

Chapter Three

Assistance to rural and manufacturing industries in crisis

3.1 The committee considered the first part of the terms of reference in detail to try and break up the definitions contained within it. The committee sought to understand which types of businesses might fall under the banner of rural and manufacturing industries, as well as trying to establish what would constitute a crisis for these types of businesses.

The definition of a crisis

3.2 The committee embarked on the inquiry with a general idea of what circumstances could cause a crisis for rural and manufacturing businesses. However it was surprised at the variety of often unforeseen events that could impact trading and productivity.

3.3 In addition to drought, the committee heard that there are a significant number of other events which can affect both rural and manufacturing businesses and associated communities. The committee took evidence in Hobart from a number of stakeholders whose businesses and sectors are susceptible to events beyond their control.

3.4 The aquaculture sector in Tasmania provided many examples of catastrophic events that impacted businesses, both on and off-shore. Professor Christopher Carter from the Fisheries and Aquaculture Centre at the University of Tasmania made the general point that 'aquaculture is vulnerable to catastrophic events because the production cycles are long'. He also outlined some possible scenarios for specific industries:

- Salmon hatcheries are located inland and are exposed to bushfire and drought, for example. Shellfish hatcheries are located close to the sea and are vulnerable to extreme coastal events. In addition, abalone farming is land based...Catastrophic events to hatcheries could destroy a year or more of production.
- The oyster industry has their growing stations in estuarine conditions. High rain events will cause run-off which dilutes the salinity of those areas. It can also wash-out potential toxicants.
- In the hatcheries when there is a severe drought condition they have to manage their freshwater supply. The production of salmon is dependent on salmon in freshwater and the volume of water can limit their production.
- Natural disasters such as high wind events or tsunamis et cetera can disrupt cage systems and tear them from the moorings and rip the cages.
- Catastrophic events at sea could destroy brood stock, which will take more than two years to grow and replace. Marine ecosystems

and unpredictable changes: marine ecosystems are complex and may be vulnerable to threshold changes.¹

3.5 The Tasmanian Seafood Industry Council also highlighted the potential lag from when a disaster occurs, to its impact on the seafood industry:

In Tasmania specifically, both the salmon industry and the oyster industry rely on hatchery production...If a bushfire were to go through there and a hatchery were wiped out, that would have not an immediate impact on production; but, given the lag time between when the fish are put out as fingerlings and when they come through the production cycle, 12 to 18 months later, you could see production severely impacted—same with the oyster industry. In fact, I heard you talking earlier about the Dunalley bushfires here. That is a classic example: the bushfire came within metres of destroying Cameron of Tasmania's hatchery right in the centre of Dunalley. Now, that hatchery produces approximately 45 per cent of the spat for the Pacific oyster industry nationally...They are the sort of land based things that can impact on the ability of industry to keep going.²

3.6 The Tasmanian Chamber of Commerce and Industry (TCCI) were keen to point out that a crisis does not have to be precipitated by a natural disaster for it to have a significant impact on businesses, and the community as a whole. The TCCI recounted the impact of the Port Arthur massacre in 1996, and the recent Dunalley bushfires as examples:

One of the things in terms of what I would like to say to the committee today is that I think the definition, the terms of reference, is too narrow. It really does not matter if it is a natural disaster. It could be a bombing. It could be a massacre. It could be anything that disrupts the community on a wide scale. With that, I realise that government cannot be God, but, in terms of thinking, I think this is important.

Although Port Arthur was a long time ago, in 1996, I think the lessons are still pertinent. As recently as the Dunalley bushfires, the TCCI did take a very direct role. Based on some of my experience, I think it is worth reflecting on those.³

3.7 Advocates from the manufacturing sector also had firm views on how the term crisis should be defined. In the context of manufacturing, the sector argued that unlike a crisis caused by natural events, a crisis in the manufacturing sector could possibly be foreseen, and avoided with strategic investment and research and development specifically aimed at supporting the sector to adapt to changing economic conditions.

1 Professor Chris Carter, Fisheries and Aquaculture Centre, University of Tasmania, *Committee Hansard*, 4 February 2015, pp 1–2.

2 Mr Neil Stump, Chief Executive, Tasmanian Seafood Industry Council, *Committee Hansard*, 4 February 2015, p. 16.

3 Ms Susan Parr, Chair, Tasmanian Chamber of Commerce and Industry, *Committee Hansard*, 4 February 2015, p. 5.

3.8 Unions Tasmania also emphasised this view, highlighting the perspective of regional Australia and the impact that funding to support the manufacturing sector could have in those areas:

Clearly, from a Tasmanian point of view, with the spread of population across the state, we are a regional community, and many of our regional communities have been particularly impacted as a result of loss of jobs and closure of companies. In our view, narrowly focusing on financial relief necessary to support these industries in times of crisis is missing an opportunity to develop long-term and innovative industries that provide meaningful employment in well-paid and permanent jobs.⁴

3.9 When asked whether the current economic conditions in the sector could be compared to a natural disaster, the Australian Manufacturing Workers' Union (AMWU) were unequivocal in their response:

[T]he problem that we have in manufacturing at the moment is that there is a perfect storm. The perfect storm is described first of all and most prominently by the wholesale closedown of the vehicle industry. As I said, there are up to 230,000 jobs affected...

On top of that, we have a problem in defence procurement in this country. The committee is probably aware, and the Senate is absolutely aware of, the submarines issue. There are many thousands of Australian manufacturing jobs tied up in the submarine contract but more generally in naval shipbuilding...

Then there are other industries such as food in which the AMWU is involved where our competitive advantage has been eroded by, for instance, the dumping of tomatoes by the Italian tomato industry...

To describe it as the perfect storm or to suggest this is by way of a man-made natural disaster—if that is not an oxymoron, Senator—I do not think is not over-egging the pudding.⁵

3.10 The Federation of Automotive Products Manufacturers (FAPM) also discussed the catastrophic impact of the cessation of vehicles manufacturing in Australia:

As you would expect in an industry that relies on volume production, this contraction has created, and continues to create, enormous stress on the component manufacturing side of our industry. Vehicle production continues to decline, flowing on to the component sector. This sector is, itself, altering production schedules to meet reduced demand from the vehicle assemblers, and this is impacting on employment and cash flow within the sector.⁶

4 Mr Stephen Walsh, Secretary, Unions Tasmania, *Committee Hansard*, 4 February 2015, p. 12.

5 Australian Manufacturing Workers' Union, *Committee Hansard*, 5 February 2015, p. 9.

6 Federation of Automotive Products Manufacturers, *Committee Hansard*, 5 February 2015, p. 1.

The definition of a rural and manufacturing industry

3.11 The committee discovered that the types of businesses covered by the definition of a rural and manufacturing industry span a broad spectrum, and went beyond what would generally be anticipated. As is evident from the contributions above, the seafood and aquaculture industry engaged strongly with the inquiry to emphasise both the importance of the sector and its vulnerability to events beyond its control. The industry is firmly of the view that they are excluded from both the conversations around how disasters are mitigated and how recovery is managed, including financial relief.

3.12 The Tasmanian Seafood Industry Council contrasted the assistance and resources provided to land based primary producers in times of drought compared with support given to marine based primary producers. Mr Neil Stump, the Chair of the Council, emphasised how difficult it is for members of his sector to access assistance in the aftermath of disasters:

What we are seeking is to receive equal treatment, the same as our terrestrial cousins who are primary producers. Everybody is aware that farmers for many years have received drought assistance in times of drought, and we do not begrudge them that. But, at times when [there] have been natural disasters—maybe from slightly different causes—in the seafood industry, we have found it near impossible to gain government support to assist individual companies or industry sectors to get back on their feet and operating again.⁷

3.13 The Australian Prawn Farmers' Association (APFA) provided the example of one of their member's attempts to access emergency relief payments following Cyclone Yasi in Queensland which they claim, illustrates the inequity of the system:

All emergency relief offered under the NDRRA Category D assistance packages were reportedly poorly constructed for the aquaculture industry and underestimated the significant position that aquaculture holds in rural and remote regions of Queensland and the dependence of local communities on these aquaculture facilities.⁸

3.14 APFA quoted the observations of one of the Industry Recovery Officers (IROs) employed following the cyclone, which supported the claim that the aquaculture industry is not well served in the current disaster relief framework:

The IRO reported at the time – “the above underestimation combined with a poor understanding of the operational needs and financial capital requirements of aquaculture, compounded the ability of already inappropriately constructed assistance packages to deliver ... maximal recovery outcomes to industry.”⁹

7 Mr Neil Stump, Tasmanian Seafood Industry Council, *Committee Hansard*, 4 February 2015, p. 16.

8 Australian Prawn Farmers' Association, *Submission No. 1*, p. 3.

9 Australian Prawn Farmers' Association, *Submission No. 1*, p. 3.

3.15 Wildcatch Fisheries South Australia Inc. (WFSA) concurred with the view that assistance to the marine food industry is not well served with the current disaster relief framework, despite encountering the same difficulties and risks:

At present there is not a consistent framework for defining primary producers and primary production. Many government programs do not classify seafood producers (wildcatch and aquaculture) the same as a terrestrial food producer. In many cases the businesses of seafood producers are also subject the vagaries of nature and their fishery and its performance is subject to environmental variability.

...

It is therefore our opinion that Government must work to provide the same safety net and support for seafood producers that many other primary producers have come to enjoy and expect.¹⁰

The distinct nature of the manufacturing and farming sectors

3.16 The question of why any industry should receive government support was raised during the inquiry. The point was put to the AMWU in terms of what particular attributes the manufacturing sector brought to the economy that made it distinct from other sectors:

The reason why manufacturing is special is the amount of human capital, if you will, or the amount of knowledge and technology, that goes into manufacturing, as opposed to other sectors. In other sectors there is technology, of course, and there is human capital, but the intensity is not anywhere near as much.

You can look at this from the macro point of view and you can see that manufacturing is responsible for a quarter of the R&D that the business sector does, yet it is responsible for much less—less than 10 per cent—of actual output. So it is a very knowledge intensive area, and that is not surprising because manufacturing is the transformation of basic goods into much more valuable goods. That is not what mining does. That is not what services do. So the links between manufacturing and technology and science are links that do not exist with other sectors, and it is the technology and the science that make us advanced.¹¹

3.17 Farming is of course the predominant rural industry across Australia. The cultural attachment and dependence of rural and regional Australia has on farming, as well as the scale of the agricultural sector make it impossible for government not to provide assistance and support when required.

3.18 The NFF also makes the point that the sector does not impose a burden on the taxpayer, and compared to international competitors receives relatively little subsidy from the government:

10 Wildcatch Fisheries South Australia Inc., *Submission No. 5*, pp 1–2.

11 Dr Tom Skladzien, Australian Manufacturing Workers' Union, *Committee Hansard*, 5 February 2015, pp 10–11.

Even though their operating environment is extremely volatile, Australian farmers are much more self-sufficient than their international competitors (with whom we compete on both an international and domestic level). At 0.2% of National GDP, Australian agriculture has the lowest level of support in the world. The fact is, Australian farmers don't impose a burden on taxpayers. They underpin one of the very few sectors that creates real value for the economy. As the current Australian Government has rightly identified, agriculture is a key pillar of the Australian economy.¹²

Committee view

3.19 The committee was made aware very early in the inquiry that a business could be placed in crisis by a range of circumstances, many of which were unique to that industry. One of the initial tasks of the committee was to tighten up the definition of a crisis in the context of the inquiry's terms of reference.

3.20 The impact of the cessation of automotive manufacturing in Australia is catastrophic for those engaged in that sector, and for the local communities and economies that rely on the industry. Many businesses have been profoundly impacted by matters outside their control. The committee considers that this is a crisis for those affected.

3.21 The seafood and aquaculture industry was well represented in the written submissions and at the committee's public hearings. The industry presented examples of the types of catastrophic events beyond its control that had significantly impacted the sector. These included water based events such as storms and high winds. However there was also evidence of how land-based disasters such as bushfires, heavy rains and drought impact the industry. In addition, disease was cited as having potentially catastrophic consequences, especially in the aquaculture industry when it affects fledgling stock used for re-stocking.

3.22 The industry argued that they were often left out of the conversation about reconstruction and recovery initiatives following an event, and did not usually have 'a seat at the table' when it came to planning the recovery efforts. Given the often disastrous impact on the sector from land based events, the committee strongly supports efforts to ensure that the sector is recognised and is consulted and supported in both mitigation efforts and any post-disaster responses.

Recommendation 3

3.23 The committee recommends that the Commonwealth government works with state and territory governments to ensure that the seafood and aquaculture industry is an integral partner in all future mitigation planning and post-disaster reconstruction and recovery efforts.

12 National Farmers' Federation, *Submission No. 9*, pp 1–2.

Current industry assistance programs

3.24 Industry assistance is a substantial part of the federal budget each year. In 2011-12 the Commission of Audit found that overall assistance to industry amounted to \$17.3 billion. This comprised:

\$7.9 billion in gross tariff output assistance, \$5.1 billion of budgetary outlays and \$4.3 billion in tax concessions. After allowing for the cost to business of tariffs on imported inputs (\$6.8 billion), estimated net assistance was \$10.5 billion in 2011-12.¹³

3.25 The manufacturing industry received the highest level of assistance, \$7.4 billion consisting of tariffs, budget outlays and tax concessions. In terms of budget outlay alone, the industry received \$1.4 billion, second to the services sector (mainly electricity, gas, water and waste services) which received \$2.1 billion.¹⁴

3.26 The previous government established the Automotive Transformation Scheme (ATS) specifically to assist those businesses involved in the automotive industry to develop sustainable business models. In January 2011 the ATS commenced operations and was set to run until December 2020, providing \$2.5 billion in capped assistance and approximately \$348 million in uncapped assistance.¹⁵ The ATS originally had two stages: \$1.5 billion of capped assistance would be provided between 2011 and 2015, and \$1 billion of capped assistance from 2016 to 2020. Uncapped assistance of \$348 million would also be provided. However, the committee notes the 2015-16 Budget projections for the ATS state that the demand for capped assistance will reduce by \$795 million over the forward estimates to 2018-19. The net impact of the reduction will mean the government will spend \$105 million from 2014-15 to 2020-21.¹⁶

3.27 The ATS is open to:

- motor vehicle producers (MVPs)
- automotive component producers (ACPs)
- automotive machine tool and automotive tooling producers (AMTPs)

13 Commission of Audit, *Towards Responsible Government*, Appendix to the Report of the National Commission of Audit – Volume 2, Chapter 10, p. 4. Available at: <http://www.ncoa.gov.au/report/appendix-vol-2/10-1-industry-assistance.html> (accessed 22 May 2015).

14 Commission of Audit, *Towards Responsible Government*, Appendix to the Report of the National Commission of Audit – Volume 2, Chapter 10, p. 4. Available at: <http://www.ncoa.gov.au/report/appendix-vol-2/10-1-industry-assistance.html> (accessed 22 May 2015).

15 Australian Government, AusIndustry, *Automotive Transformation Scheme*. Available at: <http://www.business.gov.au/grants-and-assistance/manufacturing/ats/Pages/default.aspx> (accessed 26 May 2015).

16 Australian Government, Budget 2015, *Budget Paper No. 2: Budget Measures 2015-16*, p. 128. Available at: <http://www.budget.gov.au/2015-16/content/bp2/html/index.htm> (accessed 19 June 2015).

- automotive service providers (ASPs).¹⁷

3.28 Participants in the Scheme will be able to claim for 50 per cent of the value of eligible investment in Research and Development and 15 per cent of the value of plant and equipment.¹⁸

3.29 With the cessation of both automotive manufacturing, and the relative decline of the broader manufacturing sector, Commonwealth funds have been established to support the transition from these industries. One of the primary levers used in recent years to mitigate the impact of crises in the sector has been to establish regional innovation funds to assist industries and communities to recover from major industrial upheaval. There are currently three such funds administered by the Department of Industry and Science:

- The Geelong Region Innovation and Investment Fund (GRIIF)
- The Australian Government Innovation and Investment Fund (Tasmania)
- The Melbourne's North Innovation and Investment Fund (MNIIF).

3.30 The GRIIF was established by the Australian and Victorian Governments in response to the announcement by Ford Australia that it will cease its vehicle and engine manufacturing operations in Australia from October 2016. It has a budget of \$29.5 million which will be supplemented by \$5 million from Alcoa following their announcement of the closure of the Port Henry aluminium smelter. The fund will distribute grants of more than \$50 000 to businesses focussed on the creation of new jobs rather than job retention.¹⁹

3.31 The Tasmanian Fund has a budget of \$13 million over three years and the MNIIF has a budget of \$24.5 million, which includes a \$4.5 million contribution from Ford. Both funds have a similar methodology to the GRIIF providing grants greater than \$50 000 with a focus on the creation of new jobs rather than the retention of current jobs.²⁰

3.32 Other funds designed to assist businesses in the automotive industry include the \$42 million Automotive New Markets Program (ANMP), established by the previous government as a joint initiative of the Federal, State and Victorian

17 Australian Government, AusIndustry, *Automotive Transformation Scheme – Fact Sheet*. Available at: <http://www.business.gov.au/grants-and-assistance/manufacturing/ats/Pages/default.aspx> (accessed 26 May 2015).

18 Australian Government, AusIndustry, *Automotive Transformation Scheme – Fact Sheet*. Available at: <http://www.business.gov.au/grants-and-assistance/manufacturing/ats/Pages/default.aspx>, (accessed 26 May 2015).

19 Australian Government, AusIndustry, *Geelong Region Innovation and Investment Fund*, available at: <http://www.business.gov.au/grants-and-assistance/regional-innovation/GRIIF/Pages/GRIIF-fact-sheet.aspx>, (accessed on 20 May 2015).

20 Australian Government, AusIndustry, *Geelong Region Innovation and Investment Fund*, available at: <http://www.business.gov.au/grants-and-assistance/regional-innovation/GRIIF/Pages/GRIIF-fact-sheet.aspx>, (accessed on 20 May 2015).

governments to help automotive supply chain companies broaden their customer and product base, and remove their dependency on domestic vehicle manufacturers.²¹ This fund closed in 2014 and was replaced by the \$20 million Automotive Diversification Program (ADP).²²

3.33 The Next Generation Manufacturing Investment Program (NGMIP) is a national fund established in response to Holden and Toyota's decisions to close their factories. The program was established to 'provide grants to support capital investment projects in areas of high value manufacturing. It aims to stimulate economic activity and increase business competitiveness and sustainability.'²³ The Department of Industry and Science provided details on the program's funding while emphasising that it was part of a broader policy to support the sector transition:

There are a number of elements to that program and one of them is called the Next Generation Manufacturing Investment Program, which is to be focused on Victoria and South Australia only. That is a \$60-million program to which the two states are contributing \$12 million each. That program, which has only recently closed to applications, was enormously oversubscribed. With \$60 million in funding available, I think we had 265 applications seeking grants totalling more than \$500 million.²⁴

3.34 The Department explained that the assistance is a short-term investment in the hope that this builds sustainable businesses:

The thing about these programs is they are not a be-all and end-all. It is a recognition that that particular geographic location is worth keeping, for a start, and that it is going to be severely socially and economically impacted if that is not assisted. But it is also a recognition that it will be short-term assistance. In other words, if assistance is provided now, in the short term, there is a good prospect that in the longer term that particular region can sustain itself.²⁵

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- 21 Minister for Industry and Science, Media Release, *\$4.3 million to help auto suppliers enter new markets*, 5 May 2014. Available at: <http://www.minister.industry.gov.au/ministers/macfarlane/media-releases/43-million-help-auto-suppliers-enter-new-markets> (accessed 19 June 2014).
- 22 Australian Government, Department of Industry and Science, *Key differences between the Automotive New Markets Program (ANMP) & Automotive Diversification Programme (ADP)*. Available at: <http://www.business.gov.au/grants-and-assistance/growth-fund/Automotive-Diversification-Programme/Documents/ADP-KeyDifferences.pdf> (accessed 19 June 2017).
- 23 Australian Government, AusIndustry, *Next Generation Manufacturing Investment Programme, Customer Information Guide*. Available at: <http://www.business.gov.au/grants-and-assistance/growth-fund/Next-Generation-Manufacturing-Investment-Programme/Pages/Guidelines.aspx>, (accessed on 27 May 2015).
- 24 Mr Paul Sexton, Department of Industry and Science, *Committee Hansard*, 5 February 2015, p. 27.
- 25 Mr Paul Sexton, Department of Industry and Science, *Committee Hansard*, 5 February 2015, p. 27.

3.35 The Automotive Diversification Program and the Next Generation Manufacturing Investment Program are both part of the \$155 million Growth Fund established by the Australian Government in 2014 with support from Holden, Toyota and the Victorian and South Australian Governments.²⁶

3.36 While stakeholders agree that innovation and diversification are crucial in creating sustainable businesses, the committee heard that there are substantial barriers to growth, particularly for the manufacturing sector. The AMWU stated that access to finance for the sector is a significant problem:

The Australian Industry Group conducts surveys of its members and asks: 'What are the barriers to growth that you face?' Access to finance is one that comes out on top for manufacturers. In addition, the ABS collects data, also through survey form, where, again, access to finance pops out as an issue. And if you go around and talk to both experts in the field and business people, they will admit that access to finance is a problem, especially for new technology—for the deployment of new technology type projects.²⁷

3.37 According to the AMWU the reasons behind the lack of enthusiasm on the part of investors was the long lead time required for a return on the investment:

One of the reasons is that manufacturing has a much longer lead time for the realisation of profit, especially when it comes to the innovation cycle and the learning curves that were required to ensure that there is a return on capital, whereas a major mining project can provide a major return on capital within three years of the first sod being turned, and oftentimes in manufacturing you are talking about a lead time of eight years to 10 years before there is a substantive profit.²⁸

3.38 This view was supported by FAPM who surveyed their members regarding access to finance and found that it was becoming more difficult to access funds, and that coordination between the automotive industry and the banks would need to improve for this to change:

Our view is very clear that the commercial banking fraternity has been very poor in liaising with our industry over quite a number of years, particularly on the issue of access to capital, and our members have reinforced that. We surveyed our members on access to capital a number of years ago now, about 4½ years ago now. It was very clear that banks have essentially turned off the lending tap to the automotive sector and have done so for many years. They have made the commercial decision that they have not seen the automotive industry as an industry that they want to bank.²⁹

26 Australian Government, AusIndustry, *Growth Fund*. Available at: <http://www.business.gov.au/grants-and-assistance/growth-fund/Pages/default.aspx> (accessed 19 June 2015).

27 Australian Manufacturing Workers' Union, *Committee Hansard*, 5 February 2015, p. 10.

28 Australian Manufacturing Workers' Union, *Committee Hansard*, 5 February 2015, p. 10.

29 Federation of Automotive Products Manufacturers, *Committee Hansard*, 5 February 2015, p. 3.

Skills and training

3.39 According to the AMWU the government's policy response to the challenges that are facing the manufacturing industry, and the knock-on effects of a crisis such as the cessation of vehicle manufacturing in Australia, will not assist the recovery of business and the local and national economy:

Policy is needed to mitigate the impacts of the closure of the automotive manufacturing industry, especially policy to assist in the transition of supply chain firms to new products and markets. Only through active policy intervention can the employment, social and community impacts of closure be minimalized.

To date, the government's response to this task has been so inadequate as to be laughable. The \$155 [million] Growth Fund announced in response to the industry's closure includes a \$20 million diversification fund to help supply chain firms diversify. In addition, only \$3 million of this represents new funding for diversification support, as \$17 million of the fund has been transferred from the now closed Automotive New Markets program, which was also aimed at assisting auto supply chain diversification.³⁰

3.40 FAPM cited the UK as an exemplar for how a relatively high wage country could maintain a sustainable automotive manufacturing industry, even after years of contraction:

I think the United Kingdom is very instructive for Australia. Certainly through the late seventies and eighties the UK automotive industry basically contracted, and a lot of their indigenous brands were sold and moved offshore—Jaguar, Land Rover and a whole range of other companies as well...But then they realised what we in particular—and others—have been talking about for three years. They realised that the capacity, the capability and the skills that are generated within an automotive industry are diffused throughout the whole economy... And the UK is now a poster child for global automotive production—the factories are coming from eastern Europe and Europe, for example, back into the UK.³¹

3.41 The AMWU argued that it would be a wasted opportunity if the government did not intervene to better utilise the skills and human capital from the automotive industry to benefit the economy as a whole:

If the government sits by and does nothing after pulling auto support and then seeing the sector collapse then that is a massive amount of capacity, skills and capital that just goes to waste. There is no reason for that. Even if you do not want an auto industry, those resources and those skills should be

30 Australian Manufacturing Workers Union, *Submission No. 13*, p. 8.

31 Mr Richard Reilly, Federation of Automotive Products Manufacturers, *Committee Hansard*, 5 February 2015, p. 5.

channelled to be deployed somewhere else to save that capacity, save that value.³²

3.42 The committee heard that innovation and research are crucial levers in enabling business to transition away from industries such as the car manufacturing. FAPM highlighted the extensive 'engineering, design and construction capabilities of the automotive industry' and discussed how the industry and governments could support these skills to be used successfully in other industries:

[W]e have identified other industries and we have done a lot of work in this space, as I know all three governments have, really. The Victorian and South Australian governments and certainly the federal government are looking at other industries—for example, prefabricated construction; I think that is a real opportunity going forward. There is a huge dynamic going on in the building industry at the moment—new and innovative ways to build apartments, particularly in Melbourne, I see, and new construction methods. And the skills and capabilities that are being developed in automotive—like lean and just-in-time delivery and all those waste reduction initiatives, which were all developed in the automotive sector—are being brought into other industries, so it is not only banging out a widget; the skills, technologies and the capabilities are being developed as well.³³

3.43 FAPM added that a number of other sectors would benefit from the expertise of the skills developed in the automotive industry:

In answer to your question, ultimately we have identified things like mining, med-tech and prefabricated construction, amongst others. There are a couple of others [as] well...Food production is a national imperative as well, which would benefit from the efficiencies in the automotive industry. As Richard said, I would say mining efficiencies as well as the global commodity price comes off—there need to be more efficiencies put into that industry.³⁴

3.44 Unions Tasmania also suggested that any fund established should invest in skills, innovation, research and development as a priority to support sustainable business models in rural and regional Australia:

In our view, strong industry policy is needed to support our manufacturing and rural industries, particularly in the areas of innovation, investment, management skills, integration of Tasmanian businesses into national and global supply chains, access to new markets and, importantly from a Unions Tasmania perspective, organisational approaches in the workplace

32 Dr Tom Skladzien, Australian Manufacturing Workers' Union, *Committee Hansard*, 5 February 2015, p. 12.

33 Mr Richard Reilly, Federation of Automotive Products Manufacturers, *Committee Hansard*, 5 February 2015, p. 6.

34 Federation of Automotive Products Manufacturers, *Committee Hansard*, 5 February 2015, p. 6.

that give workers a greater say in workplace decisions and that ensure their ideas are actually listened to.³⁵

Committee view

3.45 The committee understands that a crisis in the manufacturing sector has very different causes from those that affect rural industries. Events such as the cessation of vehicle manufacturing in Australia will have catastrophic implications for the sector, causing a substantial loss of employment, skills and experience throughout the entire manufacturing industry.

3.46 Over recent decades, governments have provided significant investment and subsidies to car makers through initiatives such as the Automotive Transformation Scheme. Following the announcements by Holden and Toyota that they would cease production in South Australia and Victoria, this fund has understandably been curtailed. However, the committee is concerned that the programs put in place to assist those areas and workers affected by the closures may not fully exploit the skills, expertise and experience that the factories have developed.

3.47 The evidence received by the committee urged the government to take full advantage of the human capital that is available by developing initiatives focused on training, skills, research and development of technology. The committee was supportive of this proposed focus and encourages the government to consult broadly on the performance of current programs and the development of new investment initiatives to ensure opportunities are available for individual workers and the economy as a whole.

Recommendation 4

3.48 The committee recommends that future Commonwealth government investment is focused on training and skills development of the automotive workforce to allow them to transition their skills and expertise to other areas of the local and national economy.

3.49 The committee was also interested in some of the proposals put forward to alleviate the issues regarding access to finance for the manufacturing industry. The committee acknowledges that the sector has some unique features which make it less attractive to commercial finance than other sectors. In the same way that the government supports the farming sector through concessional loans, the committee is of the view that analysis should be undertaken to explore extending this type of support to assist manufacturing businesses.

Recommendation 5

3.50 The committee recommends that the Commonwealth government consider extending concessional loan schemes to the manufacturing industry to support sustainable manufacturing businesses.

35 Mr Stephen Walsh, Unions Tasmania, *Committee Hansard*, 4 February 2015, p. 12.

Barriers to recovery

3.51 Aside from the barriers to maintaining an industry, the committee heard that there are substantial barriers to recovery in rural and regional areas, following a natural disaster or industry crisis.

3.52 Bob Elkington, the Economic Development Manager at the Murrindindi Shire Council, was involved in the recovery effort following the Black Saturday bushfires. Mr Elkington said that the initial focus on immediate social needs was understandable, but this approach excluded businesses which were critical in restarting the local economy but lacked the vital assistance required to re-establish themselves:

[P]eople tended to focus on their human and social needs. I guess the hierarchy of needs goes: myself, my family, shelter, food and the ones at the very bottom of the pyramid tend to be things like getting the business going again. It impacted a lot of businesses very, very heavily, and some businesses would not have got back up.³⁶

3.53 The committee was made aware that public generosity during times of crisis can have unintended consequences. Mr Elkington described the impact of the public gifting of goods to disaster sites, and the effect this has on local businesses trying to re-establish:

[S]omething that the state government and local governments need to control more, is the massive influx of donated goods and gifted assets that our shire and others around us received. Controlling the flow and distribution of those is really important. We saw a number of businesses that were not in the flame impacted area close down because there were so many goods being gifted: white goods, work wear, footwear and clothing—that sort of thing.³⁷

Committee view

3.54 Given the potential for businesses to be severely disadvantaged as a result of the donation of goods, the committee suggests that best practice guidance be developed to assist disaster response organisations manage public enthusiasm and fundraising efforts to ensure they are focussed appropriately.

Recommendation 6

3.55 The committee recommends that the Commonwealth government works with state and territory governments to develop best practice guidelines to assist stakeholders in managing post disaster recovery fundraising efforts and that these be disseminated widely.

3.56 The Queensland Farmers' Federation made the point that a successful and sustainable community recovery requires rural business to be functioning again as quickly as possible:

36 Mr Bob Elkington, Murrindindi Shire Council, *Committee Hansard*, 5 February 2015, p. 20.

37 Mr Bob Elkington, Murrindindi Shire Council, *Committee Hansard*, 5 February 2015, p. 20.

[P]roviding assistance to farmers to speed up recovery assists the community at large to recover. Our experience is that prompt recovery of regional agribusinesses and other small to medium enterprises has a strong spill-over to the impacted regional economy.³⁸

3.57 This view was shared by the Tasmanian Fire Service, which recognised that businesses are key to the recovery from a disaster such as a bush fire:

[I]n recognising the important community assets we are recognising in many cases businesses as well as other assets, because for a community to recover following the emergency we understand that in terms of the employment created business is extremely important.³⁹

3.58 The TCCI discussed the profound impact the Port Arthur massacre had on both the local economy and the community itself, and the difficulties encountered in recovering from it. This was not only because customers and tourists stayed away following the massacre, but also because of the impact of the recovery efforts on the community. Ms Parr from the TCCI explained:

What happens is that, once a disaster has struck, the emergency services come in. The firefighters fight fires; the ambulances take away injured people; the police do whatever they have to do; a whole lot of bureaucrats descend upon the place, and after six weeks they all go home, saying, 'Incident managed.' And then some poor blond person, as I used to be, goes to do the job of community recovery. It becomes absolutely enormous. It is the economic issues. It is the fact that businesses in small communities are often marginal anyway. It is the fact that customers stop coming. They will not come to Dunalley or Port Arthur or whatever. So immediately you have an economic issue, never mind the real grief, social and personal issues.⁴⁰

3.59 Ms Parr also expressed caution over the political response that could impact community and economic expectations further down the line. Her experience following the Port Arthur massacre was that significant promises were made in the immediate aftermath that heightened expectations, which ultimately were not met:

[T]he first thing I would say is that promises, while I can understand them being made in that emotional situation, need to be very guarded and very moderate—they need to be almost underpromised and perhaps overdelivered—because people are relying on a need for certainty in management arrangements—that what it is said is going to be done is done.⁴¹

38 Queensland Farmers' Federation, *Submission No. 6*, p. 2.

39 Mr Michael Brown, Chief Officer, Tasmanian Fire Service, *Committee Hansard*, 4 February 2015, p. 21.

40 Ms Susan Parr, Chair, Tasmanian Chamber of Commerce and Industry, *Committee Hansard*, 4 February 2015, p. 5.

41 Ms Susan Parr, Chair, Tasmanian Chamber of Commerce and Industry, *Committee Hansard*, 4 February 2015, p. 5.

3.60 Mr Bailey from the TCCI was of the view that the lessons of the Port Arthur massacre were not learned in terms of how the bureaucracy approached the aftermath of the Dunalley fires:

What we did not learn in Tasmania was the experience of Port Arthur, because we rebuilt everything for Dunalley again, as far as how the bureaucracy and the community approached it. To me that is extraordinary, because a natural disaster, or a disaster such as Port Arthur, whether it happens in the north of Australia or the south, is probably going to have the same issues. To me, it seems like a terrific opportunity to put together some sort of process that just clicks into place that links all of the learnings from all of these experiences around Australia to come up with the guide that is used.⁴²

3.61 This sentiment was shared by Mr Damian Bugg AM QC, the former Chair of the Tasmanian Bushfire Recovery Taskforce. Mr Bugg provided a number of suggestions to the committee on how recovery processes could be improved and be more effective and efficient. Included in this list was to allow the recovery to be managed with as few bureaucratic obstacles as possible, and to ensure the right people were selected to empower the community to take control of the process:

Ensure that the Recovery Directorate is properly staffed and not hide bound by red tape and oppressive meeting schedules. The people selected for the task should have good community savvy and connectivity. The best way to achieve an uncomplicated and effective recovery is to enable local communities to own their own recovery. This will not happen with the wrong people in charge.⁴³

3.62 Mr Bailey also backed Ms Parr's advice that there are two distinct efforts required to recover from a disaster: an immediate response to the event; and a long term approach to the rebuilding and sustainable recovery effort to support the community in various ways:

One of the concepts that Susan talks about, which I think is very smart, is the need for two bodies to approach this sort of issue. One body is the immediate recovery body, almost like the war general. But also, at the same time, you need a group of people that are there for a much longer term, starting at the same point, and that are more like the peacetime general, to be working with the community on an ongoing basis, because it is a very different job indeed. One is that immediate fix. The next is that more long-term help for this community to regenerate.⁴⁴

3.63 Oysters Australia raised the issue of government fees in relation to the regulation of seafood following a natural disaster, amplifying the costs to businesses:

42 Mr Michael Bailey, Tasmanian Chamber of Commerce and Industry, *Committee Hansard*, 4 February 2015, p. 6.

43 Mr Damian Bugg AM QC, *Submission No. 18*, p. 4.

44 Mr Michael Bailey, Tasmanian Chamber of Commerce and Industry, *Committee Hansard*, 4 February 2015, p. 6.

These natural disasters and crises can also be amplified by the high regulatory cost imposed by respective state Governments, particularly in the areas of Full Cost Recovery for Licence / Lease fees and plus the additional requirement of paying for comprehensive Shellfish Quality Assurance Programmes which are regulatory requirements for the safe consumption of shellfish. In some instances, Government charges have more than doubled in the space of 12 months.⁴⁵

3.64 In many regional and rural areas staffing is a key factor in the success and sustainability of a business. In times of crisis the ability to retain staff is crucial to the recovery process. The Australian Prawn Farmers Association (APFA) submitted that post Cyclone Yasi, the Queensland Reconstruction Authority managed Wage Assistance program (CYWA) was critical in assisting their members to recover.

The Wage Assistance Scheme (WAS) was a critical element for laid off staff to be paid while recovery efforts and businesses were clearing debris, rebuilding operational facilities or waiting on assessors and insurance claims. WAS needs to be available under extreme circumstances for dedicated staff in any affected regional area where it can be difficult at the best of times to attract and retain a reliable workforce.⁴⁶

3.65 The CYWA payments were administered by Centrelink and were available to employers to help maintain their workforce following the cyclone. Payments of \$469.80 were available for each full time staff member or full-time equivalent for up to 13 weeks.⁴⁷

3.66 APFA noted the significant benefits of employing Industry Recovery Officers (IROs) during post-disaster periods. However, APFA was critical of the present practice of employing IROs for only a limited time. APFA was concerned that this practice eschewed valuable expertise and experience in a region that frequently suffers natural disasters such as floods and cyclones:

Queensland is usually hit at least once a year with a severe cyclone or heavy rain event – the IRO's who were employed at the time were only employed for one year. During that time they gained a lot of valuable information from those affected on the ground. Once their contract was finished in most cases they sought other employment taking with them valuable knowledge that could have been used in future events.⁴⁸

Committee view

3.67 The committee heard from a number of submitters on how difficult it was for businesses to recover from disaster, and how integral businesses were to the overall recovery of a community. However the committee also received a number of valuable suggestions that could alleviate some of these problems. The experience of the TCCI,

45 Oysters Australia, *Submission No. 4*, p. 1.

46 Australian Prawn Farmers Association, *Submission No. 1*, p. 2.

47 Queensland Reconstruction Authority, *Monthly Report - January 2012, Grant Assistance*, p. 41.

48 Australian Prawn Farmers Association, *Submission No. 1*, p. 3.

Murrindindi Shire Council and Mr Damien Bugg from the Tasmanian Bushfire Recovery Taskforce illustrated that there are tangible and achievable methods available that could be implemented elsewhere. These include suggestions for how businesses can be better prepared for disasters.

3.68 The committee would be keen to see the kind of practical advice contained in the Murrindindi Shire *Council Restore Your Business Community Practitioners Handbook*⁴⁹ made available to communities all over the country. The committee recognises the value of initiatives such as IROs, which have proved effective for particular industries during reconstruction and recovery efforts. To this end, the committee recommends that the government explore how best this information sharing could take place to assist communities to recover from natural disasters.

Recommendation 7

3.69 The committee recommends that the Commonwealth government works with state and territory governments to provide more information, practical preparation and recovery guides/advice for individuals, businesses and communities affected or likely to be affected by natural disasters.

3.70 The committee noted how general post-disaster relief funding and assistance, such as the Disaster Recovery Allowance and concessional loans, can assist businesses affected by disasters to get back on their feet as quickly as possible. The effectiveness of providing resources to assist specific sectors and regions was well illustrated by APFA in their use of IROs. The committee commends these types of assistance measures.

Recommendation 8

3.71 The committee recommends that the Commonwealth government engages with state and territory governments and industry to ensure businesses are well-informed and resources are available to help expedite recovery following a natural disaster.

Insurance

3.72 The ability for a business to adequately insure its assets and ongoing capacity to operate in the event of a crisis was raised by several contributors to the inquiry. In Tasmania, the committee heard from the aquaculture industry which provided examples of essential infrastructure that was not covered in the event of a disaster, but was crucial to their ongoing operation. According to the Tasmanian Seafood Industry Council this was in contrast to the support that may be provided to land based businesses:

Some of the businesses impacted by the bushfire at Dunalley may have received some level of assistance to rebuild sheds and things like that. But when you talk about insurance one of the farmers there got burnt out. His tractor, shed and everything were insured, but he could not insure the

49 Murrindindi Shire Council, *Restore Your Business Community Practitioners Handbook*. Available from <http://www.murrindindi.vic.gov.au/Home> (accessed 28 May 2015).

baskets he used to put the oysters in to contain them in the water. So that was a couple of hundred thousand dollars worth of equipment that was not insured.⁵⁰

3.73 The TCCI discussed their experiences with their members who didn't have adequate insurance for all their assets, or business disruption insurance:

Most people do not understand what their insurance policies cover, and a lot of people are not insured for interruption of business...

The things that I would add to that are some of the experiences in Dunalley, I suspect, where insurance simply did not cover all things. An example was a local sawmill that had been in business for some generations. A lot of the equipment had been built by previous generations. Trying to get insurance for very important equipment that might be 60 years old was near impossible, and I suspect one of the reasons that that business did not reopen was the energy required by the sons and grandsons of the original owners to get this thing up and going again. It was almost easier just to step away and not have to worry about it, which led to 15 jobs being lost in the community, pressure on the local hotel and the local cafe et cetera.⁵¹

3.74 This view was echoed by Mr Elkington, from Murrindindi Shire Council, who said that in his experience of the Black Saturday bushfire recovery, many businesses had not planned sufficiently, and that 'in a lot of cases did not have adequate or any insurance, and most of them did not have any form of emergency plan.'⁵² Mr Elkington suggested that this lack of insurance cover hampered the recovery of the businesses and the local communities because some businesses were just not able to recover.

3.75 Mr Elkington agreed with the Chair's comment that adequate insurance should be included as 'a must' in any list of requirements in any disaster continuity planning:

I think that would be a very strong message to business: if you intend to look to support post disaster, there are certain things you need to do. You need to have a business plan for a start. You need to have a business continuity plan and you need to have adequate insurance.

3.76 Mr Malcolm Cronstedt, Executive Director, State Emergency Management Committee Secretariat in Western Australia (SEMC) also highlighted the economic and safety benefits of mitigation and preparation in the context of insurance, and overall recovery from a disaster:

[A]ddressing the risk up-front...by mitigation and prevention represents [a] far better investment value than dealing with the result. Of course, mitigation reduces the cost of reconstruction and recovery, improves the availability and cost of insurance, contributes significantly to public safety

50 Mr Neil Stump, Tasmanian Seafood Industry Council, *Committee Hansard*, 4 February 2015, p. 16.

51 Mr Michael Bailey, Tasmanian Chamber of Commerce and Industry, *Committee Hansard*, 4 February 2015, p. 5.

52 Mr Bob Elkington, Murrindindi Shire Council, *Committee Hansard*, 5 February 2015, p. 19.

generally, reduces the threat to those responders—volunteers are notable at the moment in the bushfires we are experiencing—and reduces the cost of hazard response.⁵³

3.77 AUSVEG submitted that one of the advantages of an Australia Fund being established would be to encourage the 'uptake of multi-peril insurance'.⁵⁴ This was an issue also raised by Regional Development Australia in their submission. They agreed that a fund could add real value by supporting rural economies to mitigate against a number of risks through multi-peril insurance, and that this was an issue they were already discussing with key stakeholders:

Regional Development Australia Orana are currently working with partners from the farming, banking and insurance sectors, to develop an advanced model for risk mitigation in agriculture.

This model will include a mechanism for shifting from an emphasis on in-event drought support to business based risk mitigation via multi-peril insurance.⁵⁵

3.78 The WA Farmers noted the benefits of multi-peril insurance products stating that they 'are market-driven mechanisms that cost the taxpayer virtually nothing', while ensuring that farms minimise their losses and continue to trade. Additionally, the WA Farmers state that the schemes not only transfer the risk away from the producer, they also diminish the risk to the taxpayer by reducing the need for costly drought schemes. However, WA Farmers did note 'that the relatively costly audit process [associated with multi-peril insurance] is a barrier to uptake'.⁵⁶

3.79 The issue of a fund filling in the gaps where insurance was inadequate or did not exist was discussed with a number of contributors. The moral hazard, or inequity of a fund providing assistance to both those who had prepared for such an event, and those who had not, raised suggestions that there could be mechanisms in place where assistance was contingent on being prepared. With the benefit of his experience Mr Elkington supported the idea of conditions being placed on assistance with benefits accruing to those who had prepared:

We saw a lot of instances where a business was quite well-prepared and lost everything and another business in the same street may have had the same. The first business might have been fully insured, may have had a disaster plan and were just unlucky. The other business might have had limited or no insurance, but they were all eligible [for] the same amount of support. I think a federal process that enabled people to prove that they were pre-prepared for a disaster would be a very good thing.⁵⁷

53 Mr Malcolm Cronstedt, State Emergency Management Committee Secretariat, Western Australia, *Committee Hansard*, 5 February 2015, p. 23.

54 AUSVEG, *Submission No. 7*, p. 2.

55 Regional Development Australia Orana NSW, *Submission No. 8*, pp 2–3.

56 WA Farmers, *Submission 12*, pp 2-3.

57 Mr Bob Elkington, Murrindindi Shire Council, *Committee Hansard*, 5 February 2015, p. 21.

3.80 The SEMC in Western Australia also discussed the importance of ensuring that there was no disincentive for businesses not to be adequately prepared because they thought they would be adequately covered by the post-disaster reconstruction and recovery response. Mr Cronstedt quoted from a book by Richard Sylves who referred to the situation as a 'moral mazard':

It is a term that has been coined by a chap by the name of Richard Sylves in a book called *Disaster Policy and Politics*, and I will just quote a bit that is quite pertinent. He says that it:

Creates a type of **Samaritan's dilemma**: providing assistance after a catastrophe reduces the economic incentives of potential victims to invest in protective measures prior to a disaster. If the expectation of disaster assistance reduces the demand for insurance, the political pressure on the government to provide assistance after a disaster is reinforced or amplified.⁵⁸

3.81 The TCCI agreed that this was a situation to be avoided:

That certainly could be an unintended consequence—businesses saying, 'I'm not going to worry about my insurance because this will cover me.' That is not the outcome we would be looking for.⁵⁹

Committee view

3.82 The committee agrees with contributors who highlighted the importance of adequately insuring business assets and potential loss of business due to a catastrophic event. The impact of not having adequate insurance for the individual business and for the recovery of the wider community is very significant—not to mention the potential impact on the taxpayer. The necessity to adequately insure individual and/or business assets should always be highlighted in any disaster preparation/contingency planning information for communities at risk of floods, bushfires or any other disaster.

3.83 However, the question of whether it is the job of government to intervene in the insurance market brings a complex set of other considerations into play. Direct intervention through regulation is not necessarily the best option, nor is the expectation that the taxpayer will refund all preventable loss or insurable assets. The role of government does not extend to prescribing how businesses conduct their internal affairs and manage business risks. Government encourages greater self-reliance that includes an expectation that adequate planning for all contingencies including insuring against risk is undertaken by businesses. Government can however continue to assist by investigating, developing and disseminating well-researched information to allow businesses to make informed decisions about their risks. Sustainable approaches, such as drought and disaster mitigation, broader technological

58 Mr Malcolm Cronstedt, State Emergency Management Committee Secretariat, Western Australia, *Committee Hansard*, 5 February 2015, p. 23.

59 Mr Michael Bailey, Tasmanian Chamber of Commerce and Industry, *Committee Hansard*, 4 February 2015, p. 8.

approaches, greater investment in new processes and skills all offer better solutions for those involved.

Conclusion

3.84 The role of government goes to the essence of this inquiry—how it supports rural and manufacturing industries and communities affected by natural disasters. The inquiry's terms of reference sought responses to a number of issues related to natural disasters and how government can assist during such times. Unfortunately the committee did not receive any submission regarding many of these issues.

3.85 For example, the committee did not receive any evidence on how an 'Australia Fund' would be resourced or structured. Likewise, the committee received no evidence that a single fund would assist in filling the gaps in the current provision of support available for economic crisis and natural disasters.

3.86 With regard to these gaps, the committee welcomes the emphasis on sustainability and self-reliance in the farming sector through concessional loans, but is of the view that more work needs to be done on how best these loans and their eligibility criteria are structured to ensure they provide the most benefit. Nevertheless, the committee supports the expansion of the concessional loan model to the manufacturing sector where access to finance is proving a barrier to sustainability.

3.87 The committee agrees with many submitters that more investment in mitigation and preparedness strategies is required. As mentioned in Recommendation Two, assisting with greater utilisation of technology, including the development of new skill sets, could improve productivity and also help farmers, manufacturers and communities to better prepare and deal with unforeseen events more effectively.

3.88 In the committee's view, targeted and comparable support for businesses is available at both a state and federal level. Initiatives like the Farm Household Allowance, when considered alongside Centrelink employment support for non-farming households, suggest a coherent approach is being taken by government with regard to households as well.

3.89 Overall, the committee considered the evidence it received, and where appropriate, recommends improvements in areas where issues have been brought to its attention. However, without evidence to respond to the issues raised in the terms of reference, it is not able to recommend the establishment of an Australia Fund.

Recommendation 9

3.90 The committee does not recommend the establishment of an Australia Fund.

Mr Andrew Laming MP
Chair

