BUILDING A STRONGER MORE PROSPEROUS MANUFACTURING INDUSTRY IN AUSTRALIA

PAPER PRESENTED TO THE MANUFACTURING ALLIANCE ROUNDTABLE BY:

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Canberra October 28 2009
Introduction

In the second half of 2009 the Australian Manufacturing Workers’ Union and The Australian Workers’ Union formed an alliance to promote manufacturing industry.

The two unions represent more than 250,000 Australian workers in steel, glass, alumina/aluminium, brass and copper, energy (including LNG, renewable and utilities) and other sectors including tobacco, chemicals, engineering, construction, food, wine and a wide range of agricultural activities, printing, auto components, aerospace, defence, shipbuilding as well as many other manufacturing sub sectors, and virtually all industries across the economy.

Holding recent Manufacturing Alliance meetings with our combined members across the country drives home the fact that many manufacturing workers, their families and communities have been hard hit by the global recession.

In Australia and across the OECD, manufacturing was hit harder and sooner than any other industry. For example in Australia’s auto industry, production of Australian made cars fell by 40% between the first half of 2008 and the first half of 2009. Over the same period production of Australian steel fell by 50%.

As union leaders, we are still dealing with the consequences that job losses, downsizing and firm closures have had, and are still having, on our members across many parts of manufacturing.

Meetings with our members, however, have highlighted a strong interest in discussing the prospects for recovery, a return to growth and things that need to be done to build a stronger more prosperous manufacturing industry for the future.

Paul Howes
AWU NATIONAL SECRETARY

Dave Oliver
AMWU NATIONAL SECRETARY
Building a Stronger, More Prosperous Manufacturing Industry in Australia

The future of manufacturing in the 2010-2020 decade and beyond is why we are convening a dialogue with manufacturing company leaders, their industry associations, government leaders and key academics and participants in the debate about the future of manufacturing. We want to look forward and not simply in the rear view mirror. The time has come for debate and discussion about taking advantage of the recovery and building for a more prosperous future.

In Appendix One attached to this paper is the resolution the AMWU-AWU Manufacturing Alliance sponsored at the recent ALP National Conference. The resolution correctly emphasises the importance of the manufacturing industry to Australia:

   Conference recognises that manufacturing is critical to Australia. It accounts for 9 per cent of all jobs, 11 per cent of full-time jobs, 13 per cent of private sector jobs and 20 per cent of jobs held by blue collar workers. It generates two-fifths of our exports and performs a third of our business R&D.

On October 28 the Manufacturing Alliance has convened a national roundtable to bring together top industry, union, government and academic representatives.

In this discussion paper we raise some of the questions and issues that we believe are central to the debate about the requirements for manufacturing success in Australia in the 2010-2020 decade and beyond.

We hope the dialogue on October 28 will be another step along the path we have to take to forge a brighter future for manufacturing in the decade ahead.
Manufacturing Success 2010 - 2020 and Beyond: What Will It Take?

Three things we know for sure about success in the second decade of the 21st century and beyond:

- **Australian manufacturing needs a new strategy for growth.**
- **We don’t want to stagnate or go backwards. We need strong output growth and strong productivity growth.**
- **We should have both a strategic view and an aspiration of what that growth might look like and how we can achieve it.**

As suggested in the table on page 6, over the period 1979 to 2007:

- Australian manufacturing output growth in real terms has averaged only 1.5% per annum compared to the average for the 16 countries shown of 2.6%.
- Australian labour productivity growth in manufacturing has averaged 2.2% per annum compared to the average for the 15 countries shown of 3.2%.

While there have been brief periods where Australian manufacturing has sustained both strong output growth and high productivity (such as the second half of the 1990’s) this performance has not been sustained.

We believe it’s feasible to lift Australia’s manufacturing long term growth rate from 1.5% per annum to 3.25% per annum over the long term, including the 2010 to 2020 decade. We also think this stronger growth in production would be consistent with lifting our long term manufacturing labour productivity growth from 2.2% to 2.75% over the same decade and in the longer term.

Were we to achieve this:

- Real manufacturing gross value added would rise from around $100 billion in 2009 to around $138 billion in 2020
- Manufacturing employment would be stable with 50,000 more people working in the industry in 2020 compared to 2009.
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Key Success Factors to Sustain a High Growth Strategy for Australian Manufacturing

1. Building Better Manufacturing Businesses
2. Better macro-economic policy and management
3. Successful global engagement
4. Boosting key industries
5. New generation manufacturing
6. Growing productivity through collaboration
7. A manufacturing industry Australia believes in
Key Success Factors to Sustain a High Growth Strategy for Australian Manufacturing

1 Building Better Manufacturing Businesses

The first key success factor to achieving stronger growth in Australian manufacturing over the 2010 to 2020 decade and beyond would be an agenda for building better, stronger, more prosperous and productive manufacturing companies.

Much of the agenda for stronger manufacturing growth requires firms with management systems and organisational capabilities required to win international business opportunities, competing for jobs in Sydney, Singapore, Shanghai, San Francisco, Seattle or Stockholm.

Increasingly, Australian manufacturing firms will face global competition in both the domestic and offshore markets. That's why winning international business opportunities is so important. It is also the case that global trade and investment in manufacturing has and will continue to experience much higher growth rates than domestic demand.

The blueprint laid out by the founding members of Australian Super nearly ten years ago for Australian manufacturers to grow and win international business remains accurate today:

Criteria for Success for Manufacturers Pursuing Growth

1. The Chief Executive of the business and top management are committed to going for growth. Most importantly they have a long term view of the business and a vision/mission statement, strategic plan and appropriate operational strategies for pursuing growth objectives.

2. The leaders/owners of the business understand that achieving growth requires investment in new products and markets, new plant, equipment and technology, new engineering, design and R&D capability as well as investment in skills formation and work organisation change.

3. The most successful manufacturing companies improve the productive performance of their organisations by involving their workers, building relationships based on trust, relying mainly on innovation and developing their organisational capabilities as opposed to pursing a narrow cost cutting agenda.

4. The most successful manufacturing companies will have a strong international focus and understand what is required to develop export markets and the importance of building long term relationships with their customers.

5. The most successful manufacturing companies and their leaders understand that success or failure depends on their own efforts and initiatives. While a partnership role with Government, a favourable environment and appropriate incentives all help, in some cases quite significantly, the buck stops with the CEO, the senior management team and the skills and commitment of their workers.

Better macro-economic policy and management

A second key success factor for sustaining stronger manufacturing growth in the 2010-2020 decade is for Australian policy makers to get the economic fundamentals right, provide sound macro economic management and help facilitate much stronger economy-wide productivity growth.

During the 1990s, economy-wide labour productivity rose by more than 30%. In this decade the outcome will be less than 20%. According to the OECD Australia has gone from a productivity growth rate well above the OECD average in the 1990’s decade to some 30% below the OECD average in the current decade.¹

There may have been some short-term or one-off factors impacting the productivity slowdown - developments in mining, drought in agriculture, labour hoarding during the resources boom and the micro reform agenda running out of puff.

There has also been some speculation that the productivity slowdown could be a temporary phenomenon as it takes time for major technological changes to work through the system.

While not discounting any of these factors, the assessment of the Manufacturing Alliance is that the productivity slowdown relates primarily to sub-optimal investments in infrastructure, skills and education and innovation.

Under investment in infrastructure produces obvious results.

As one leader from the Business Council put it:

“There is at present no overarching stocktake, vision or strategy that enables governments to quantify, prioritise and deliver Australia’s future infrastructure needs. There is no co-ordination between Federal, State and Local government, business and the wider community…no uniform database exists to keep track of the state of Australia’s $300 billion infrastructure asset base. Infrastructure bottlenecks at our ports and rail links that are curtailing our export capacity are only one manifestation of the problem. The bottlenecks exist throughout our economy, in our ageing and inadequate water supplies, our stressed energy network and our transport networks.

The infrastructure designed and built to service a 1980’s economy cannot keep up with 21st – century levels of supply and demand. We need a new approach"²

Most employers also know all too well the damage that skilled labour shortages caused manufacturing and other industries in Australia particularly during the second half of this decade.

¹ Quoted in Manufacturing Alliance Submission to the House of Representatives Economics Committee Inquiry into Productivity. That paper appears on the Committee’s website.
² Quoted in Manufacturing Alliance Submission opt. cit.
The story is similar in most nations. For example, in one US study of nearly 2,500 firms, those firms reporting skill shortages reported the following outcomes from the skill shortages:

- 63% said it reduced their firm’s productivity;
- 63% said it reduced their firm’s production;
- 56% said it reduced quality;
- 36% said it stopped the firm’s expansion plans;
- 33% said it stopped or interrupted the firm’s programs for new product development.

These skilled labour shortages should also send a message to Government, company and union leaders about what the consequences are of not addressing the problem. As two leading experts working for the Skills Task Force in the UK explained it:

*Skill shortages are widely seen as a problem and indeed the evidence confirms that they tend to lower productivity growth, raise costs and wage inflation and in some cases lower product quality. It is also likely that the reported level of shortages understates the true problem.*

*In the long run firms may adapt to shortages by adopting lower skill technology than they otherwise would. This may lower the growth of the economy as a whole, and may leave the firms concerned vulnerable to cheap competition from abroad.*

If we have as an objective a high growth strategy for Australian manufacturing, not addressing the challenge of skill shortages and higher levels of investment in education and training will short-circuit that strategy.

*In the 2010-2020 decade and beyond Australia will need to move production up the value chain to avoid the low cost challenge from China, India, emerging Asia and other low cost competitors.*

*If we adopt lower skill technology to overcome shortages we will move down rather than up the value chain leaving much of Australian manufacturing in an unsustainable position.*

We must also boost our investment in innovation as experience has taught us that in Australian manufacturing the collapse in R&D investment in the decade since the mid 1990’s had a significant impact on lowering both output growth and productivity in manufacturing.

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3 ibid

As suggested in the table below: Investment in R&D by Australian manufacturers grew by 10% per annum in real terms in the decade to the mid 1990’s but has only grown at 2% per annum since (1995-96 to 2007-2008). In non-manufacturing R&D growth has remained strong over both decades.

![Annual Average Growth Rate of Real Business Investment in Research and Development](image)

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<th>1986-87 to 1995-96</th>
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<tr>
<td>All Economy</td>
<td>10.6</td>
<td>11.4</td>
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<tr>
<td>Manufacturing</td>
<td>7.9</td>
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<td>Non-Manufacturing</td>
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Calculated from ABS BERD data

The bottom line is that a favourable macro economic environment and a practical and achievable agenda for lifting economy wide productivity through investment in infrastructure, skills/education and innovation will go along way to supporting a high growth strategy for Australian manufacturing.

3 Successful global engagement

A third key success factor for sustaining a high growth manufacturing strategy in the 2010-2020 decade and beyond will be more successful global engagement. This will require both a revival of manufacturing export growth as well as greater success in competing against imports. Australian manufacturing firms will need to find competitive niches in global supply chains that win international business opportunities both at home and offshore.

Over the last 20 years manufacturing sectors of the advanced economies like Australia have seen an ever increasing share of domestic demand go to imports and an increasing share of domestic production being exported.
The rising import share has hit many manufacturing sectors hard. In automotive, Australian producers had 80% of the domestic market in the mid 1980’s and local content in an Australian made Holden commodore was more than 90%. Today local industry market share is less than 20% and local content in a Commodore is 55%.

Australian manufacturers have also found exporting tough going. Over the same 20 years (1988 to 2008) the export share of manufacturing sales rose from 20% in 1988 to 30% in 2008. However almost all of the increase in the export intensity of production occurred during the 1990’s. Since then manufacturing export growth has stagnated. Like other OECD economies, we have experienced a rising import share, but we haven’t been able to ramp up our manufacturing exports, especially in the last decade. In 2008, our trade deficit in manufacturing stood at $113 billion.

As suggested in the graph below, the significant decline in the Australian dollar in the first half of the 1980’s was followed by a significant increase in Australia’s share of world manufacturing exports over the decade to 1996.

However, it wasn’t just the exchange rate changes (although it wouldn’t have been possible without that change) that increased Australia’s share of world manufacture exports from 0.22% in 1986 to 0.42% in 1996.

It was also a transformation in the trade and industry policy agenda which provided incentives (such as the 150% R&D tax concession), institutional reform (such as the creation of Austrade) and industry plans (auto, steel, heavy engineering etc) which provided a significant boost to manufacturing exports and productivity growth both of which surged.
This was also supported by a partnership of greater collaboration between unions and employers both at an industry and enterprise level on the skills and training agenda and a range of other issues. With a few notable exceptions, the relationship was based on collaboration and co-operation rather than an adversarial approach, and the common goal of building a better, stronger manufacturing industry was shared by both capital and labour.

The graph above suggests Australia’s loss of market share in global manufacture exports started long before the 2003-2008 resources boom, where rising terms of trade pushed the Australian dollar well past 80 cents US.

The abandonment of a sophisticated trade and industry development strategy during much of the past decade is part of the explanation for the decline in manufacturing export growth, as well as the failure of the nation to adequately invest in infrastructure, skills and innovation.

The rise and fall of Australia’s manufacturing exports over the past several decades is highlighted in the graph below.

Note: Data sourced from RBA online statistics. Exports are real (chain volume measures). It is assumed that manufacturing exports grow by 4.5% in 2009-2010 to complete the five years to 2009-2010 shown in the graph.
Recovery from the GFC is coinciding with the beginning of a higher interest rate cycle placing pressure on both the borrowing costs for manufacturers and the competitiveness of exports through an appreciating exchange rate. Improving terms of trade is likely to increase this trend. Export competitiveness is being undermined and conversely, imports will become cheaper thereby also threatening increasing domestic sales for local producers recovering from the GFC. Recent data confirms that the balance of trade deficit in manufactures in 2008-09 topped over $100 billion.5

Sustained exchange rate appreciation will be an on-going challenge for manufacturers. How should industry respond? And what role is there for Government in supporting manufacturing transition to a higher exchange rate over the longer term through complementary macro settings and other supportive policies?

4 Boosting key industries

A fourth key success factor for high growth manufacturing in Australia over the 2010-2020 decade and beyond will be the performance of a number of key manufacturing industries. This concerns Australia’s food and mineral wealth such as steel, aluminium and processed foods. It is also true of our mature industries including automotive, where Australia remains one of only 15 nations that have all the functions of auto and component manufacture from design through to final assembly.

Australia’s downstream processing industries also need attention as they are energy intensive and at the frontline in having to adapt to climate change policies. These industries are crucial to Australia’s future. Not only are they large regional employers, they are major exporters as well. In 2008, five of Australian manufacturing’s top ten export products were aluminium ($5.8 billion) copper ($3.5 billion) lead ($1.1 billion) zinc ($1.1 billion) and uncoated flat rolled iron and steel ($991 million).

Importantly, many of these products also provide the opportunity for further downstream processing and value adding that can win business and support jobs from either exports or competing against imports.

However, even before climate change raised new challenges, a range of competitive pressures were being felt in parts of Australian industry as suggested in the graph on Pg. 15 the Australian steel industry lost substantial market share in world iron and steel exports, particularly since the mid 1990s.

5 Local factories face flood of imports, Peter Roberts, AFR 9 October 2009
In addition many of Australia’s large resources projects shifted to pre-assembled imported modules which put increased pressure on domestic steel market share for Australian producers.

5 New generation manufacturing

The fifth key factor we have identified is growing a new generation of fast growing technology and knowledge intensive manufacturing businesses.

Industries such as biotechnology/medical equipment and firms such as CSL, Resmed and Cochlear have often been held up as examples Australia needs to replicate many times over to help regenerate its manufacturing industry.

In the early 1990’s the McKinsey Group added to the debate with the notion of the need for Australia to grow a new generation of born global manufacturing exporters who would in many cases be technology and knowledge intensive, export right from the start, and, while having a global presence, would remain anchored in Australia.

Renewable energy related manufacturing provides an interesting example. Australia has 100 hydro electric stations, 43 wind farms, a growing solar hot water heater industry and nearly 50,000 homes with solar PV installed. There is a small scale solar thermal power station operating at Liddell and larger projects on the horizon, a miniature wave generation plant at Port Kembla and one being built in Fremantle as well as 48 geothermal firms and a variety of energy possibilities from a range of biomass options. The anticipated 20% Mandatory Renewable Energy Target will induce still further investment.
In some cases the manufacturing inputs for the renewable energy sector are specialised capital goods that are imported.

But much of the work is or can be made here and done by traditional manufacturing firms in the fabrication sector, or by domestic machinery and equipment producers or other Australian based manufacturing firms. The growth in this industry is going to be so large, that there is potential for a new generation of large manufacturing firms based in Australia and going global.

So how much will all of this help repopulate Australian manufacturing with CSL, Resmed and Cochlear and a new generation of sizeable born global exporters? Or like Information and communication technology (ICT) will Australia become an efficient user and importer rather than producer and manufacturer of renewable energy technologies?

The answer to these questions will depend on many factors such as the capability of Australian based renewable energy firms, our R&D spend on renewables, our commercialisation nous, a better larger venture capital industry then what we have today and policy settings that encourage rather than inhibit an innovation culture as well as ensuring that Australian industry gets a fair go to compete for the opportunities at home and support for exporting and growing globally.

In 2008, the AMWU drafted a blueprint for the response by Australian manufacturing to climate change. The recommendations included:

- Adopting interventionist industry policies, inclusive of government purchasing policies, support for research and development, skills training and the take-up of appropriate technologies.

- Establishing Just Transition programs, so that the costs of moving towards a greener economy do not fall on displaced workers, trapping them in contingent employment or low-wage jobs.

- Improving the environmental standards expected of private dwellings, including in the building of new houses and the retrofitting of existing houses.

- Expanding the potential for recycling and reuse initiatives in industry.

- Creating a viable industry within Australia based on the production of low or no emission vehicles.

- Ensuring the equipment for renewable energy is locally produced.

Much of the work that is won by Australian industry will be done by traditional manufacturing firms that have been around for along time and seize the opportunity for strong growth in renewable energy and other “new industries”. As important as new firms may be, we need to think of the opportunity as more than just new start-ups. OECD research suggests 30% to 40% of new firms don’t survive the first 2 years and only 40% to 50% who are set up in a given year still exist seven years later.
While new manufacturing firms are important, it is probably the case that new manufacturing plants are even more important for a high growth manufacturing strategy, particularly for countries with a strong presence of multi national firms like Canada and Australia. The work of J Baldwin and his colleagues from Statistics Canada for the OECD and others suggests that in the case of Canada about 40% of manufacturing plants in 1997 were plants that set up over the 1988-1997 decade. Baldwin also suggests the opening and closing of plants over several decades contributed 15% to 25% of manufacturing labour productivity growth in Canada as newer more productive plants replace older less productive incumbents.6

This is why the Manufacturing Alliance wants a new generation of start up firms in renewables, cleantech and other activities and we think that knowledge intensity, proprietary intellectual property and a strong R&D culture will help a lot with building a new generation of born global firms in Australian manufacturing.

But with the ageing of the population and generational change in manufacturing family businesses, and the benefits that come from the establishment of new plants and the scrapping of older less productive ones, we should have a broad rather than limited recognition of the importance of “new manufacturing”.

This will also require greater emphasis being given to new products of both our existing manufacturers as well as the start ups. Australia’s defence industry is a good example where our design and engineering capability should put us at the forefront of providing competitive new products, provided of course the relevant purchasing organisations aren’t locked into going offshore before giving the local industry a full and fair opportunity.

6 Growing productivity through collaboration

As a sixth factor for success, the Manufacturing Alliance believes that a cooperative, collaborative approach to building better businesses and workplaces is crucial.

Government, company and trade union leaders in Ireland were right when they pointed out:

“Although some of the most dynamic and competitive countries in the world have long recognised the importance of workplace innovation as a key to meeting their competitive challenges, few have developed a co-ordinated and focused national workplace strategy ...Developing our innovation and technology base depends as much on improving the ability of workplaces to change and innovate as it does on R&D.”7

In our submission to the Commonwealth House of Representatives Economics Committee Inquiry into Productivity, the Manufacturing Alliance outlines an agenda for action over a decade to ensure the best mechanisms for productivity growth are identified and replicated throughout the sector.

An excerpt of this submission is attached as Appendix 2.

A manufacturing industry Australia believes in

While there are other key success factors associated with building a high growth strategy for Australian manufacturing in the decades ahead, the final one we chose for this discussion paper involves improving the perceptions of manufacturing.

Over the past decade there have been tripartite manufacturing councils in virtually all States and Territories, and most have tried to deal with the ‘perception’ issue.

In part the problem relates to stereotype ‘perceptions’ of manufacturing as ‘an old smokestack industry’, or a ‘dirty’ industry with boring repetitive tasks and one with little by way of high paying jobs or career paths.

Such perceptions are unhelpful in attracting young Australians into the industry. It also makes it difficult for manufacturing to attract and keep the best and brightest people to build a career in an Australian manufacturing firm or even start a new manufacturing business.

Beyond that, this old-fashioned image of manufacturing does not do justice to the industries and workers who currently drive such a significant sector of our economy. Nor does it reflect the modern, innovative and sustainable future for manufacturing that is already taking shape.

The Manufacturing Alliance believes the key areas outlined in this discussion document provide the basic structure for success. We hope our next step will be together with industry, employers and government, to build a stronger, more prosperous manufacturing industry in Australia.
Appendix One: ALP National Conference Resolution on the future of manufacturing - August 2009

The Future of Australian Manufacturing

Conference recognises that manufacturing is critical to Australia. It accounts for 9 per cent of all jobs, 11 per cent of full-time jobs, 13 per cent of private sector jobs and 20 per cent of jobs held by blue collar workers. It generates two-fifths of our exports and performs a third of our business R&D.

Conference acknowledges the efforts Labor in government has made to strengthen the sector. Conference recognises the value of initiatives such as Enterprise Connect, A New Car Plan for a Greener Future, the TCF innovation package, industry innovation councils, the Future Industries component of the Super Science Initiative, and programs to promote collaboration between researchers and industry.

Conference applauds the government’s readiness to involve the labour movement in developing and implementing industry policy. Conference also acknowledges the efforts the government has made to stimulate economic activity and support jobs through the global recession.

Nevertheless, Conference notes that the manufacturing sector has been particularly hard hit by the downturn.

In the last twelve months, Australia has lost 77,000 manufacturing jobs. Core industries like steel and auto saw production fell by 50 per cent and 40 per cent respectively in the first half of 2009 compared to the same period in 2008. Many manufacturing workers have been forced to work shorter hours and use up their leave entitlements.

Conference therefore resolves to further develop Labor’s strategy for manufacturing and its key sectors. Labor will work with union and industry leaders to build a stronger, more prosperous manufacturing sector for the second decade of the twenty-first century. This will involve increasing the innovation capacity of firms and industries to lift productivity and build competitive advantage.

The manufacturing strategy will include:

- A renegotiation of the 2001 Australian Industry Participation National Framework with the states and territory governments to ensure Australian industry gets a fair go in tendering for work in both the public and private sector (this includes nation building infrastructure projects) and wins the contracts that maximises opportunity and supports jobs both at home and offshore

- working to increase funding for the Industry Capability Network and make sure the ICN, Austrade and Enterprise Connect cooperate to help Australian firms improve their capabilities and win business
• ensuring that manufacturing firms working a four-day week have an incentive to retain rather than retrench their employees, and using training during downtime to help prepare for the recovery

• recognising the importance the steel industry, with new Australian industry participation arrangements to maximise the use of local steel in Australian projects, and a sectoral strategy to create new opportunities.

Labor is committed to a dialogue with stakeholders including industry and unions. That the centre of that dialogue will be an examination of how we answer a number of specific questions. How do we add more value to our natural resources before they leave our shores? How do we make manufacturing careers more attractive to bright young Australians? How do we improve training and work organisation to harness the creativity of the entire workforce? How do we nurture a new generation of high-tech, globally-focused manufacturing firms anchored here and winning international business in a wide range of industries including clean technology? And how do we prepare for the next boom and the competitive pressures created by an appreciating dollar?
Appendix 2 – Excerpt from Commonwealth House of Representatives Economics Committee Inquiry into Productivity

The Manufacturing Alliance welcomes the call of the Australian Industry Group and the Business Council of Australia (at recent round table meetings on the Future of Work convened by Minister Gillard) for a co-operative and collaborative approach to building better businesses and workplaces. It is in that spirit that we propose the following agenda to be overseen by a high powered tripartite working group committed to accelerating the long term trend in productivity through innovation at the firm and workplace level.

A key role for the working group is to utilise their contact networks and influence to ensure the widespread dissemination of the findings and ideas of the work program associated with the agenda outlined below. We are not interested in reports that collect dust on bookshelves or just result in a leader’s dialogue. Productivity is too important for that. The working group would be supported by a combined Secretariat from DIISR and DEEWR - a good sign of breaking down the silos and entrenching co-operative collaboration.

The agenda is not a one off quick fix. The participants must see this as a decade long journey. The agenda we propose includes six interrelated elements:

1. We must begin with a comprehensive economy-wide survey (as was done in 1990 and 1995) to be carried out in 2009-10 and once every five years thereafter to measure the health and performance of the nation’s workplaces. Evidence based reform agendas around workforce development need a solid empirical foundation and a study such as this is required as a matter of urgency. The continuity of this approach in the UK is something Australia should follow. A reference group of industry participants to assist with suggestions on survey design, data collection and post survey focus group planning would assist this process.

2. A pilot program, with a long term institutional focus and funding to disseminate best practice from high performance workplaces. This should cover a wide range of workplaces in both the public and private sector. We suggested earlier that intermediaries were essential to the capacity building required to make this work. We recommend that Enterprise Connect and the relevant employer and union organisations work together to develop this program with a key objective being the building of internal capability within firms and sponsoring organisations such as unions and employer groups. This approach is needed to be able to progress the workforce development and work organisation change agenda across a wide range of firms and industries and to contribute to the development of a participative approach to leadership and management. This is an essential investment to link short term recovery measures to Australia’s longer term competitive advantage.

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8 Submission to House of Representatives Economics Committee Inquiry into raising the level of productivity growth in the Australian economy by the Australian Manufacturing Workers Union and the Australian Workers’ Union, The Manufacturing Alliance, August 2009
An agenda for lifetime learning and ‘flex-security’ arrangements needs to be developed so that never again in an economic downturn do so many workers get consigned to the scrap heap of unemployment including lifetime unemployment. We must also give meaning to the concept of workforce development as something that occurs over a lifetime with many transitions along the way. The ALP platform provides a mechanism for this issue to be progressed. We would strongly advocate examination of the successful experience of workplace ‘learning representatives’ in the UK, which links to our next point.

We need a program to support industry partnerships and capacity building in the area of skills and workforce development. As stated previously there is no doubt that, in public policy terms, the best return for the community’s investment in vocational education and training will be the effective identification of workforce skills development needs and the prioritisation and delivery of skilling solutions to meet those needs in a way that maximises the deployment of well skilled, competent and productive workers able to effectively perform in dynamic and increasingly sophisticated industries.

The analysis that must underpin this is best done by the industry in the interests of the industry, as it is at this level that it is possible to consider longer term industry and workforce wide development needs. The industry parties are best placed to contribute to building the industry and enterprise capability that is required to conduct training needs analysis in conjunction with the relevant Industry Skill Councils, but lack the specific resources that are required to mobilise the culture change and specific skills that are required.

An investment in growing an industry capability in skills and workforce development needs analysis would complement the work being done by Manufacturing Skills Australia, giving the central skills body access to the more extensive outreach network necessary to realise the aims of the Productivity Places Program. In the manufacturing industry for example, this activity could also be linked into the work of the Education and Training Advisor network of the Australian Industry Group, the Skilled Trades Networks of the AMWU, and the associated activities of the AWU around Australia. This should operate on an economy wide basis with other sectors besides manufacturing making their case for funding support in partnership with their Industry Skill Councils and such funding being based on the merits of the proposals and the strengths of the industry partnerships put forward.

As we emphasised earlier it is important to see the six elements of this agenda as closely interrelated. It is important that linkages between Enterprise Connect, the Industry Skill Councils, sponsoring organisations, firms and employees are forged in a manner that brings all the participants together. It is also important that the participants share a common understanding that we are embarking on a decade long journey of building workforce capability, enhancing organisational innovation and creating more productive, innovative and prosperous businesses.

Importantly we also need to put in place an agenda for a systematic upgrading of the management systems of Australian businesses. New research on 4,000 medium size manufacturing firms by the London School of Economics and McKinsey (Management Practice and Productivity: Why They Matter) demonstrates the strong co-relation between high productivity and good management.
The inclusion of a large sample of Australian manufacturing firms in the study by a multi-university team led by Roy Green at the University of Technology Sydney has just occurred with the results to be announced in the near future. It is likely to reach similar conclusions including the identification of islands of excellence amongst Australian manufacturers and a large mediocre tail suggesting a broad based upgrading of the management systems and organisational capabilities of Australian firms is a necessary pre-condition for accelerating long term productivity growth.

This will require revisiting and going beyond the Karpin Report including in the area of management education. We also need to determine what part of this agenda can be delivered through Enterprise Connect and what part needs something different.9[1]

6. Finally, the agenda proposed by the Manufacturing Alliance requires a centre of excellence, like the former Bureau of Industry Economics, that sponsors high-powered on-the-ground research into workplace innovation, the upgrading of the management systems and organisational capability of firms as well as practical issues in the evolution of Australia’s national innovation system.

We note that discussion is proceeding among a number of universities and organisations on the proposal in the Cutler review for a national innovation research centre to underpin innovation research capability in Australia, as is the case in many other developed economies.

One of the models being discussed is the recently funded UK Innovation Research Centre at Cambridge and Imperial College which also comprises a ‘knowledge hub’ for engagement between researchers, business and the community.

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