quickly up the value chain rather than simply relying on low cost assembly. Markets are more open and changes in transport logistics and IT are making more and more goods and services tradable in the global marketplace. In addition, the established MNCs have integrated global supply chains and access is getting harder. More producers are demanding cost downs from their suppliers and demanding they take responsibility for supplying modules or systems rather than individual component parts as in the past. As two researchers at MIT put it recently, *"The international customers are looking for suppliers who are already able to make the products – not for firms that can be brought up to the needed level of performance ... These changes are raising the threshold of performance for supplier firms in several areas, including design and engineering, sourcing, the effective use of ICT and the ability to operate in and co-ordinate between multiple locations."* It all adds up to a much greater emphasis on firms upgrading their management systems and organisational capabilities.

If Australian industry does not meet these and other challenges then the consequences of a "business as usual" future will look very much like that described below for Australia's chemicals and plastics industry. Simply put, a business as usual response to today's global challenge means more hollowing out, downsizing, stagnation and, over time, an accelerated process of de-industrialisation.

Company Profit Margins: Pre-tax profit as percentage of sales

	2005	2004	2003	2002	2001	2000	1999	1998	1997
Total Manufacturing	7.4%	7.7%	6.5%	6.1%	4.9%	4.6%	5.0%	5.3%	5.2%
Food, Beverages & Tobacco	8.4%	7.6%	6.0%	6.6%	6.2%	4.9%	6.1%	6.5%	5.5%
Metal Products	8.5%	9.9%	6.9%	6.7%	5.6%	3.3%	1.4%	5.6%	4.9%
Machinery & Equipment	5.8%	5.0%	5.0%	3.9%	3.3%	2.7%	3.2%	3.4%	4.3%
Other Manufacturing	5.2%	8.2%	7.2%	5.9%	3.7%	2.9%	2.5%	1.0%	1.1%
Building Products (non metallic minerals)	9.7%	8.8%	9.5%	8.8%	7.5%	9.3%	9.7%	8.4%	6.7%
Wood & Paper Products	6.2%	7.6%	7.8%	8.3%	6.5%	6.6%	5.8%	5.2%	5.2%
Coal, Petroleum & Chemical Products	6.2%	6.7%	6.1%	5.7%	2.7%	4.3%	6.5%	5.5%	6.1%
Printing, Publishing & Recorded Media	12.0%	12.9%	10.7%	9.7%	8.3%	12.6%	8.9%	8.9%	8.6%
Textile, Clothing & Footwear	3.7%	6.5%	4.9%	2.7%	2.7%	2.4%	1.9%	1.5%	2.0%

Source: ABS 5676 Business Indicators Australia, December 2005


Wage and Salary Share of Total Factor Income: Manufacturing
%
66
64
62
60
58
56
54
linear trend line
1991
1995
2000
2005
source: ABS National Accounts 2004-2005