



Submission to the Finance and Public
Administration References Committee: Inquiry into
Commonwealth Procurement Procedures.

Australian Manufacturing Worker's Union.

December, 2013.

Introduction

The Australian Manufacturing Workers' Union (AMWU) represents approximately 100,000 members working across major sectors of the Australian economy. AMWU members are primarily based in the manufacturing industries in particular; defence equipment, transport equipment, metal, vehicle, and food manufacturing, but also in the industries of mining, building and construction, printing and graphic arts, repair and service and laboratory and technical services. The current review is of relevance to workers in the vast majority of these industries.

The Australian Government spent \$41.4 billion in acquiring goods and services through tender processes in 2011-12, \$18.6 billion of which was for non-defence related goods and services. The non defence portion of this procurement is slightly higher than the total value added of the entire Australian metal products manufacturing industry for the same year and represents a significant portion of the total demand in the economy. The entire procurement bill is greater than the value added for the entire utilities sector, including electricity, waste and water services, for the same year. This highlights how significant the Government's direct role in the economy as a purchaser of goods is. Indeed, no other single economic actor plays such a significant role in the broad economy.

While it is true that these purchasing decisions are made by a large number of Government agencies and can therefore not be thought of as the result of an entirely centralised decision process, it is the case that each dollar of this spending was the result of a procurement decision that was determined by Department of Finance Government Procurement guidelines, or in the case of defence spending, by Defence Material Organisation processes. These guidelines and how they are implemented have massive implications for the broader economy and in particular for Australian industry and jobs.

In the view of the AMWU, these decisions are too often made with a short term and limited focus on cost minimisation with respect to individual contracts, rather than true value for money and national interest considerations. While it is true that the Government should make its procurement decisions with an aim of achieving the greatest value for taxpayers money, too often this translates into a overly narrow definition of 'value' which does not include considerations of; broader industry and employment impacts (and their employment, tax and spending implications), health and safety impacts, environmental impacts and national security impacts.

Due to the tight timeframes, the current submission is not exhaustive and will focus on specific issues which are of greater relevance to the AMWU and are not covered by submissions from other unions. The AMWU supports the submissions of the ACTU and the CFMEU and would like the Committee to note the issues raised by these submissions are of equal importance to AMWU members.

The broader context of Government procurement

Given the relative size of government procurement in most economies, such decisions have typically been seen as mechanism to influence broader strategic goals of government, in particular, industry development and support. This is supported by the lack of a broadly supported government procurement chapter in the WTO. Even in cases where Free Trade Agreements (FTAs) do include government procurement chapters, these chapters include carve outs, such as the car fleet and SME carve out in the AUSFTA. Indeed, our trading partners have been comfortable ignoring even these

FTA limitations on government procurement processes when the question of supporting domestic industry has been at play. For example, the American Recovery and Reinvestment Act of 2009 included a specific 'made in America' provision, which required spending as part of this stimulus package to use only iron, steel and other manufactured goods produced in the United States. This constituted a blatant violation of the AUSFTA, but was never pursued as such by the Commonwealth Government. In contrast, Canada threatened action to the WTO under the NAFTA, and secured an exception for Canadian businesses under the Act.

While this example does highlight the willingness of our trading partners to use government procurement as a mechanism for industry support, even when in violation of trade agreements, it is not the AMWU's contention that Australia engage in equally blatant trade agreement violation. In our view, the existing carve outs and agreements provide enough scope for a procurement system which takes into account broader costs and benefits on a decision by decision basis to provide additional support to Australian industry compared to the status quo. The CFMEU submission to this enquiry provides a very good example of how this can be done with an example of Commonwealth paper procurement practises.

There is a clear exemption from non-discriminatory procurement processes for Australian SMEs. This is in recognition of the role government procurement plays in supporting the growth of specialist SMEs, both here and abroad. This exemption should be utilised through explicit preferential treatment for SMEs in the Commonwealth Procurement guidelines or rules (CPRs). Tenders from SMEs (whether individual or a consortium) should be provided with additional merit based on modified CPRs in recognition of the role government procurement plays in supporting innovative SMEs. Indeed, the former Government instituted the Enterprise Solutions program, which sought to support SME's gaining government procurement work through capability development, strategic planning and a collaborative approach to matching the needs of government with the capabilities of SMEs. This \$25 million program remains in place but is likely to be subject to the current government's austerity drive. The AMWU urges the Committee to seek reassurance from the Government that this program will remain in place.

A combination of the Enterprise Solutions program and an explicit preferential treatment for SMEs in the CPR would go a long way to supporting SMEs being able to access government procurement work, helping these businesses to grow, access new markets and increase employment.

The former Government instituted mandatory Australian Industry Participation (AIP) plans, not just for private sector projects worth over \$500 million, but for government projects worth over \$20 million. As part of this reform, an independent statutory AIP Authority was established (which was due to commence work on 27 December, 2013), which would administer public sector and private AIP plans and would bring together government programs aimed at increasing access for Australian businesses to both domestic investment projects and global supply chains. Crucial to this agency's success was the folding in of the Industry Capability Networks into the AIP Authority structure.

The current Government has signalled a lack of support for both mandated AIP plans and the AIP Authority. There is a concern that not having the support to repeal the Jobs Act which instituted the AIP Authority, the current Government will simply starve the Authority of resources to perform its legally obligated tasks. This will not only place the Authority in a position where it is in breach of its statutory obligations, but it will mean Australian businesses will be locked out of supplying into both

government and private sector projects due to a lack of information and the necessary support to provide competitive tenders. The AMWU urges the Committee to seek clarification from the Government about its intentions regarding AIP reforms and to urge the Government to allow the new Authority to perform its legal obligations in supporting Australian businesses access work on investment projects.

Automotive manufacturing industry

The Australian automotive manufacturing industry remains under extreme pressure due to a persistently high Australian dollar, intense international competition (and a lack of a level international playing field) and a lack of domestic government support for the industry. In recent weeks, we have seen Holden announce their intention to cease manufacturing in Australia in 2017, an announcement which follows Ford's announcement of a similar closure in October 2016. The role of Australian governments in supporting the industry through fleet purchases has often been raised but remains minor.

From calendar year 2005 to 2012, we have seen a significant decline in the total number of Australian-made vehicles purchased by all levels of government. Conversely private fleet purchases have increased over the same period of time. In 2011-12, over 72 per cent of all passenger vehicles purchased by the Commonwealth, Victorian and South Australian governments were made in Australia. By contrast, in the same year it was only 44 per cent for New South Wales, 41 per cent for Queensland, 30 per cent for Western Australia, 37 per cent for Tasmania, 36 per cent for the Northern Territory, 34 per cent for the Australian Capital Territory and 25 per cent for the local government sector as a whole.

Vehicle fleet procurement policies at all levels of government generally follow the broader government procurement principles of value-for-money, fit for purpose and safety considerations. In addition, governments have increasingly placed environmental considerations (particularly fuel efficiency and emission reduction) as part of the selection criteria for fleet vehicles. Aside from the Commonwealth, Victorian and South Australian governments, state and territory governments do not use local manufacture as a critical decision point for fleet vehicle selection. This needs to change as a matter of urgency if Toyota, the sole remaining Australian manufacturer of cars post 2017 is to remain manufacturing cars in Australia.

When comparing total vehicle purchases against Australian manufactured vehicle purchases in the six vehicle segments, the level of Australian made vehicles has experienced a decline, but is showing signs of recovery, as cleaner and more fuel efficient models and new vehicles (such as the Hybrid Camry and Cruze) become available. Analysis suggests that if all levels of government that do not currently have in place a "buy-Australian" fleet procurement policy (including local, NSW, QLD, NT, WA, TAS, ACT) adopted a policy similar to that of the Commonwealth, purchases of Australian-made passenger vehicles could increase by 8,000 units or more per year. This would represent a four per cent increase in total domestic vehicle production. A much larger increase could occur if private fleet buyers increased their purchases of Australian-made vehicles.

Given there is no significant price differential between Australian made and imported cars, as well as the WTO and other trade agreement exemption for motor vehicles, the lack of an Australian made

purchasing policy across all Australian governments cannot be justified and is clearly a policy which damages the national interest for no gain.

In addition, the Australian Government's good record in sourcing Australian made cars for its fleets has recently been damaged by the recent decision to award a contract for a fleet of VIP vehicles to BMW after it was revealed the Attorney General's Department initially recommended the order go to Holden. In a disturbing aside to this episode, incorrect media reports surfaced that Holden did not place a bid for the contract. A claim since refuted by Holden. No justification for this purchase going to BMW rather than the initially preferred Holden bid has been provided to date.

Commonwealth role in rail procurement

According to the Australian Railway Association, over the next 20 years, Australian governments will invest around \$33 billion in passenger rollingstock for the Australian market. If manufactured in Australia, between 50 and 70 per cent of this investment will flow through to the Australian rail manufacturing industry; a injection of between \$16.5 and \$23.1 billion. Applying the rail industry multiplier, this initial investment would spurn a total investment in suppliers, service providers and the community of between \$116 to \$185 billion.

The vast majority of this investment will come through state government orders for replacement rollingstock. Historically, these procurement projects have been 'large batch' procurements which are characterised by large volumes to be delivered in relatively tight timeframes, followed by prolonged periods of little or no work for industry until the next 'large batch' order comes through.

This procurement model poses significant challenges for industry, not least the boom/bust cycle that it produces. Such a cycle also familiar to the defence shipbuilding industry, makes retaining industry capability including skills, through slumps incredibly difficult. In addition it increases the cost of finance for the industry as they cycle is correctly seen as increasing the risk associated with financing the industry. It makes developing support industries more difficult as these businesses are also subject to the boom/bust cycle. This inhibits the production of the manufacturing 'eco-system' that can support a world class industry and it lowers the local content value of any given project. Finally, it makes it difficult for Australian manufacturers to compete for procurement with overseas competitors as they rely on intermittent 'big batch' orders to provide the scale which lowers per unit costs, unlike their overseas counterparts who can rely on additional overseas orders to smooth volume orders.

The boom/bust cycle is the product of state governments making procurement decisions in an isolated context without considering the actions of other states in their procurement decisions. It is a lack of coordination problem. This is where the Commonwealth government has a role to play in ensuring that the greatest national and industry benefit can be gained from disparate state procurement policies.

The AMWU supports the development of a "Coordinated National Demand" (CND) model for rollingstock purchases. Such a CND model would be coordinated by the Commonwealth government, jointly with states, to provide for a smoother demand schedule for industry. It would see orders change from a 'large batch' model to a slower continuous delivery model, with the

delivery and integration of new passenger cars becoming a key part of the operator's fleet management system.

As well as addressing the challenges of a boom/bust model as outlined above, a CND system would allow for continuous technological improvements to be implemented, both into the final product and into production and supply chain processes. It would allow the industry to maintain and expand skills development of their workforces, taking on more apprentices and engineering cadetships. In addition and outlined above, such a model would improve Australian industry's competitiveness, increase local content and the quality and quality of the supply chain.

The figure below is re-produced from the Australian Railway Association's report, Coordinated National Demand Project, May 2012. It outlines key differences between the status quo procurement approach and a CND approach.

Figure 34 – Comparison of CND and Conventional Procurement Models

| Conventional Model | Result | Result | CND Model |
|----------------------|---|---|----------------------|
| Order size (cars) | 440 | Open ended, minimum 200 per order | Order size |
| Delivery Period | 3-7 years | 8 cars per month | Delivery Period |
| Design | One off | Progressive (evolutionary) | Design |
| Manufacturers | One-by tender | Potentially several, in economic batches, each batch tendered. | Manufacturers |
| Financing | Optional | Optional | Financing |
| Commissioning Team | Increases as delivery time is compressed. | Small and constant | Commissioning Team |
| In-house Design Team | Potentially large if revolutionary design | Small-at front end does functional specification; at back end does audit. | In-house Design Team |
| Maintenance | Fully or partially included in order | Fully included in order | Maintenance |
| % Local Content | 30-50 | >60 | % Local Content |

The Australian Railway Association has been working with its membership and state and federal governments on the adoption of such a model for the procurement of railway passenger cars. The AMWU believes such an approach would provide significant benefits to both the industry and the procuring governments and it commends it to the Committee for its consideration.

Defence procurement

It is well known that defence procurement is not subject to restrictions under WTO or other trade agreements. This is for the very simple reason that defence industry capabilities are recognised as a crucial component of a nation's national security architecture and government procurement plays a central role in determining these capabilities. The AMWU is of the firm view that the industrial and strategic capabilities of Australia's defence industry and in particular naval shipbuilding assets are under great threat due to a lack of forward planning by Governments. An ambitious program of

defence procurement, based on domestically built projects, needs to be implemented urgently, not only to safeguard our strategic defence industry capability, but to support manufacturing capabilities and jobs more broadly. In addition, this plan needs to move away from the boom/bust cycles that are a feature of past procurement models in defence to a continuous build model with best supports the development of industry, skills and technologies. The AMWU released a position paper outlining these issues and what needs to be done on 19 December, 2013. A copy of this paper is included as an attachment to this submission.

Conclusion.

Through its massive purchasing power, the Australian Government can and should play a leading industry development role. This is not in direct conflict with trade obligations and would simply require government procurement guidelines to appropriately take into account national security, health and safety, environmental and other considerations. Like the CFMEU (and we suspect the majority of Australians), the AMWU believes that well specified procurement guidelines that place merit on outcomes that are in the national interest (such as domestic employment, technological development etc...) are consistent with out international trade obligations, not least under the national security clauses of these agreements.

The Commonwealth procurement guidelines need to be specified in a way that makes those applying them have no doubt that the concept of 'value for money' extends beyond the upfront contract cost of any given procurement decision and it includes broader economic implications such as employment, technological development, skills acquisition etc... In addition, these guidelines should take explicitly into account additional non-monetary considerations such as health and safety, environmental outcomes etc..., where appropriate. Procurement guidelines also need to preference Australian SME businesses.

The Australian Government also has a role to play in ensuring that Australian businesses receive every opportunity to supply into government projects through AIP requirements, that Australia's rail industry is able to grow on a steady and firm basis by the implementation of a Coordinated National Demand procurement model and Australia's defence industry is afforded an opportunity to grow based on considered and long term defence procurement decisions.