



# AUSTRALIA'S MANUFACTURING SECTOR

(Inquiry into the State of Australia's Manufactured  
Export and Import Competing Base Now and  
Beyond the Resources Boom)

ACCI Submission to the  
House of Representatives Standing Committee on  
Economics, Finance and Public Administration

August 2006





**ABN 85 008 391 795**

**Canberra Office**

24 Brisbane Avenue  
BARTON ACT 2600

PO Box 6005  
KINGSTON ACT 2604

Telephone: (02) 6273 2311  
Facsimile: (02) 6273 3286  
Email: [info@acci.asn.au](mailto:info@acci.asn.au)

**Melbourne Office**

Level 3  
486 Albert Street  
EAST MELBOURNE VIC 3002

PO Box 18008  
Collins Street East  
MELBOURNE VIC 8003

Telephone: (03) 9668 9950  
Facsimile: (03) 9668 9958  
Email: [melb@acci.asn.au](mailto:melb@acci.asn.au)

Web: [www.acci.asn.au](http://www.acci.asn.au)

© Australian Chamber of Commerce and Industry 2006.

This work is copyright. Reproduction is permitted, with direct attribution and notification to the Australian Chamber of Commerce and Industry.

# CONTENTS

About ACCI	4
Executive Summary	4
Introduction	8
Australia's Manufacturing Sector	8
The Relative Decline of Manufacturing	12
Consumer Demand	12
Statistical Error	12
International Competition	14
Offshoring	14
Importance of Continuing Reforms	16
'Dutch Disease'	16
Government Support	19
Manufacturing Assistance	19
Tariff Assistance	19
Budgetary Assistance	19
Taxation Assistance	21
R&D Support	21
R&D Tax Concession	22
Backing Australia's Mark Ability II	24
Export Market Development Grant (EMDG)	24
International Trade	25
Research and Development	27
Skills	31
Training and Education Policy	35
Taxation	36
The Case for Further Reform	36
Australia's Comparative Taxation Landscape	37
Energy	39
Regulation	41
Infrastructure	42
ACCI Members	45

## ABOUT ACCI

ACCI has been the peak council of Australian business associations for 105 years and traces its heritage back to Australia's first chamber of commerce in 1826.

Our motto is "Leading Australian Business."

We are also the ongoing amalgamation of the nation's leading federal business organisations - Australian Chamber of Commerce, the Associated Chamber of Manufacturers of Australia, the Australian Council of Employers Federations and the Confederation of Australian Industry.

Membership of ACCI is made up of the State and Territory Chambers of Commerce and Industry together with the major national industry associations.

Through our membership, ACCI represents over 350,000 businesses nation-wide, including over 280,000 enterprises employing less than 20 people, over 55,000 enterprises employing between 20-100 people and the top 100 companies.

Our employer network employs over 4 million people which makes ACCI the largest and most representative business organisation in Australia.

## EXECUTIVE SUMMARY

As the successor organisation of the Associated Chamber of Manufacturers Australia (ACMA) which was created at the time of Federation, ACCI is the oldest business organisation representing manufacturing at the national level and with the widest reach across the manufacturing sector in Australia.

Many industry participants and observers have been encouraging governments to develop a specific manufacturing policy for Australia to deal with the challenges confronting the industry. ACCI considers that this already exists and it is embodied in the reforms undertaken to improve the efficiency in the areas of industrial relations, taxation, skills, investment and the regulatory environment. These macro economic challenges should be seen as the priority for improving Australian manufacturing's international competitiveness.

The priority for the manufacturing industry, as for all industry sections in the Australian economy, is to ensure that we have the appropriate policy settings for each component part of the wider reform agenda. This allows

producers to most efficiently deal with an adverse operating environment of any nature.

Like many industrialised countries, Australia's manufacturing sector has suffered declining output as a proportion of GDP and a declining proportion of employees relative to the total labour market. Taken at face value this could be misconstrued as symptomatic of an ailing industry that is no longer relevant to the Australian economy. ACCI does not support this proposition.

In fact, while the proportion relative to Gross Domestic Product (GDP) diminishes the manufacturing sector continues to grow.

Australia as a small open economy has, for its betterment, long instigated policies designed to encourage competition between both domestic and international companies. The results have been a higher standard of living for Australians and a more dynamic, competitive, efficient and skilled economy. Australian companies have become more outward looking with views of larger and more lucrative markets.

Nevertheless, while successful Australian companies thrive, the adjustment process has proved insurmountable for many. Competition from low cost countries has pushed many labour intensive products offshore, with manufacturers of these goods unable to find cost savings great enough to compete on price or quality. Throughout this process the Australian government has provided structural adjustment payments for industries to exit the market or retool.

As companies moved offshore and closed, many unemployed individuals, particularly the low skilled, found re-entering the labour market difficult, often suffering long-term unemployment as a consequence (noting that technological change rather than trade has affected unskilled employees more).<sup>1</sup> Simultaneously as product market reform began so labour market reform shortly followed. As great as there has been a shift in Australia's economic composition away from manufacturing then in equal measure employment in the manufacturing sector also declined.

However, Australia's manufacturing sector does not just face challenges but also real opportunities. It will continue to provide elaborately transformed products to world markets based on capital and highly skilled employees. At present the terms of trade may be presenting a difficult trading

<sup>1</sup> De Laine, C., Lee, K. and Woodbridge, G. 1997, Microeconomic reform and structural change in employment, Industry Commission Staff Research Paper, AGPS, Canberra, October.

environment but policies of the past have been successful for Australia as a whole, something that should not be forgotten in the debate about the future of manufacturing.

ACCI considers the following points, in addition to maintaining a stable macroeconomic environment, to be vital in providing the manufacturing sector with a viable and sustainable future:

### International Trade

The ACCI supports continuing removal of international trading barriers, but believes that any further reductions in Australian tariffs (outside those already announced) must be considered in the context of a whole of government industry policy.

The scheduling of any further cuts in the level of protection must be part of a wider package of comprehensive, domestic reform to taxation, workplace relations, other regulatory compliance and microeconomic reform, and in terms of external trade, improved market access.

The revenue implications of any measures that may be implemented need to be accounted for, and alternate revenue sources or expenditure cuts be identified. In assessing the possible outcomes of any further reductions in assistance to industry, full account should be taken of the economic, strategic and social impacts. Governments should be involved in the market as a facilitator of trade.

The signing of bilateral agreements such as FTAs (Free Trade Agreements) can deliver benefits to Australia as long as they are comprehensive and meet as the objectives of multilateral agreements. Agreements currently being examined for feasibility have the potential to profoundly alter the manufacturing sector.

- ACCI recognises that trade related issues go beyond tariffs and quotas and include protection of intellectual property rights; rules of origin; investment; recognition of professional and skilled qualifications; import licensing; customs procedures; quarantine laws and policies; and dumping regulations
- Australian negotiators can help our exporters, and indeed the world trading community, by delivering outcomes that realise a stronger intellectual property law regime in countries that have Free Trade Agreements (FTA) with Australia.

Commerce and industry supports: the two-pronged

recommendation by the Jolly Review to maintain current levels of program funding; indexing the EMDGS budget to inflation to preserve its real value; and introducing a smoothing arrangement, where funds not expended in one year of the program can be retained and made available elsewhere over the life of the Scheme (especially in unexpectedly high demand years).

### Research and Development

The Government must continue to support research and development (R&D) in Australia. The importance of innovation as a key driver of economic growth and the role of government in creating an environment in which innovation is fostered are increasingly being recognised by economic theories.

- If Australia is to move higher up the value adding chain and into niche products that allow us to successfully compete with China and other developed countries, Australia's R&D policy must be to encourage investment in technology intensive industries.
- ACCI continues to consider that a simple and effective measure to promote business R&D is to increase the standard R&D Tax Concession from 125% to at least 150% and further reduce the burden of CGT.

### Skills

All businesses require access to skilled employees particularly when competing with international firms. Australian policies must be directed towards overcoming the skills shortage currently faced by businesses including manufacturing businesses. To undertake world class R&D, Australia's manufacturing sector will rely on employees who have tertiary level education in areas such as engineering, maths and science. However, a skilled workforce not only relies on higher-level education but is also underpinned by trainees and apprentices.

- Employers seek quality outcomes from the VET sector. It is therefore important that the Institute for Trade Skill Excellence becomes operational in 2006.
- ACCI advocates the reform of the highly successful New Apprenticeships program to make it much better. The New Apprenticeships program currently caters for a range of formal workplace training arrangements with one set of incentives and regulatory arrangements applying. Over the past six years the underlying concept of an apprenticeship, that is structured learning in a

work based environment, has become well established outside the trades.

- ACCI believes that there is an opportunity for a new strategic positioning of the New Apprenticeships program in the VET system to revitalise its role in meeting the skills needs of those entering the labour market, those already in the existing workforce or those who are on income support.
- It is imperative that the incentive arrangements, which currently apply across all industries, be maintained. However, it would be timely to extend the arrangements to cover all levels of New Apprenticeship pathways, including at the higher levels of Australian Qualification Framework levels V and VI.
- The National Skills Shortages Strategy (NSSS) has funded a range of industry developed and managed projects that have identified significant issues regarding the recruitment, training and retention in occupations in shortage of suitably skilled workers across a range of industries.
- The Australian Technical Colleges will provide an innovative approach to encouraging young people to merge employment and learning options during their secondary senior years and will further help to raise the esteem of VET pathways in the community. Clearly identifiable industry leadership will be important to the success of the Colleges.
- ACCI believes that further sites for Australian Technical Colleges should be investigated, especially in regional areas experiencing skill shortages.
- ACCI members support the policy directions of the Government in the broad area of welfare reform and are particularly interested in programs that connect the various government agencies dealing with a specific issue taking a whole of government approach.

As such, ACCI believes that the concept of providing Job Network clients with an opportunity to take up a New Apprenticeship is therefore critical in providing unemployed persons with dual opportunities of work and gaining skills, and providing targeted interventions to address the supply of skills problems.

- ACCI proposes that an incentive payment of \$5,000 be provided to Job Network members who place people in their target groups in a New Apprenticeship identified

under the National Skill Shortage Register through New Apprenticeship Centres. Payments should be made at the end of six months and 18 months. A trial program could be operated to test the efficacy of this approach with support to facilitate industry association involvement, marketing and the development of tools for the Job Network and employers.

## Taxation

If Australia's manufacturing sector is to compete internationally it is vital that the taxation regime does not disadvantage domestic firms. Comparisons against our nearest neighbours are more relevant than most others – For example, Hong Kong, Singapore and Taiwan which are developed non-OECD countries within the Asia Pacific, and South Korea and Japan which are OECD members. As global competition increases and Asian economies become more developed, Australia will need to compare itself with Asia.

- The Warburton-Hendy Report (Report) notes that the effective tax rates on various investments are very high and the majority of OECD-10 countries have a more lenient treatment of losses, with seven providing for amortisation of goodwill (Australia does not). While Australia's depreciation allowances are low compared to the OECD-10, many small firms can access better depreciation arrangements through the Simplified Tax System (STS). ACCI believes the Government should examine the Report's findings on write offs and depreciation.
- ACCI considers that it is important to revisit and improve on the CGT reforms introduced in 2000. We believe that the Government should seriously consider introducing a stepped rate CGT, where the proportion of the capital gain that is taxed diminishes over time.

## Energy

In Australia, the energy sector contributes significantly to our economic prosperity and standard of living. The reliable availability of competitively priced energy is fundamental to the international competitiveness of Australian industries, particularly those that are energy intensive. Exports of energy commodities, technologies and resources have also contributed to wealth and job creation. Put simply, the nation's economic prosperity is determined by access to energy at competitive prices.

The manufacturing sector is presently facing severe

competition which will likely increase in the future. Increasing costs unilaterally by implementing an Emissions Trading Scheme (ETS) as proposed by State Governments will severely damage sections of the Australian economy which rely on low cost electricity as a source of competitive advantage.

It is hard to fathom why governments would wish to embark on a policy that effectively imposes an energy tax which would send Australian jobs offshore, reduce the international competitiveness of our strongest industries and potentially lose some energy intensive industries to less developed economies with much less stringent environmental controls.

Furthermore, those States in which manufacturing plays a significant economic role such as Victoria will be the most disadvantaged through high energy costs. This is significant as the same States are also developing policies designed to the aid manufacturing.

## Regulation

Australian manufacturers require an efficient regulatory framework in which to operate competitively. ACCI believes that the aim of improving regulation can be achieved and has developed a position paper entitled  *Holding Back the Red Tape Avalanche* , which addresses all regulation of economic significance affecting commerce and industry.

The specific features of the ACCI approach are as follows:

- Tabling in Parliament an annual regulatory budget that provides a cost and benefit analysis of all business-related regulations as measuring the cost of regulation is the first step in controlling its growth.
- All regulatory budgets to be placed on a centralised website. This will help to inform the public of the amount of regulation being created and the amount of regulation required to be complied with.
- The Office of Regulatory Review should be moved from the Productivity Commission to the Department of the Prime Minister and Cabinet. The new body, to be known as the Prime Minister's Regulatory Reform Unit (PMRRU), should be headed by a Chief Executive chosen from the business community.
- A modelling unit located in the Productivity Commission should be created to develop a standardised costing

tool to be applied to all new regulatory proposals. Line departments will be required to apply this costing tool to objectively measure the compliance costs of their regulatory bids. We consider this initiative has been addressed through the development of the Business Cost Calculator.

- Regulation that does not pass the Regulatory Impact Statement (RIS) process as determined by the PMRRU must not be allowed to proceed.

## Infrastructure

Infrastructure plays a key role in overall economic performance and development, influencing investment decisions, access to education and information, the ability to develop local small medium enterprises (SME) and generally enhances the ability of firms to participate in the globalisation process. ACCI has argued in a number of submissions that there is no overwhelming infrastructure crisis, but there are areas where significant infrastructure investment is needed.

ACCI has also recently adopted a new infrastructure policy. In summary, the policy argues:

- Infrastructure is vital to Australia. It is essential to improving Australia's economic performance; education and training; national security; social cohesion; and enhancing our built and natural environment.
- Infrastructure needs should be addressed by the private sector where possible, with the Government assisting investment through a facilitative tax and regulatory system.
- The private sector is generally more efficient at developing and operating infrastructure. Government investment should only be used when there is clear and demonstrated market failure and after a thorough cost benefit analysis has been undertaken.
- Where government involvement in infrastructure is required, governments should make full use of partnerships with the private sector to reduce costs.
- The tax and regulatory system should provide appropriate incentives to investment while restricting monopoly power. Reforms should continue under National Competition Policy, in line with the recommendations of a recent inquiry by the Productivity Commission.

- ACCI does not support proposals for an independent National Infrastructure Council or similar to take over decision making on infrastructure projects, but we do support proposals for greater coordination in infrastructure regulation.

It is imperative that current problems in manufacturing do not elicit impulsive responses to the detriment of Australia's overall wellbeing. The right environment must be created so as to allow manufacturing to compete globally, but policies should not wind back the clock on twenty years of reform.

Additional expenditure in the manufacturing should only be considered once current programs have been analysed as being world best practice. Higher expenditure requires higher government taxation which in itself is costly to raise.

## INTRODUCTION

On 3 May 2006 the Treasurer, The Hon. Peter Costello MP, asked the House of Representatives Standing Committee on Economics, Finance and Public Administration to undertake an inquiry into the state and future directions of Australia's manufactured export and import competing base, focusing on, but not limited to:

- Australia's dominance in commodities exports and the impacts of this on the economy following the resources boom;
- the state of the country's manufacturing sector (and the goods and associated services) including opportunities and challenges from the expansion in global trade (in

particular by China); and

- policies for realising these opportunities.

Australia's resources boom is now in its third year. Some economists are predicting a foreseeable end to the boom which has seen high commodity prices and favourable terms of trade. It is therefore prudent to consider the state of Australia's non-commodity import and export sectors, in particular manufacturing.

## AUSTRALIA'S MANUFACTURING SECTOR

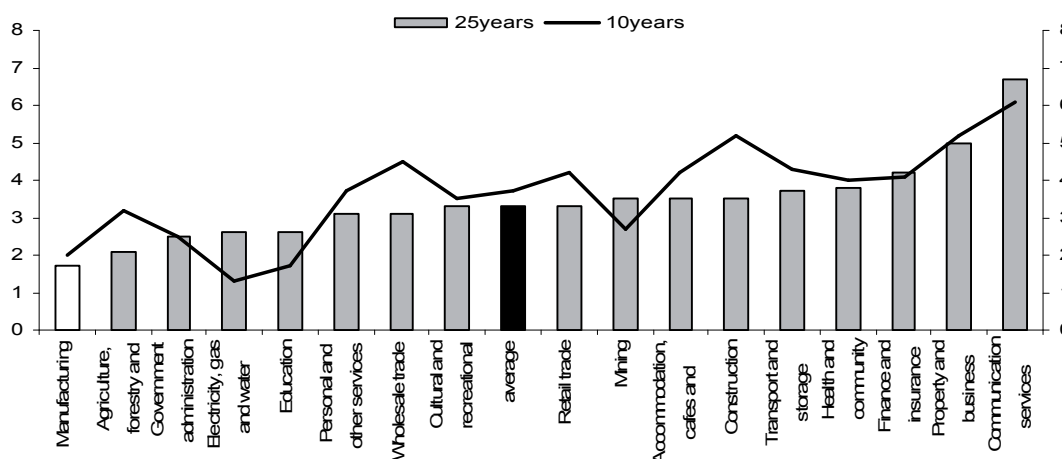
The latest full year statistics show that manufacturing output was \$96.0 billion in 2004-05. Unfortunately, from June 2004 to June 2005 manufacturing output fell by approximately \$1 billion, or just over 1 per cent. However there has been a recent improvement in manufacturing output for the first three quarters of the 2006 financial year of \$300 million relative to the first three quarters of the 2005 financial year.

Nevertheless a long term analysis shows that while manufacturing output has declined relative to GDP, overall output has increased by more than one and half times in real terms. Since 1975 manufacturing has increased from \$60.3 billion to the year to June 1975 to \$96.0 billion in the year to June 2005.

Overall manufacturing output has risen in 24 of the 31 years since 1975. In the seven years that it did fall, three were in the deep recession between June 1989 and June 1992.

Since 1975 manufacturing growth has been 1.5 per cent

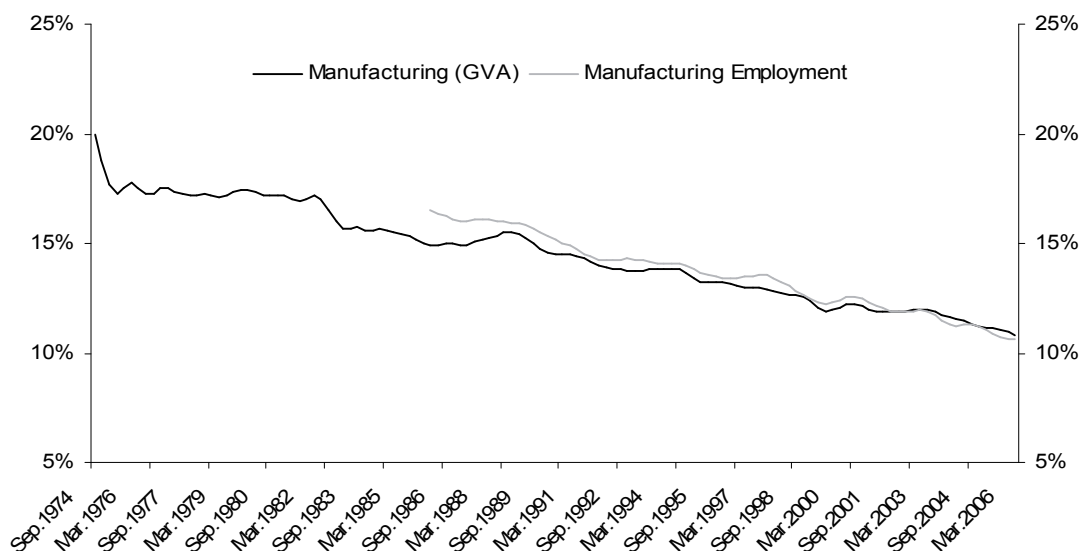
**Figure 1**  
**Average Annual Change in Production Volumes Over Last 10 and 25 Years**



Source: Australian Bureau of Statistics, *Manufacturing Industry 2003-04*, Australia, ABS, Canberra.



**Figure 2**  
**Proportion of GDP and Total Employment**



Sources: Australian System of National Accounts, Cat. No. 5206.0, March 2006, ABS Canberra and Labour Force, Australia, Detailed, Quarterly, Cat. No. 6291.0.55.033, May 2006, ABS Canberra. Note: Manufacturing (GVA) is June, Sept, Dec and March quarters while Labour Force is May, Aug, Nov and Feb quarters

per year. Less than half the average GDP growth rate of 3.2 per cent per year which explains manufacturing relative decline as a share of GDP.

The decline of the manufacturing sector has occurred steadily over the past thirty years leading to changes in the nature of production. The rise of low cost production centres for simply manufactured goods combined with lower tariffs has pushed Australian firms offshore or out of business. Increased international competition from low wage countries and offshore outsourcing has reduced manufacturing growth. ABS figures shows that growth in manufacturing over the past twenty-five years was 1.7 per cent per year, almost half the average sector growth rate of 3.3 per cent per year over the same period (see figure 1)

The decline has seen manufacturing fall from approximately 18.0 per cent of Gross Value Added (GVA) to approximately 11.0 per cent over three decades. Employment as a proportion of the total labour market has declined in lock step with that of production (see figure 2). In absolute terms the manufacturing sector has lost approximately one hundred thousand employees since 1985, a trend reflected in many OECD countries (see figure 3).

Long-term trends indicate that employment in the manufacturing sector is unlikely to return to previous levels. Strong productivity growth in the manufacturing sector combined with slower sales growth reduces overall employment. In Australia growth in demand for domestically

manufactured goods has not kept pace with the growth in productivity, as consumers continue to devote more of their spending to imported goods and services.

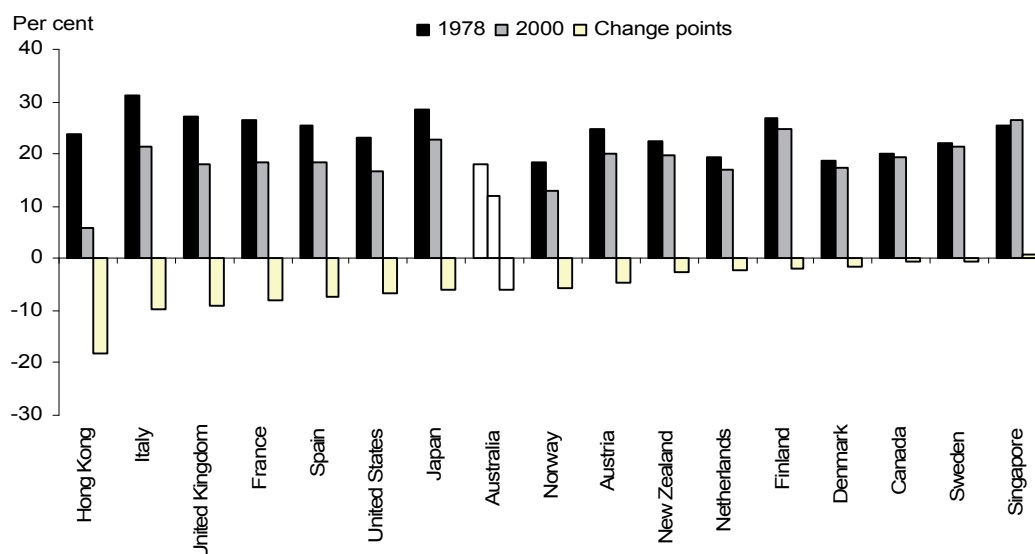
While structural change between industries has resulted in a decline in the relative importance of manufacturing, structural change has also occurred within the manufacturing industry. Two examples of industries increasing their importance include:<sup>2</sup>

Manufacturing activities with strong links to Australia's natural endowments of food, forests and minerals account for a significant and growing share of manufacturing value added. In 1968-69, natural endowment-based manufacturing accounted for 36.5 per cent of manufacturing value added. By 2000-01, it accounted for just under 44 per cent.

A second category of goods — more differentiated products with higher skill and R&D intensities — also have tended to increase in relative significance. These include Medicinal and pharmaceutical goods, Photographic, scientific and medical equipment and, to a lesser extent, Electronic equipment. These three groupings increased in importance from a small base of 3.5 per cent of manufacturing value added in 1968-69 to 6.2 per cent by 2000-01.

<sup>2</sup> Productivity Commission (2003), Trends in Australian Manufacturing, Commission Research Paper, Aus Info, Australia

**Figure 3**  
**Manufacturing Value Added Shares Relative to Total Economy**



Source: Productivity Commission (2003), *Trends in Australian Manufacturing*, Commission Research Paper, Aus Info, Australia.

Data sources: Data for the countries listed in note b above are from the OECD STAN database, Australia's data are from the ABS (Australian System of National Accounts, Cat. No. 5204.0), reconfigured to match the World Bank definition of services, while the remaining data are from the World Bank World Tables (Econdata 2003) The purchasing power parity income data used in the regressions are from the World Bank World Development Indicators database (<http://www.worldbank.org/data/quickreference/quickref.html>).

The manufacturing industry is moving away from low skilled and less complex goods such as Textile, Clothing and Footwear (TCF) towards more complex goods and manufactures with strong links to natural resources. The OECD has also noted that declines in the manufacturing sector have occurred in only a few industries while others have remained relatively stable.

Recent years have seen a steep decline in manufacturing employment in many OECD countries. While overall manufacturing employment has declined, not all sectors have fared equally. Most of the decline in manufacturing employment over the past three decades has occurred in only two activities, textiles products and basic metal products. In several activities, notably food products, paper products, chemicals, motor vehicles and other manufacturing, manufacturing employment in the G7 countries has remained relatively stable. This is partly because OECD countries still maintain a comparative advantage in certain sectors of manufacturing activity, in some of which demand has been quite strong, e.g. pharmaceuticals. In certain other industries, such as food products, manufacturing production is often located close to the market.<sup>3</sup>

During this time Australia's manufacturing sector has experienced a number of shocks to the economy and is currently experiencing reduced competitiveness due to exchange rate movements (see figure 4). While a strong currency and terms of trade (Australia's export price relative to import prices) are providing a difficult trading environment, the real export-weight index<sup>4</sup> is not at historic highs (see figure 5). The benefit of a strong terms of trade to Australia is through higher incomes and employment related to increase activity in the minerals and resources sectors.

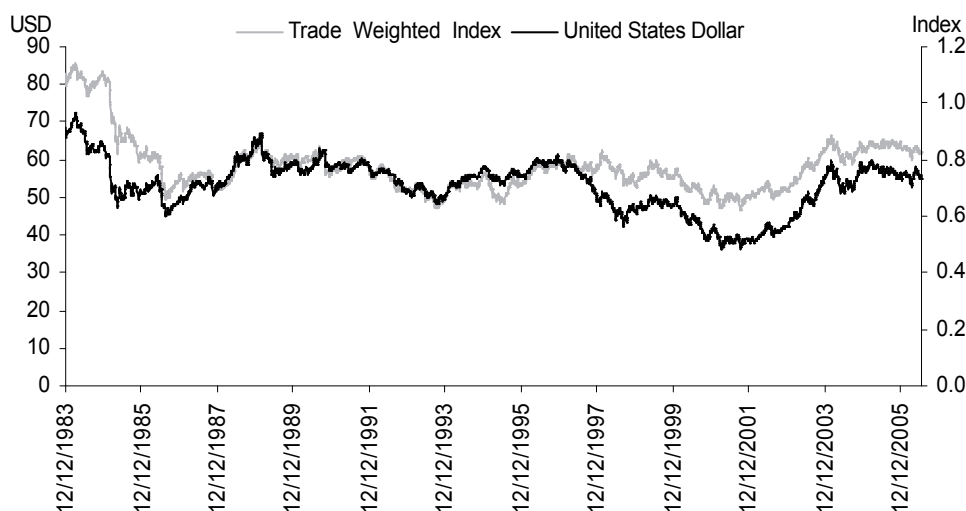
A low exchange rate, while improving the competitiveness of the Australian manufacturing sector, can introduce a number of problems for the economy more broadly. Any policy recommendations to develop manufacturing must be made independent of the present macro-economic environment. The Productivity Commission (PC) has noted that in the short run benefits from a higher terms of trade are positive:

The main conclusion emerging from this study is that, taken over long time periods of several decades, changes in the terms of trade have relatively little impact on Australian welfare. Welfare benefits from improvements

3 OECD, OECD Science, Technology and Industry Scoreboard 2005 – Towards a knowledge based economy, the changing nature of manufacturing, OECD Paris 2005.

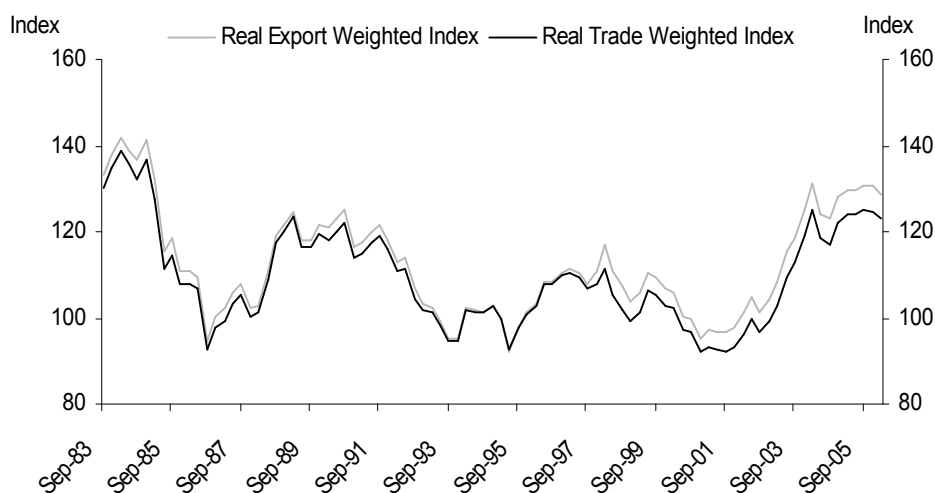
4 Export-weighted index assigns relatively high weights to currencies of East Asian countries, reflecting their importance as export destinations

Figure 4



Source: RBA, *Statistical Bulletin*, F11 Exchange Rates.

Figure 5



Source: RBA, *Statistical Bulletin*, G04 Other Price Indicators.

in the terms of trade in one period tend to be offset by losses from subsequent deteriorations in the terms of trade. Over the last four and a half decades changes in the terms of trade have increased real income by less than 5 per cent in aggregate.

There is evidence, however, that terms of trade changes can have a more important, albeit usually transitory, impact over shorter periods of time. In particular, improvements in the terms of trade over the decade up to 2003-04 led to an increase in real income of 7.5 per cent.<sup>5</sup>

While deregulation of the economy including financial, product and labour markets, has brought major benefits to the national economy, not all sectors have been successful

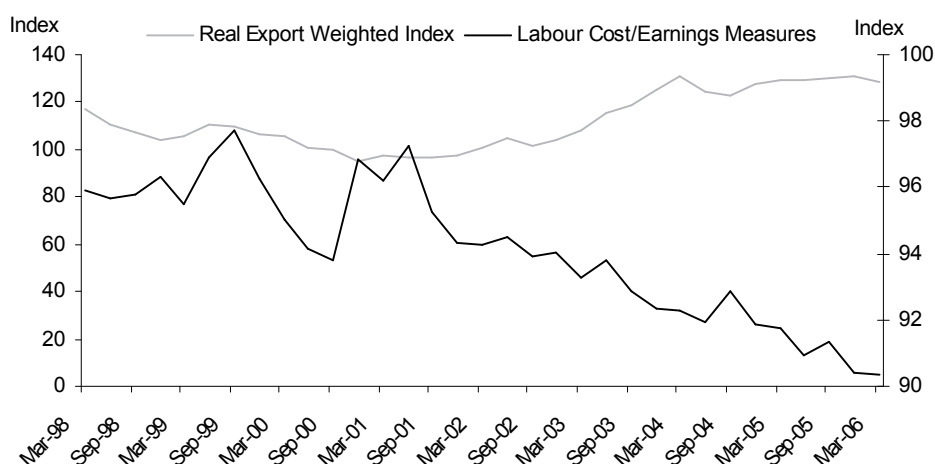
<sup>5</sup> Productivity Commission (2006), *Measuring the contribution of productivity and terms of trade to Australia's economic welfare*, Consultancy Report, Canberra, March

in taking opportunities. Wide ranging reforms have included floating the Australian dollar, deregulation of the banking and financial system, National Competition Policy (NCP), privatisation of government businesses, workplace relations reform, taxation reform and reductions in tariffs and industry assistance.

Australia and the manufacturing sector is experiencing the benefits of deregulation policies such as declining unit labour costs which to some extent counterbalance Australia's increasingly less competitive exchange rate (see figure 6).

While manufacturing output has declined relative to GDP, overall output has almost doubled since 1975 (see figure 7). The manufacturing sector is also the largest employer relative to other individual industry divisions. Australia's long-term exporting trend has seen a shift from rural and

**Figure 6**  
**Real Unit Labour Costs and Real Export Weighted Index**



Source: Department of Treasury, *Unit Labour Costs Overview*, Quarterly and RBA, *Real Exchange Rate Indices*, Updated Quarterly.

minerals and fuels towards manufacturing and services (see figure 8). Manufacturing while declining as a proportion of GDP has trended higher as a proportion exports. Recently all sector have been losing ground to minerals and fuels.

While the Australia's export of manufacturing has risen steadily (although manufacturing exports are experiencing a decline at present), exports have increased in absolute terms, with the proportion of elaborately transformed materials (ETMs) remaining relatively stable over the previous decade (see figure 9).

Australia's exports grew strongly, rising 15 per cent, in the calendar year 2005, according to a report *Exports of Primary and Manufactured Products*, produced by the Department of Foreign Affairs and Trade. Manufactures exports grew 10 per cent, well ahead of services exports (up 4 per cent), compared to the previous calendar year. Within the manufactures category, exports of simply transformed manufactures (mainly base metals) rose by 9 per cent (to just under \$A 11 billion), while those of elaborately transformed manufactures (more sophisticated products, such as electronics and motor vehicles) rose by 10 per cent, to almost \$A 21 billion.

### The Relative Decline of Manufacturing

Import competition from low cost economies such as China and India has largely replaced Australia's labour intensive and low skilled industries as sources of consumer goods. A PC paper<sup>6</sup> on manufacturing identified a number of potential sources for the relative decline of manufacturing

<sup>6</sup> See Productivity Commission (2003), Trends in Australian Manufacturing, Commission Research Paper, Aus Info.

including changes in preferences, changes in measurements of manufacturing, shifting trade patterns and relative price changes.

### Consumer Demand

Growth in disposable income can lead to higher consumption of services, such as health and financial advice, relative to manufactured goods. This decline in share of consumer spending directed towards manufactured goods has occurred in much of the industrialised world. As noted by the PC:

The broad pattern indicated by the household expenditure data suggests that shifting consumer preferences are likely to be the most important determinant of the relative decline of manufacturing output and the growing ascendancy of services.<sup>7</sup> This is not an adverse phenomenon — meeting people's preferences makes Australia better off. This underlines why the diminishing share of manufacturing in the economy is largely a positive for Australia, rather than a problem (see figure 10).<sup>8</sup>

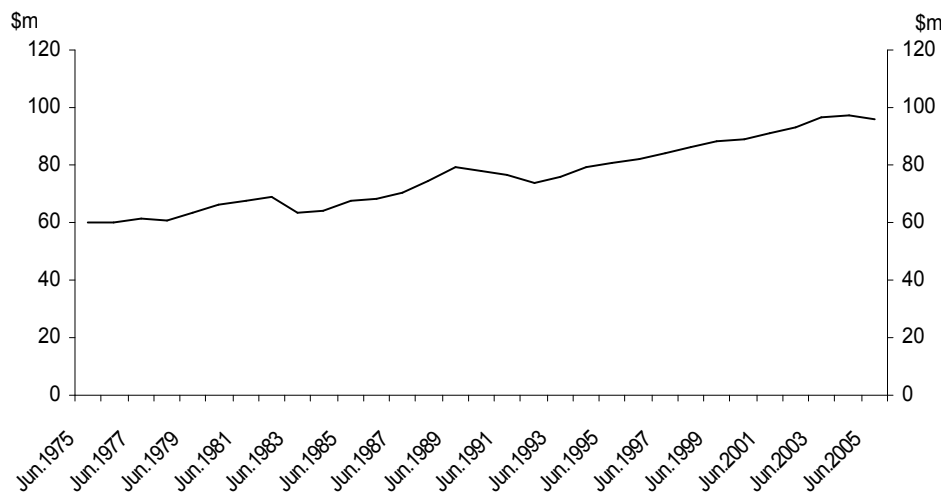
### Statistical Error

The increasing importance of the services sector can be

<sup>7</sup> Unfortunately, it is not possible to directly relate changes in the shares of household expenditure accounted for by manufactured goods to changes in the share of manufacturing in real GDP. This is because household consumption includes imported goods (while production includes exports). It also reflects the fact that household expenditures are final goods, whereas, at the production level, sectors often provide inputs to other sectors.

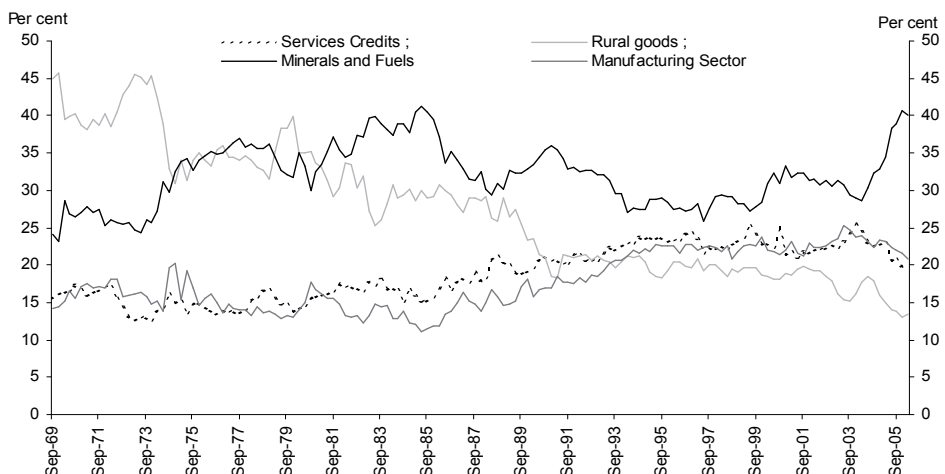
<sup>8</sup> See Productivity Commission (2003), Trends in Australian Manufacturing, Commission Research Paper, Aus Info.

**Figure 7**  
**Manufacturing Gross Value Added**



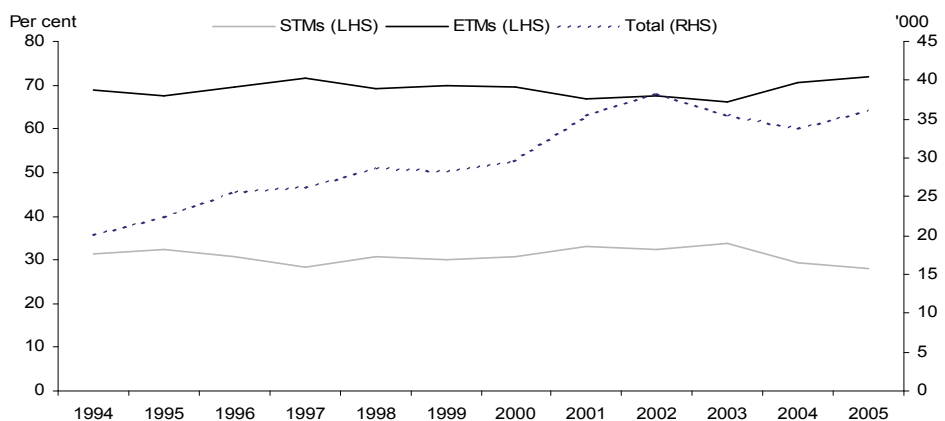
Source: Australian System of National Accounts, Cat. No. 5206.0, March 2006, ABS, Canberra..

**Figure 8**  
**Proportion of Exports by Sector**



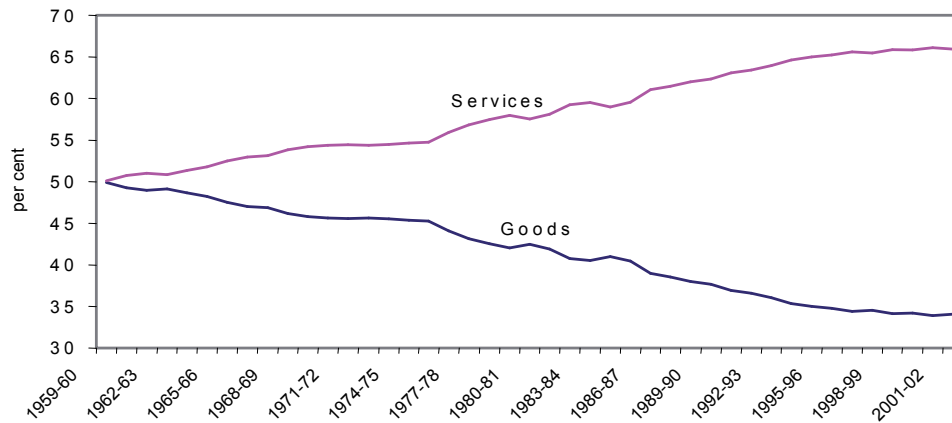
Source: Australian Bureau of Statistics, *Balance of Payments and International Investment Position*, Cat. No. 5302.0, March Quarter 2006.

**Figure 9**  
**Australia's Merchandise Trade by ETM and STM**



Source: Department of Foreign Affairs and Trade, *Exports of Primary and Manufactured Products*, Various Issues, DFAT, Canberra.

**Figure 10**  
**Share of Consumer Expenditure Accounted for by Goods and Services<sup>a</sup>**



Source: *ibid.*

a: The definition of goods are food, alcohol and tobacco, clothing and footwear, furnishings and household equipment, purchase of vehicles, goods for recreation and culture, books, papers, stationary and artists' goods and personal effects. Constant price data for the last three categories are not available prior to 1985 86. The price index for these goods was imputed on the basis of movements in the aggregate price index for prior years, and a constant price series derived for the remaining years. Services are defined as residual consumption expenditure.

Data Source: ABS, *Australian System of National Accounts*, 2001 02, Cat. No. 5204.0.

partly explained by the increasing use of outsourcing by the manufacturing sector. This shift in the measurement of manufacturing overstates the decline experienced by particular economies as manufacturers increasingly rely on, and exploit, telecommunications, business and computer services, industries that have grown strongly over the past decade.

By the mid-1990s the amount of services embodied in one unit of final demand for manufactured goods was significantly higher than in the early 1970s for all ten countries covered (see figure 11).<sup>9</sup>

With the increasing use of services embodied in the manufacturing process, previously measured under manufacturing, is now captured in services accounts. Some decline in the manufacturing industry is therefore illusory, shifts in firms boundaries rather than output.<sup>10</sup>

### International Competition

The decline of manufacturing as a proportion of GDP can also be explained by greater international competition by low wage cost countries. Declines in labour intensive industry within the manufacturing sector, such as textile, clothing and footwear are primarily victims of developing countries cost advantage. As noted by the PC:

9 OECD, *OECD Science, Technology and Industry Scoreboard 2003 – Towards a knowledge based economy, Productivity and Economic Structures*, OECD Paris 2003.

10 *Ibid* p 35

One of the pressures on manufacturing in developed countries (the 'North') has been the expansion of trade in manufactures, especially labour intensive manufactures exported by low wage developing economies (the 'South') (Wood 1994). This reduces output of such manufactures in developed economies.<sup>11</sup>

Australia's manufacturing must move up the value added chain and produce niche products. Australian manufacturers are moving away from the goods in which China and India are competitive.

### Offshoring

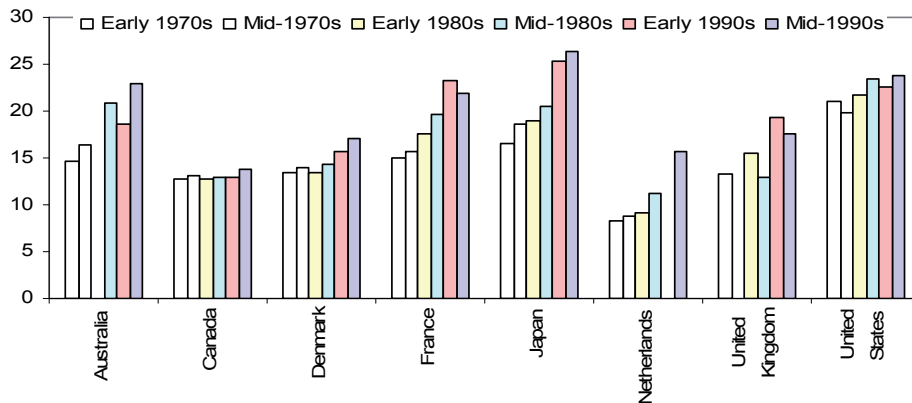
Increasing international trade has seen business moving offshore in order to remain internationally competitive. For business, the motivation for offshoring is reasonably straightforward - a drive to sustain and improve competitiveness and shareholder value through better management of costs and of quality.

Companies engaged in offshoring are able to achieve better management of costs by seeking out lower cost locations, consolidating operations and lowering the costs of infrastructure, training and management.

Research commissioned by the United Nations Conference on Trade and Development (UNCTAD) has found

11 *Ibid* p 36

**Figure 11**  
**Services Sector Value-Added Embodied in Manufactured Goods**  
**Percentage of Total Value of Manufactured Goods in Final Demand**



Source: *ibid.*

the overwhelming majority of European multinational companies have been able to realise cost savings from offshoring of between 20 and 40 per cent.

The effects of offshore outsourcing on productivity, while prevalent in the media, for some firms does provide benefits. Therefore, it should not be automatically assumed that offshoring is necessarily bad as the OECD notes:

Due to the small number of existing studies, the survey also includes research that may serve as indirect evidence of the phenomenon's link to productivity, such as its effect on skill upgrading. The most apparent conclusion drawn from the review is that there appears to be no clear patterns as to how offshore outsourcing affects productivity, and that much depends on both sector and firm-specific characteristics. There are some indications, however, that positive productivity effects from foreign material sourcing depends on the degree to which firms are already globally engaged, but also that such engagements generally could be close to their optimum level in developed economies.<sup>12</sup>

Australian businesses and consumers stand to gain considerable benefits from the offshoring of the supply of some services. For business, offshoring can mean better cost management and improved competitiveness, while for consumers it can mean lower prices. Fear campaigns that equate offshoring to lost jobs are misguided and are often motivated by protectionist agendas that seek to lock Australia into the past and impede our capacity to capture the gains from freer world trade.

Offshoring provides benefits to both home and host countries. Home countries benefit through improvements in competitiveness, greater adaptability and productivity and superior trade performance. For many companies, offshoring is undertaken to enhance the competitiveness of the enterprise through better cost management and/or improvements in quality and delivery.

Furthermore, Consumers in the home country also stand to benefit from offshoring, most prominently through lower prices.

Research by the respected Institute for International Economics has found that the global outsourcing of components has reduced the cost of information technology hardware by almost 30 per cent over the last decade - cost savings which have been passed on to consumers.

A common theme of critics of offshoring is that such activities cost jobs in the home country – they are being exported to developing nations. In reality, jobs created in host countries do not equal jobs lost in home countries.

Many of the jobs created offshore would not necessarily have been realised in the home country, reflecting the relative cost differentials; such jobs are often regarded as low prestige or undesirable jobs in developed countries, yet highly attractive and much sought after in developing countries.

Rather, many of the jobs offshored to developing countries are only really viable and sustainable in those lower labour cost environments and most likely would not exist in developed countries with higher labour costs and more regulated labour markets (which impose unnecessary labour on-costs upon employers).

<sup>12</sup> OECD (2006), Productivity Impacts of Offshoring and Outsourcing: A Review, Directorate for Science, Technology and Industry (STI), STI Working Paper 2006/01.

## Importance of Continuing Reforms

Manufacturing still accounts for a substantial component of the Australian economy, therefore any improvement in government policies will have substantial flow on effects for welfare. Over the past ten years Australia has compared more favourably with other nations in terms of GDP per head and GDP per hour worked (see figure 12). Widespread reforms in the 1980s and 1990s have propelled employment and living standards to heights not seen for many decades.

Irrespective of the effect on certain sectors of the economy, economic reform has provided widespread and significant benefits. A Productivity Commission (PC) study entitled *Review of National Competition Policy Reforms* identified benefits, just from NCP, of approximately \$20 billion or \$1000 per person. The report also notes this figure does not include dynamic efficiency gains. This provides strong and valid evidence for continuing down the reform path where the economy is efficient, flexible and dynamic.

Providing the manufacturing sector with efficient industrial relations, taxation, skills and regulation environments should be seen as a priority for improving Australia's international competitiveness. This allows producers to most efficiently deal with an adverse operating environment of any nature.

While the present operating environment experienced by manufacturers may encourage some to argue for specific policy responses, it is the overall economic framework that will create efficient markets and provide the necessary incentives to invest and innovate.

If specific policies to develop manufacturing are warranted, however they do not provide solutions to macro level shocks to the economy, such as terms of trade and exchange rate

fluctuations.

## 'DUTCH DISEASE'

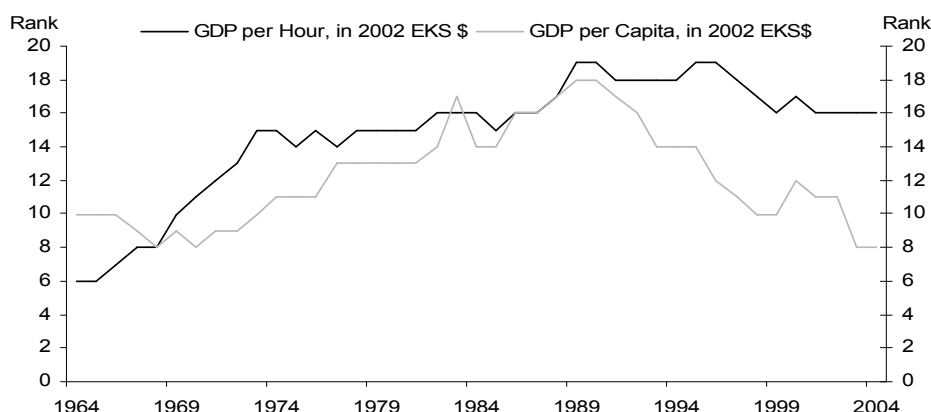
The term 'Dutch Disease' was coined in the late 1970s after economists identified a link between the discovery of large deposits of natural gas in the Netherlands and the decline of the manufacturing sector. Applied to the current Australian context, large inflows of foreign capital cause the real exchange to appreciate reducing the competitiveness of Australia's exports and increasing imports.

The Australian resources sector today is experiencing a boom in demand for its products, particularly from China, India and Japan. Market economies then channel resources such as labour away from the manufacturing, services and agricultural exporting sectors towards the mining sector (the resource movement effect). Given the capital-intensive nature of Australia's mining industry, labour movements away from other sectors of economy are less acute.

Furthermore, additional income (real net national disposable income) grew by 4.4 per cent over the year to March compared with growth of 2.8 per cent in GDP) increases expenditure on domestic non-trade goods (spending effect) increasing the demand for labour in the non-traded sector again pulling resources from manufacturing. Both these effects lead to the reallocation of resources from the high-tech services and manufacturing industry to the mining industry or the deindustrialisation of the non-performing tradeable sector.

However, the competitiveness of the manufacturing sector may be helped by a higher exchange rate due to many of the inputs used to produce manufactured goods being imported. As the exchange rate appreciates, those

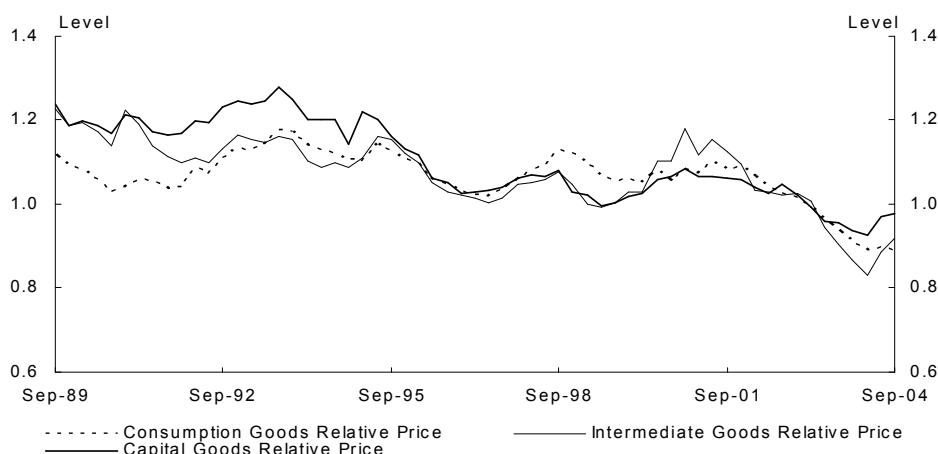
**Figure 12**  
**GDP per Hour and GDP per Capita**



Source: Groningen Growth and Development Centre and The Conference Board, *Total Economy Database*, August 2005.



**Figure 13**  
**Relative Price of Imported Goods**



Source: Deborah Dark, John Hawkins (2005), *Why Australia's Imports of Goods Increased so Much?*, Economic Roundup Summer 2004/05, Treasury, Canberra.

Definitions: The relative prices are derived by dividing the import price by the domestic price for each category.

production costs fall (see figure 13). Of particular benefit is declining information, communication and technology (ICT) prices which add to productivity. ICT imports can boost Australia's manufacturing sector by increasing its competitiveness.

Any policy response will depend on whether the increase in wealth is transitory or permanent. However, determining the length of the current terms of trade shock is difficult, implying policy makers run the risk of misjudging the nature of the current cycle.

If the resulting increase in wealth is transitory some have called for policies that keep the value of the domestic currency lower than it otherwise would have been, by intervening in the foreign exchange market. If the increase in wealth is considered permanent then industries will need to become more productive either through increases in training or reducing regulation and taxation.

ACCI supports the setting of the exchange rate by the market and not through Government or RBA intervention. The benefits to the Australian economy caused by the change from a fixed to a floating exchange rate in 1983 are clear and any return to a fixed or managed float would be harmful to the Australian economy.

Even in the absence of an exchange rate appreciation, the manufacturing sector would have difficulty in maintaining its current hold on the resources of the economy as noted by Ken Henry:<sup>13</sup>

<sup>13</sup> Ken Henry (2006), *The Fiscal and Economic Outlook*, Address to the Australian Business Economist, Sydney, 16 May

Many Australian manufacturers would be thinking that the reason they are feeling the squeeze from our higher terms of trade is that the exchange rate has appreciated. But even if the exchange rate were not to appreciate, they would eventually feel the squeeze because they would find it increasingly difficult over time to compete with the construction and resources sectors for the economy's factors of production.

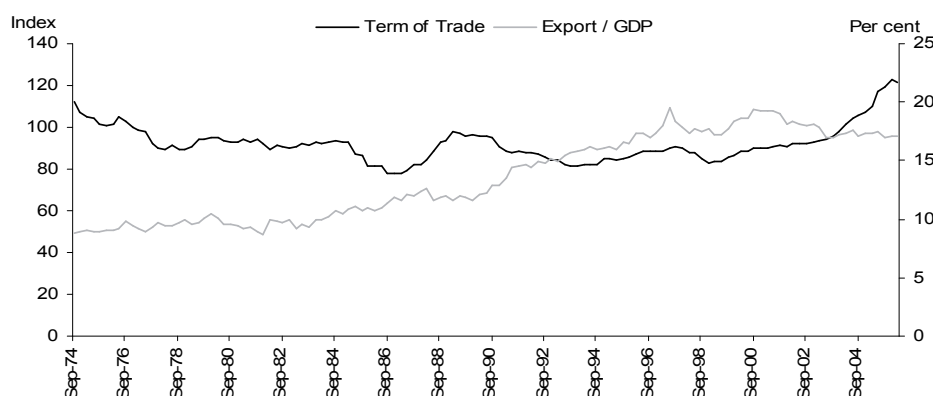
While exports as a proportion of GDP have fallen in recent years it is difficult to attribute all of the reduction to the mining sector crowding out non-mining exports (see figure 14). Much of the decline in exports can be explained by the drought and subsequent fall in rural exports.

As stated previously it is difficult to forecast the period over which the terms of trade will continue to exert a positive effect on Australia's income and a drain on the competitiveness of our export industries. In fact, the non-resources sector of the Dutch economy recovered reasonably quickly, after suffering from the early to mid sixties from the discovery of oil and gas.

It is argued that volatile markets increase uncertainty tending to hurt exporters and foreign investment. 'Dutch Disease' is said to increase the volatility of exchange rates. While Australia experienced some volatility after the dollar floated Australia now has a mature foreign exchange market. In fact, the dollar is less volatile than many other currencies and assets. Volatility does not appear to be a problem in Australia's case.

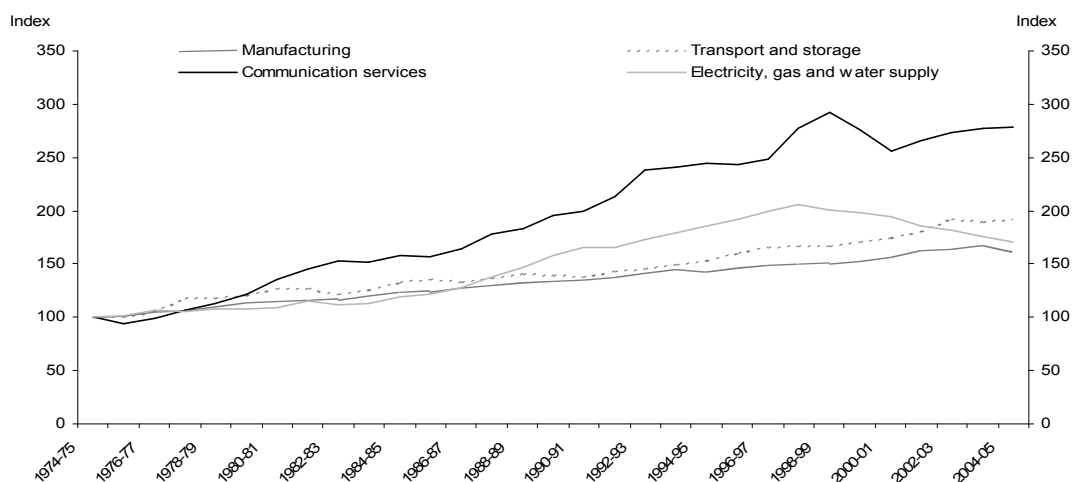
Dutch disease is also said to cause lower productivity growth

**Figure 14**  
**Terms of Trade and Exports as a Proportion of GDP**



Source: RBA, *Statistical Bulletin*, G10 Gross Domestic Product and RBA, *Statistical Bulletin*, H03 Exports and Imports of Goods and Services.

**Figure 15**  
**Multifactor Productivity**



Source: Productivity Commission 2006, *Productivity Estimates to 2004-05*, March..

because the non-traded services sectors productivity is constrained by the nature of work (i.e. deindustrialisation leads to lower overall productivity growth). In Australia's case many service sectors have experienced higher productivity growth since the mid 70's than the manufacturing sector (see figure 15).

The PC has noted:

The shift to services may not therefore have adverse implications for overall productivity performance. Greenhalgh and Gregory (1998) have reached similar conclusions about the UK — indicating that assumptions based on assuming uniformly poor productivity performance in services are not borne out by the evidence.

While the Australian manufacturing sector is facing a difficult trading environment it does not mean that

deindustrialisation (identified as symptom of 'Dutch disease') is having a negative effect on Australia's welfare or that Australia is losing ground in areas where it has a comparative advantage in manufacturing. In fact, while manufacturing as a proportion of GDP and the labour force has been declining in relative terms, output has been increasing. Australia has also sustained 15 years of economic growth and remains one of the worlds best performing economies.

Many developed countries while experiencing a decline in the relative importance of the manufacturing sector have continued to experience strong rates of growth as investment in R&D. It is not immediately obvious that strong economic growth requires that manufacturing plays such an important role in the economy as it did previously. Economic structures of countries change over time and this should not be seen as creating a problem that needs to be solved. As noted by the Productivity Commission:

Australia is also typical of other high income countries in that most economic growth is accounted for by growth in the services sector, rather than manufacturing.<sup>14</sup> Generally, the richer the country, the more that the service sector dominates economic growth (figure 3.8) — confirming the pattern found by Quah (1997) using earlier data.

For manufacturing, however, there appears to be no relationship between income per capita and the manufacturing contribution to growth. There are several rich countries (Sweden, Finland, Singapore) where manufacturing has remained a more significant source of economic growth. On the other hand, Australia is one of several high income countries (UK, France, Norway, Netherlands and the US) that have experienced small contributions by manufacturing to economic growth over the last few decades. This pattern dispels the notion that a large manufacturing sector is required for economic prosperity.<sup>15</sup>

Australia does not necessarily require a large manufacturing sector relative to GDP in order to produce high incomes per capita (see figure 3) but it does require an efficient and competitive manufacturing sector that is supported by appropriate government policies.

## GOVERNMENT SUPPORT

### Manufacturing Assistance

Historically manufacturers produced goods for the domestic market. They operated behind a wall of tariffs Australian companies and workers were protected from international competition. At the same time developed countries were reducing their tariffs in line with policies highlighting the benefits of liberalising trade.

### Tariff Assistance

The manufacturing sector receives budgetary and taxation assistance totalling \$4.6 billion. Maintaining tariffs is estimated to cost the Australian economy \$7.5 billion, and the manufacturing sector accounts for \$7.3 billion of that assistance.<sup>16</sup> Manufacturing receives three-quarters of all its assistance from this source. Tariffs on manufactured

items can impose significant costs on other sectors of the economy.

As effective tariff protection fell in Australia, starting with a 25 per cent general tariff reduction in 1973, the manufacturing sector declined in terms of its share of GDP. Today approximately half of all dutiable items are duty free with the remainder having a 5 per cent general tariff applied (although higher tariffs remain for Textile, Clothing and Footwear (TCF) and Passenger Motor Vehicles (PMV)).<sup>17</sup> Reductions in Australian tariff rates have not been in isolation, with international average tariff rates for industrial goods in developed countries falling from 40.0 per cent in the 1940's to approximately 4 per cent around 2001 (see figure 16).

Reductions in tariffs and trade barriers have been supported by the Asia Pacific Economic Cooperation (APEC) long term goal of implementing free trade between developed countries by 2010. While Australia has largely phased out tariff barriers many countries provide assistance to their domestic industries through non-tariff barriers. Australia has a number of non-tariff barriers such as foreign investment review board and quarantine.

Non-tariff barriers restrict the importation of goods and services. Examples of such barriers can include anti-dumping measures where they are mis-used to defeat trade liberalisation initiatives, such as those under the auspices of the World Trade Organisation

### Budgetary Assistance

Australia provides assistance to manufactures through direct and indirect measures including budget support and taxation arrangements. Industry assistance comprises selective investment incentives, assistance for export marketing and industry specific programs.

Manufacturing accounts for the largest share, 42 per cent, of initial benefits derived from budgetary assistance (see Figure 17). The total dollar amount of assistance in 2004/05 provided to the manufacturing sector, including budgetary outlays and tax concessions, was \$1.8 billion out of approximately \$96 billion, or 1.9 per cent, of Gross Value Added (GVA). Overall budget outlays accounted for 43.0 per cent of assistance while the remaining 57.0 per cent of assistance was directed toward tax concessions.

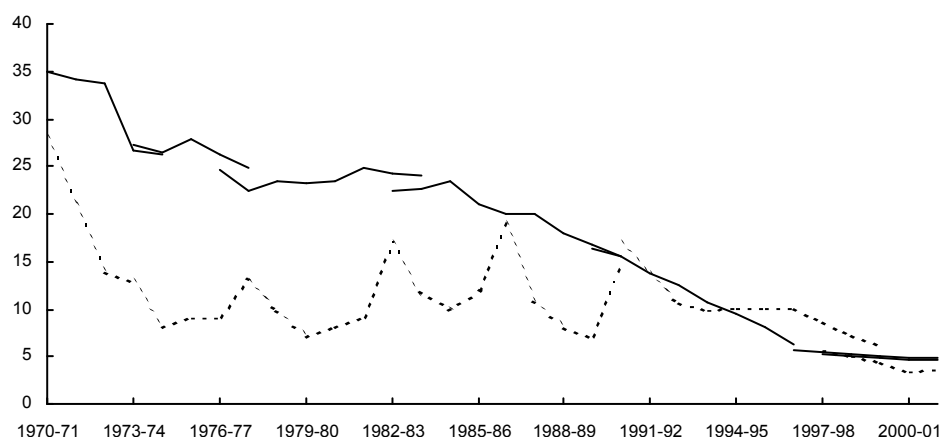
14 With an average contribution of 70 per cent among rich countries in the sample described in figure 3.

15 Productivity Commission (2003), Trends in Australian Manufacturing, Commission Research Paper, Aus Info, Australia

16 Source: Productivity Commission (2004), Trade and Assistance Review 2003-04, Annual Report Series 2003-04, Productivity Commission, Canberra, April.

17 Productivity Commission 2006, Trade and Assistance Review 2004-05, Annual Report Series 2004-05, Productivity Commission, Canberra, April, p3.1.

**Figure 16**  
**Average Effective Rates<sup>a</sup> of Protection to Manufacturing and Assistance to Agriculture<sup>b</sup>**  
**1970-71 to 2002-02**

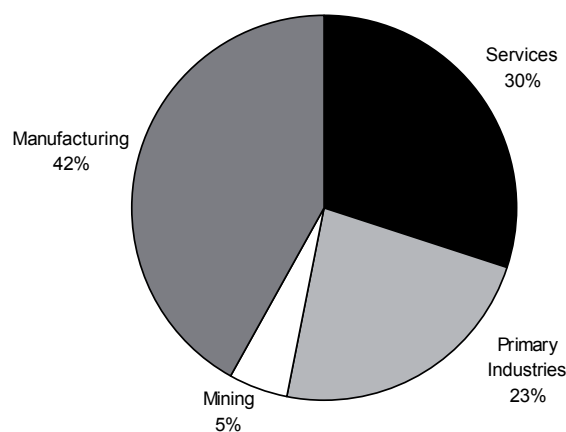


Source: Productivity Commission 2006, *Trade and Assistance Review 2001-02, Annual Report Series 2001-02*, Productivity Commission, Canberra, April, p3.1.

a: The effective rate of protection/assistance is the dollar value of measured protection/assistance divided by unassisted value added. Breaks in the series reflect the effects of periodic re-benchmarking to new reference data on industry inputs and outputs.

b: The effective rate of protection to manufacturing is not directly comparable with the effective rate of assistance to agriculture, due to differences in coverage, data and methodologies between the two sets of series. Among other things, the manufacturing series measures predominantly tariff and quota assistance (although selected budgetary assistance has been included in some series). The agricultural series measures tariff assistance, most budgetary assistance afforded agriculture and, the main component, assistance provided by domestic regulatory and pricing arrangements.

**Figure 17**  
**Budget Assistance by Industry**



Source: Ibid p2.5.

Note: Sectors and industry groupings are not equivalent in size and there can be significant variations in assistance between firms within a sector or industry.

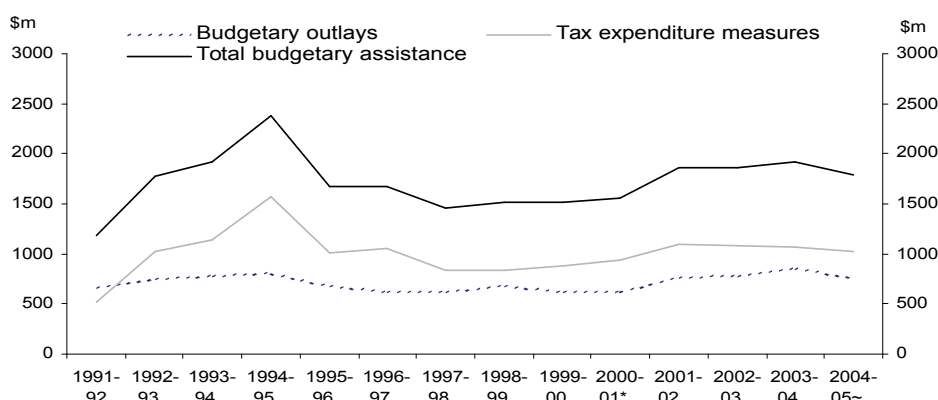
The level assistance to manufacturing has been steady, in real terms, over 15 years for both budget and tax concessions (see Figure 18).

Manufacturing assistance as a proportion of GVA and dollars per employee has also remained stable over the past decade (see Figure 19). While tariffs have continued to fall other forms of assistance to the manufacturing sector have remained in place.

While assistance to the manufacturing sector has remained stable, it still receives relatively more assistance than other industries (see figure 20).

Over the three decades government policies have been implemented which reduce protection from international competition. Tariff reductions in the manufacturing sector have occurred in concert or behind that of other developed nations.

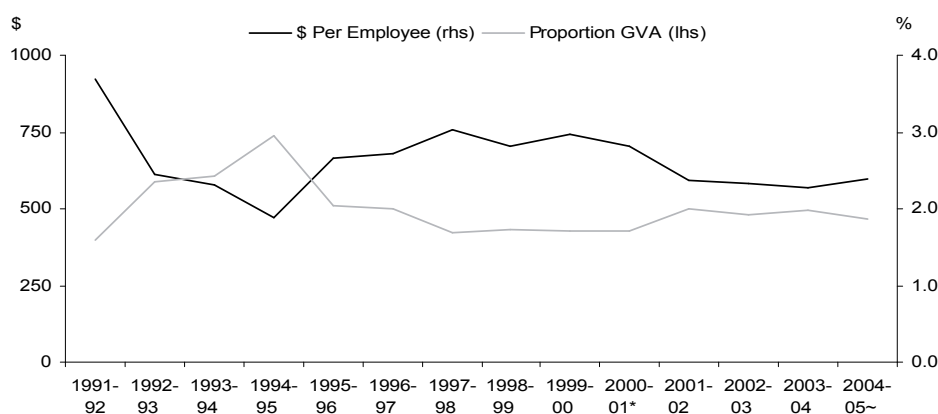
**Figure 18**  
**Total Budgetary Assistance to Manufacturing**



Source: *Australian Manufacturing A Brief history of Industry Policy and Trade Liberalisation* and Productivity Commission, *Trade & Assistance Review*, various publications.

Note: (\*) 2000-01 data are Budget estimates and (~) 2004-05 estimated actuals.

**Figure 19**  
**Assistance to Manufacturing Sector as a Proportion of Manufacturing GVA and per Employee**



Source: Australian System of National Accounts, Cat. No. 5204.0, ABS, Canberra and Labour Force, Australia, Detailed, Quarterly, Cat. No. 6291.0.55.033, ABS, Canberra, May 2006.

## Taxation Assistance

Taxation concessions account for 41.0 per cent of total budgetary assistance or \$1.9 billion. Major taxation concessions include the Automotive Competitive Investment Scheme (ACIS) and the R&D tax concession (see figure 21).

Many OECD use special taxation concession both direct and indirect such as immediate write offs and tax credits and allowances. Internationally Australia provides relatively favourable taxation treatment to both large firms and small and medium firms (SMEs) (see figure 22).

## R&D Support

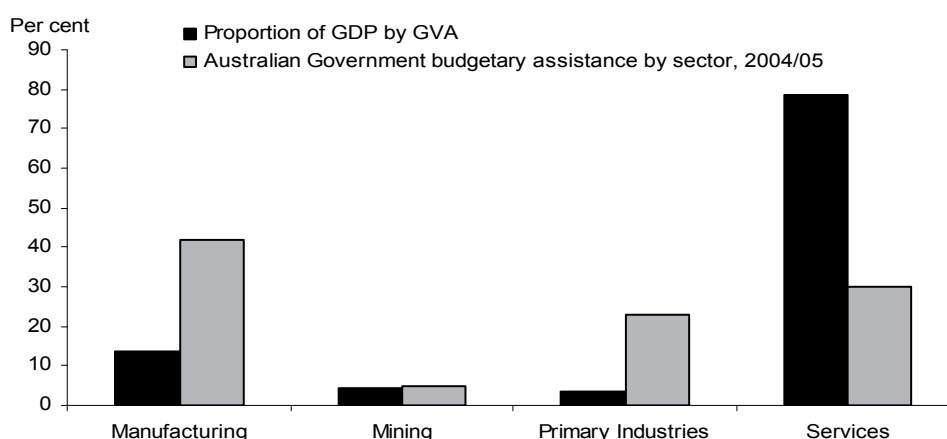
The importance of innovation as a key driver of economic growth and the role of government in creating an

environment in which innovation is fostered are increasingly being recognised by economic theories. The Productivity Commission<sup>18</sup> staff report entitled *Economic Modelling of R&D and Australia's Productivity* noted that while R&D does not 'drive' growth any more than other factors, the contribution of domestic R&D and the contribution of overseas R&D to Australian productivity is probably large (if hard to measure).

The Australian Government supports R&D through a number of different taxation and funding arrangements. Government support for the manufacturing sector ranges from the Automotive Competitiveness and Investment Scheme (ACIS) aimed at the automotive sector encouraging high-end R&D investment and Certain Inputs

<sup>18</sup> Shanks, S. Zheng, S. 2006, *Economic Modelling of R&D and Australia's Productivity*, Productivity Commission Staff Working Paper, Canberra, April

Figure 20



Source: Australian National Accounts, *National Income, Expenditure and Product*, Cat. No. 5206, March 2006, ABS, Canberra and Productivity Commission, *Trade & Assistance Review*, 2005.

to Manufacture Scheme (CIMS) providing import duty concessions to certain raw materials, intermediate goods and prescribed metal materials and goods.

The manufacturing sector also has access to more broadly targeted programs such as the 125 per cent R&D tax concession and the 175 per cent Incremental (Premium) Tax Concession and the R&D Tax Offset. Other broad based programs include the Export Market Development Grant (EMDG) the program reimburses up to 50 per cent of eligible export promotion expenses and Commercial Ready which is a merit-based program directed towards innovation and its commercialisation target towards small and medium sized enterprises.

### R&D Tax Concession

Since its introduction in 1985, the Research and Development (R&D) Tax Concession has been the principal government incentive to enhance and increase the level of business R&D undertaken within Australia. Business has supported the R&D tax concession as an effective policy instrument addressing a market failure.

The R&D Tax Concession is a broad-based, market driven tax concession which allows companies to deduct up to 125% of qualifying expenditure incurred on R&D activities when lodging their corporate tax return. A 175% Premium (Incremental) Tax Concession and R&D Tax Offset are also available in certain circumstances. This program forms part of the \$3 billion Innovation Statement, *Backing Australia's Ability*, that underscores the Government's commitment to innovation.

The objective of the R&D tax concession is to make Australian businesses more internationally competitive

through improving innovative skills in Australian industry by:

- Increasing investment in R&D;
- Encouraging better use of Australia's existing research infrastructure;
- Improving conditions for the commercialisation of new processes and product technologies developed by Australian companies; and
- Developing a greater capacity for adaptation of foreign technology.

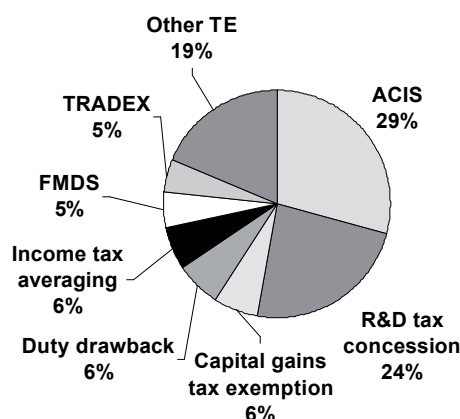
The concession does not target any particular industry or technology but has a number of specific eligibility requirements. It is market-driven with each company controlling the direction and thrust of their R&D.

With respect to the inducement effect of programs for business expenditure on R&D, the Bureau of Industry Economics (BIE) found that the 150% R&D tax concession induced up to 17 per cent additional R&D expenditure. A further study by the PC noted that while the magnitude of the effect was uncertain there was a significant positive association between R&D subsidies and R&D expenditure growth.<sup>19</sup> Business believes that this extra expenditure contributes to economic growth and is warranted foregone revenue by governments to achieve benefits for the wider economy (see figure 23).

Work done by various working groups in the lead up

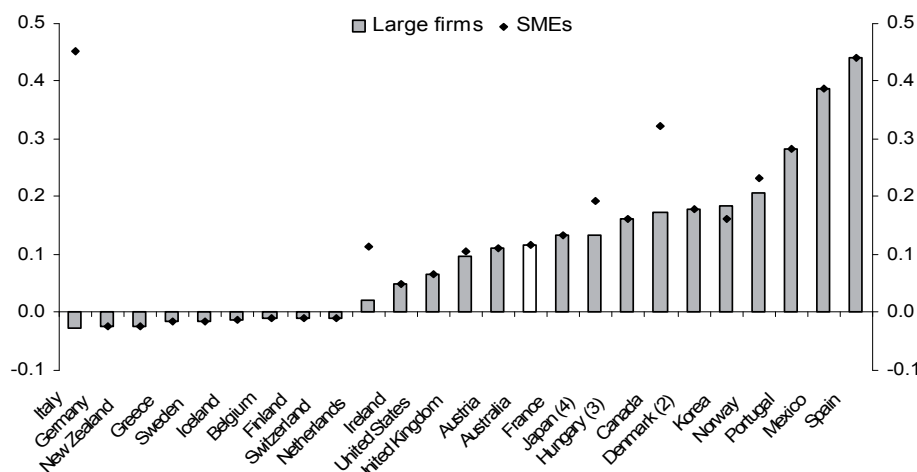
<sup>19</sup> Revesz, J. and Lattimore, R. 2001, Statistical Analysis of the Use and Impact of Government Business Programs, Productivity Commission Staff Research Paper, AusInfo, Canberra, November.

**Figure 21**  
**Major Australian Government Tax Concessions 2004-05**



Source: Productivity Commission 2006, *Trade and Assistance Review 2004-05*, Annual Report Series 2004-05, Productivity Commission, Canberra, April, p2.3.

**Figure 22**  
**Rate of Tax Subsidies for R&D - by OECE Country 2004**



Source: OECD, STI/STP Division, April 2005.

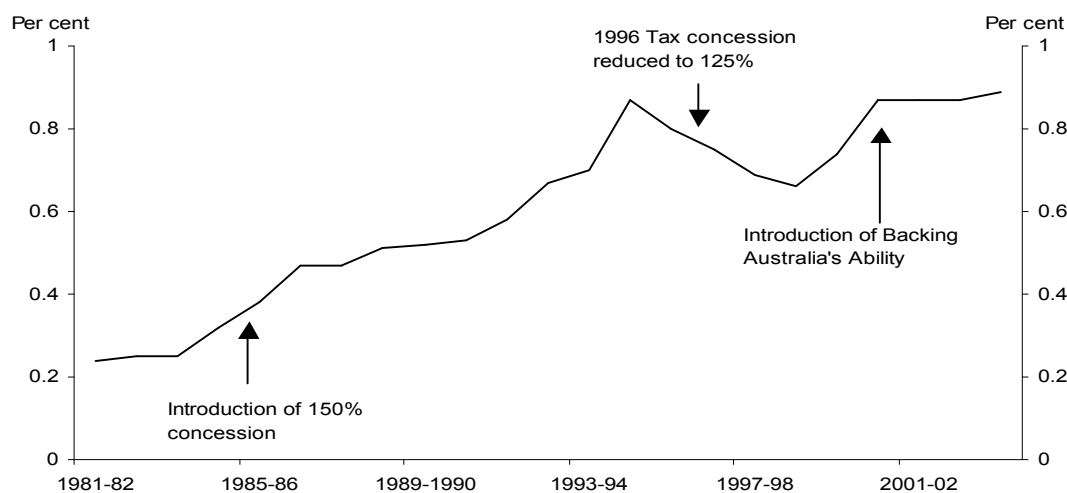
to the Innovation Summit and reports from the Prime Minister's Science Engineering and Innovation Council and the Department of Industry, Tourism and Resources highlight that there are a variety of R&D tax measures in place around the world. They fall into the following broad categories:

- Lower level of benefit with broad access and eligibility (Australia);
- Higher level of benefit with restricted access and eligibility (the UK program is targeted at SMEs with an expenditure on R&D over about AUD\$65,000 with a maximum annual turnover of about AUD\$64.5m);
- Benefits paid only on additional or incremental R&D (USA, Japan, France and Taiwan)

Two-tier program that provides differential benefits depending on features of the firm - a 20% tax credit is provided for all qualified expenditures (net of government grants, contract payments and equivalent non-government assistance); and an enhanced tax credit of 35% is provided for Canadian controlled private companies in respect of the first C\$2million of qualified expenditure per annum. (Canada). Within all of these broad categories, there are a number of countries that provide tax credits or cash payments.

Business supports the restoration of the concession to 150 per cent. In 1996 ACCI opposed the reduction in the then R&D tax concession of 150% to 125%, and has since called for the restoration of the 150% concession. However, this would be at a cost to the budget. We believe at the very least that the value of the concession should be maintained (in recognition of the changes to corporate tax

**Figure 23**  
**Business Expenditure at Current Prices as a Proportion of GDP**



Source: Australian Government, *Australian Science and Technology At A glance 2005*, Department of Education, Science and Training, December 2005.

rates under the new taxation system); and that R&D that would otherwise not have occurred but for the concession should be encouraged.

The key issues to address are:

- providing certainty in the policy and legislative environment which impacts on businesses ability to plan and invest in large R&D projects;
- trying to minimise the subsidy that is provided to R&D that would have occurred without the concession;
- providing incentives to invest in R&D that are broad in application and accessibility.

These issues should be considered in the context of:

- cost to revenue;
- compliance costs for firms;
- an appropriate definition of eligible expenditure; and
- minimising the risk of abuse of the concession.

The OECD studies and overseas experience suggests that there is economic justification for higher rates of R&D tax concessions.

## Backing Australia's Mark Ability II

The national innovation strategy, *Backing Australia's Ability Mark I* (BAA Mark I), announced in January 2001 following two years of public debate amongst industry, researchers and government. Since the announcement of *Backing Australia's Ability* in January 2001 business expenditure on R&D has increased by 8% in real terms. One of the benefits of BAA Mark I was that it showed the Government's commitment to supporting industry R&D.

ACCI considers that the BAA Mark I strategy to have been successful. In the Backing Australia Ability Mark II (BAA Mark II) ACCI considered there was scope for improvement to the operation of programs with perhaps a greater focus toward commercialisation of public research. Under BAA Mark II the Government provided long term funding as well as increased commitments to important programmes such as CRC, COMET, BITS, R&D Start and a number of industry-based Centres of Excellence.

## Export Market Development Grant (EMDG)

The Export Market Development Grants (EMDG) scheme is the Australian Government's principal financial assistance program for aspiring and current exporters. Administered by Austrade, the purpose of the scheme is to encourage small and medium sized Australian businesses to develop export markets. EMDG reimburses up to 50 per cent of



eligible export promotion expenses above a threshold of \$15,000.<sup>20</sup>

Recent changes to the EMDG were welcomed by business which included:

- reducing the annual income ceiling for participating firms;
- reducing the maximum grant;
- reducing the time period a firm can remain in the program; and
- removing the availability of grants for firms entering additional markets.

All of these meant more assistance for new and smaller exporters.

In 2005-06 3485 grant totaling \$137 million was paid to small and medium sized enterprises, at an average of \$38,935. Small business accounted for around 79 per cent of recipients. The Parliament passed a number of changes to the EMDG scheme including extending the program until 2010-11, increasing the daily allowance to \$300/day, removing the export earnings test and increasing flexibility of the 'principle status' test.

The largest users of EMDGS by industry come from manufacturing (accounting for around 40 per cent of all payments by value), followed by property and business services (20 per cent) and then wholesale trade and cultural and recreational services (each with just under 10 per cent).

Research conducted by Austrade and by the Centre for International Economics (CIE) also indicates the EMDGS is hitting the mark in assisting new and aspiring exporters, in particular smaller firms, to get into exporting.

According to an Austrade survey of EMDGS participants, the Scheme helped them overcome the single largest barrier to engaging in exporting - namely access to the necessary operating capital to fund their export promotion work.

On a 0 to 10 scale (0 meaning of no importance and 10 meaning of greatest importance), program participants ranked lack of capital at some 6.5 index points, followed by the company tax rate and risk and uncertainty of exporting

each at just under 4 index points. Other noteworthy constraints on export performance included foreign trade barriers (around 3.5 index points) as well as lack of market opportunities and government regulation (both around 3 index points). Cultural barriers and concerns over intellectual property laws in foreign markets each recorded 2.2 index points.

Micro-econometric (firm-level) modelling undertaken by the CIE for the Jollie Review bears out these issues and the greatest dividends from EMDGS appear to be enjoyed by the most financially constrained firms.

For these firms, every \$1 of EMDGS funding induces between \$1.30 and \$1.90 in additional export promotional funding, which could convert into as much as \$20 in additional export income over the future life of the grant-recipient firm.

Commerce and industry supports: the two-pronged recommendation by the Jolly Review to maintain current levels of program funding; indexing the EMDGS budget to inflation to preserve its real value; and introducing a smoothing arrangement, where funds not expended in one year of the program can be retained and made available elsewhere over the life of the Scheme (especially in unexpectedly high demand years).

## INTERNATIONAL TRADE

Multilateral trade liberalisation has delivered substantial benefits to the community of nations over the past half-century. Average tariff rates have fallen from more than 40 per cent in the late 1940s to just 5 per cent today and the value of world trade has multiplied a phenomenal 22 times.

The measurable economic dividends of multilateral trade liberalisation are not inconsequential. The long-running Uruguay Round (1986 to 1994) delivered liberalisation in the trade in agricultural products and in manufactures which economists estimate added some \$A4.4 billion annually - or 0.5 per cent - to Australia's real national output. A bold and comprehensive outcome from the Doha Round could potentially be worth another \$A7 billion a year in economic dividends to Australia or another 0.8 per cent in extra real economic growth annually.

Neither figure takes into account the gains from reforms in areas like services, intellectual property and investment or the important benefit of cementing the rule of law in international trade and commerce, in particular the creation

<sup>20</sup> Australian Government, Austrade Website, Export Market Development Grant

of effective laws for handling trade disputes that enable the smallest country to challenge the protectionist measures of the largest countries on equal terms - and when they win, to secure enforceable remedies.

Internationally countries are engaged in a number free trade agreements (FTAs) and preferential trade agreements (PTA). Australia has signed bilateral agreements with Singapore, Thailand and the USA while seeking agreements with a number of other countries including China, Malaysia and prospectively Japan, Indonesia and South Korea.

The signing of such bilateral agreements can deliver benefits to Australia as long as they are 'WTO-plus' - that is, deliver outcomes greater than can be obtained from the existing WTO suite of agreements and their related commitments (see figure 24). Agreements currently being examined for feasibility have the potential to profoundly alter the manufacturing sector.

An Australia - China FTA in particular has caused some debate on its potential benefits to the manufacturing sector, although any final analysis must necessarily await the completion of negotiations, and a wholistic approach to the agreement reached.

Nevertheless, an Australia - China FTA represents an opportunity to increase access to the world's second largest and most dynamic market. China is the single largest source of economic growth in the world.

For the Australian manufacturing sector the greatest opportunity may come from greater investment opportunities in China.

A report prepared by the Australian Department of Foreign Affairs and the Chinese Ministry of Commerce entitled *The Australia-China Free Trade Agreement Joint Feasibility Study* observed "*In aggregate terms, the [economic] modelling indicates that the annual average real GDP growth rate for both countries could increase by around 0.4 per cent over the period 2005-2015 - in present value terms.*" This would mean Australia's real GDP would be higher by US\$18 billion over the 2006-2015 period. A short discussion on the validity of the modelling can be found in the 2004-05 Trade and Assistance Review.

ACCI recognises Australia's negotiations of trade liberalisation initiatives such as bilateral FTAs contain a range of challenges, across a number of thematic areas of international trade and commerce. These include tariffs; quotas; protection of intellectual property rights; rules of

origin; investment; recognition of professional and skilled qualifications; import licensing; customs procedures; quarantine laws and policies; and dumping regulations.

The Australian and the Chinese Governments are currently working on negotiations for an Australia-China Free Trade Agreement (ACFTA). While China has reasonable 'black letter' intellectual property laws, the consistency and effectiveness of the enforcement of these laws leaves much to be desired. Australian negotiators can help our exporters, and indeed the world trading community, by delivering outcomes in the ACFTA that realise a stronger intellectual property law regime in China.

While Australia has increased the number of preferential trade agreements the number of anti-dumping and countervailing power cases have remained stable (see figure 25).

Developing a comprehensive free trade agreement with China must be seen as providing both challenges and opportunities. China's quickly expanding economy has provided Australia's economy with a number of economic benefits.

In line with increasingly fluid borders, Australia's trade as a share of GDP has risen, however, it remains well below those of other industrialised countries (see figure 20). A low ratio does not necessarily imply high tariffs, as other factors, such as geographic remoteness and size may influence trading patterns and productivity.

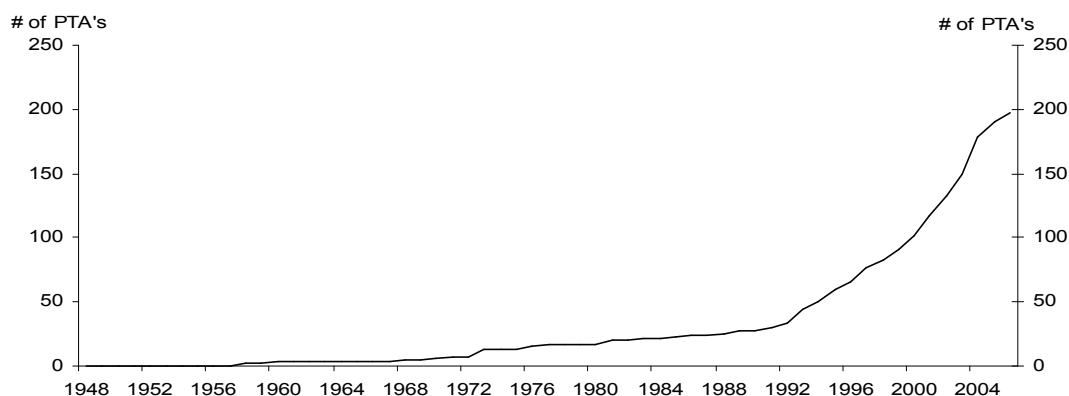
A recent Treasury working paper<sup>21</sup> noted that Australia's trade performance was good or slightly better than expected given its geographic isolation. Furthermore, relative to the Treasury model predictions Australia has improved. Conversely, isolation may provide some protection to domestic industries as demonstrated by Australia's open trade regime but relatively very low import penetration.

The ACCI supports continuing removal of international trading barriers, but believes that any further reductions in Australian tariffs (outside those already announced) must be considered in the context of a whole of government industry policy.

The scheduling of any further cuts in the level of protection must be part of a wider package of comprehensive, domestic reform to taxation, workplace relations, other

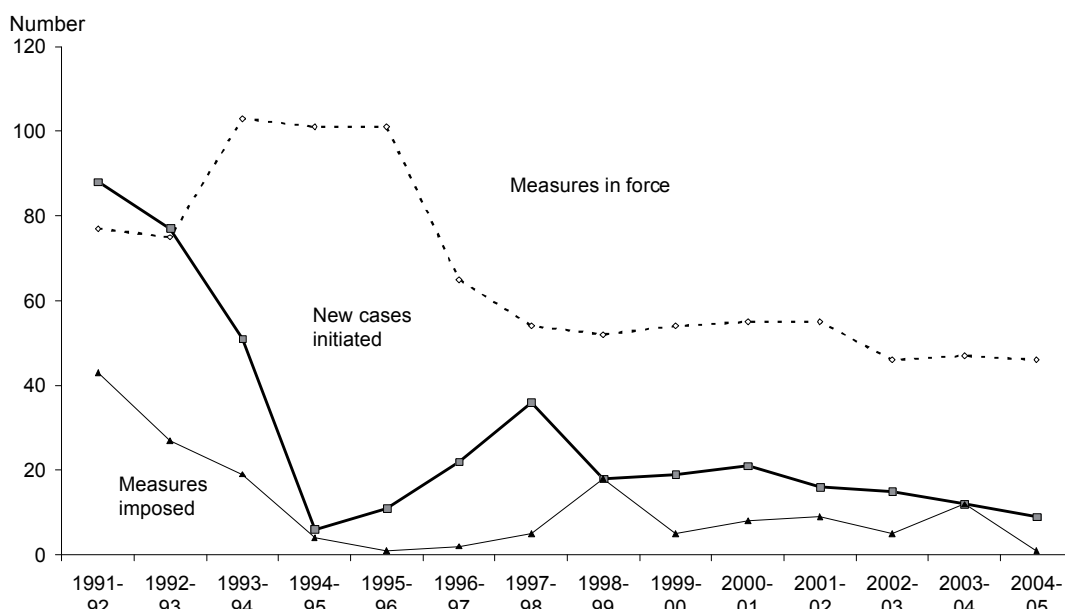
<sup>21</sup> Bryn Battersby and Robert Ewing 2005, *International Trade Performance: The Gravity of Australia' Remoteness*, Treasury Working Paper 2005-03, June.

**Figure 24**  
PTAs in Force by Date of Entry into Force



Source: World Trade Organisation, Regional Agreements Facts and Figures, [http://www.wto.org/english/tratop\\_e/region\\_e/summary\\_e.xls](http://www.wto.org/english/tratop_e/region_e/summary_e.xls) accessed 30 June 2006.

**Figure 25**  
Anti-Dumping and Countervailing Activity 1991-92 to 2004-05



Source: Ibid.

regulatory compliance and microeconomic reform, and in terms of external trade, improved market access.

The revenue implications of any measures that may be implemented need to be accounted for, and alternate revenue sources or expenditure cuts be identified. In assessing the possible outcomes of any further reductions in assistance to industry, full account should be taken of the economic, strategic and social impacts.

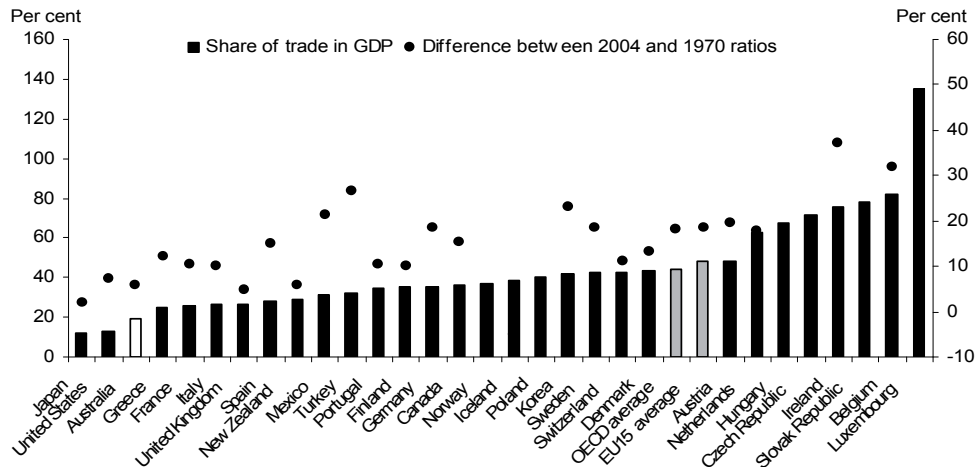
**RESEARCH AND DEVELOPMENT**

Over time, Australia isolation has and will continue to diminish particularly through the adoption of Information and Communication Technology (ICT). Our distance from

markets provides us an opportunity to export more cheaply into foreign markets than foreign markets can import domestically. Furthermore, Australian manufacturers have a greater incentive than our competitors to be the first to introduce technologies that reduce our geographical isolation.

Australia rates relatively low on the scale of international expenditure on R&D as a proportion of GDP. Underlying headline R&D Government expenditure on R&D ranks more highly than business expenditure on R&D (see figure 27).

**Figure 26**  
**Imports and Exports as Share of GDP**



Source: OECD (2006), OECD Factbook 2006, *Economic Environmental and Social Statistics*, OECD Publishing; Statlink: <http://dx.doi.org/10.1787/354323508453>.

The importance of innovation to the Australian manufacturing sector is highlighted by an ABS publication<sup>22</sup> identifying that 45.5 per cent of businesses, during the period January 2001 to December 2003, undertook innovation. Overall, 34.8 per cent of firms undertook innovation. Human resources devoted to R&D were 18,000 person years. Of the \$3.2 billion in R&D undertaken by the manufacturing industry, motor vehicle and part and other transport equipment contributed 26 per cent, petroleum, coal and chemical and associated product manufacturing contributed 18 per cent and metal product manufacturing contributed 11.0 per cent.

An ABS study found that a firm's propensity to innovate is increased by exposure to overseas market influences. For example, the proportion of exporters undertaking technological innovation was almost 70% compared to only 25% for non-exporters. Larger businesses, regardless of export exposure, are more likely to innovate than small businesses. However, while the difference between exporters and non-exporters in the proportions of businesses innovating is around 40 percentage points for small businesses, it drops to 20 percentage points for large businesses. It appears that exporter status has less influence on the propensity to be innovative as employment size increases.<sup>23</sup>

Funds for manufacturing R&D were overwhelmingly

22 Australian Bureau of Statistic (2006), Year Book Australia, Cat. No. 1301, ABS, Canberra. For the purposes of the survey, innovation is defined as the process of introducing new or significantly improved goods or services and/or implementing new or significantly improved processes.

23 National Manufacturing Summit 2005, Innovation in Manufacturing, Workshop discussion paper, December

sourced from own funds (91.0 per cent) with Commonwealth Government and Overseas sources comprising 4.0 per cent.

In order to remain competitive businesses have needed to invest in capital and skilled employees. Developing high technology or niche products for export and domestic consumption has provided a lifeline to some manufacturers. While other OECD exporters are focusing more on high value added products, Australia mostly remains a medium-low to low technology exporter (see figure28).

The OECD has noted *that technology-intensive exports, and high technology exports in particular, accounted for much of the growth in trade over the past decade. In all OECD countries, they grew more rapidly than total manufacturing exports. Japan is the only country in which total manufacturing exports grew faster over the 1994-2003 period than high-technology exports.*<sup>24</sup>

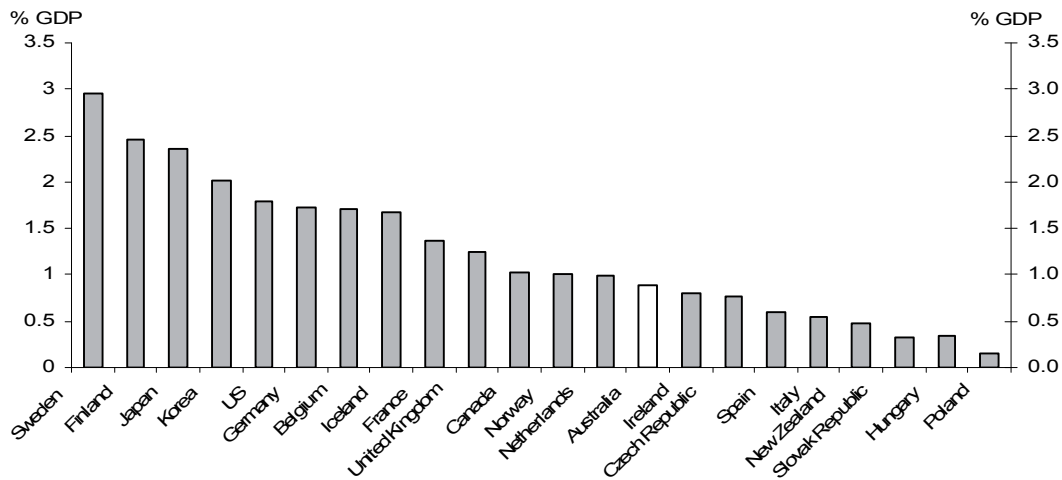
Australia's growth rate for high and medium-high technology exports from 1994-2003 has been well below that of the OECD average (see figure 29).

A recent report<sup>25</sup> identified a number of causes for declining Elaborately Transformed Manufacturers (ETM) exports out of Victoria including a lack of access to capital to support business R&D and commercialise innovation; a lack of adequate local supply chains and gaps in industry collaboration to support manufacturing; a lack of sales and

24 OECD (2005), OECD Science, Technology and Industry Scoreboard 2005, Towards a Knowledge-based Economy

25 Allen Consulting (2005), Growing Global Niches: Positioning Victorian Elaborately Transformed Manufactures for Future Growth, Final Report to the Department of Innovation, Industry and Regional Development, February.

**Figure 27**  
**Business Expenditure on R&D as a Proportion of of GDP 2003-04**



Source: Australian Bureau of Statistics (2005), Research and Experimental Development, Businesses, Australia, Cat. No. 8104.0, ABS, Canberra.

export marketing skills; and more generally the competition from China as an emerging manufacturing powerhouse.

Although many manufacturing exporting problems have been identified, Australia’s share of total OECD high and medium technology exports has remained stable at 0.4 per cent over a decade (see figure 30).

Figure 30

In the more competitive international environment Australia will need to compete in areas where its competitive and comparative advantages are greatest. Australia compared to India, China and many other developing nations does not have a large pool of low-skilled employees. As international economies become more integrated Australia will no longer be able to competitively produce labour intensive and simply transformed manufactures. We must compete on products that embody capital and highly skilled labour.

Although Australia ranks relatively high in investment in knowledge, the sum of expenditure on R&D, on total education (public and private) and on software, it invests less in knowledge than many of the ‘high tech’ economies such as the US, Sweden, Finland and Korea (see figure 31). However, Australia’s investment in R&D as a proportion of GDP is the seventh lowest, at 1.6 per cent, and well below the OECD average of 2.5 per cent.

Other OECD countries are increasingly channelling resources into knowledge-based investments as noted by the OECD:

The United States and Japan are moving more rapidly towards a knowledge-based economy than the EU: since 1994, their investment in knowledge-to-GDP ratios have grown at a higher rate than that of the EU. For all countries, except Ireland, the ratio of investment in knowledge-to-GDP was higher in 2002 than in 1994.<sup>26</sup>

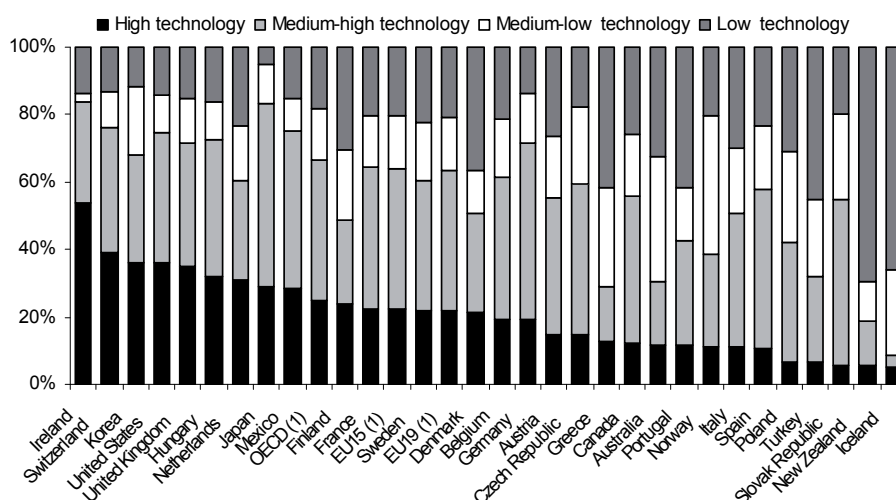
A strong driver of innovation is research and development (R&D). Australian businesses in order to manufacture higher up the value added chain will need to focus more on smart solutions and products. Increasing international trade has expanded to a point where R&D is now considered a tradeable commodity. Australia must be prepared to take advantage of international capital looking for quality R&D centres.

R&D undertaken in Australia is largely directed towards medium and medium-low and low technologies that correspond with export patterns noted in figure 6. Countries with a higher proportion of R&D in high technology include the US, Korea, Sweden and Finland (see figure 32).

Exports of ETM are undertaken by countries which invest more broadly and more heavily in knowledge R&D, software and education and where the manufacturing sector focuses on technology intensive R&D. Australia R&D focus is medium to low technology which corresponds to our export performance (see figure 33).

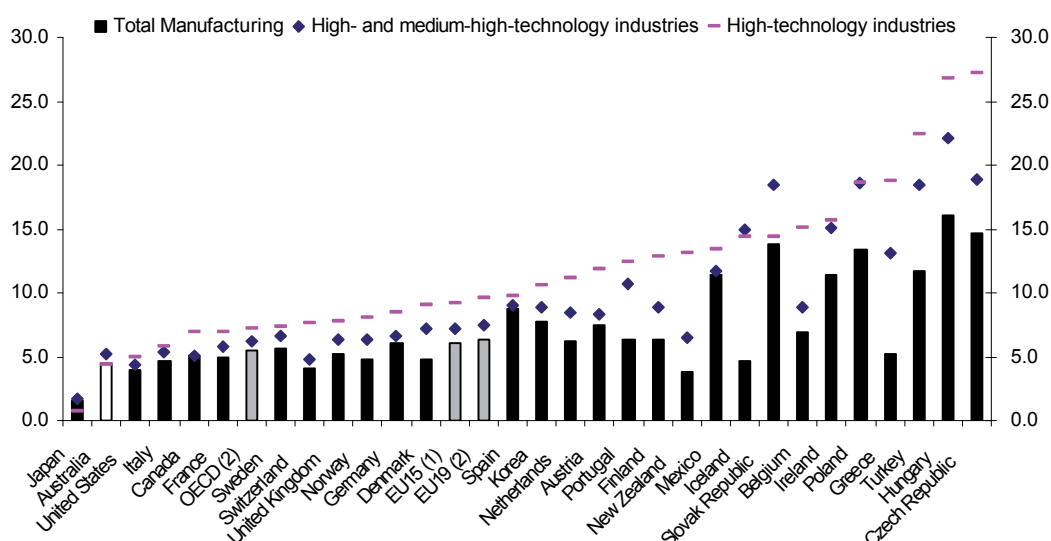
<sup>26</sup> Source: OECD (2006), OECD Factbook 2006 Economic Environmental and Social Statistics, Science and Technology, OECD, Paris, p130.

**Figure 28**  
**Share of Technology Industries Manufacturing Exports 2003**



Source: OECD STAN Indicators database, March 2005.

**Figure 29**  
**Growth of High and Medium High Technology Exports 1994-2003**  
**Annual Average**



Source: Ibid.

ETM are not inherently ‘better’ than other types of manufactures if firms believe they can compete internationally over the long term. Small firms without access to large R&D departments may only be able to export relatively less technologically intensive products, however, this does not diminish their importance.

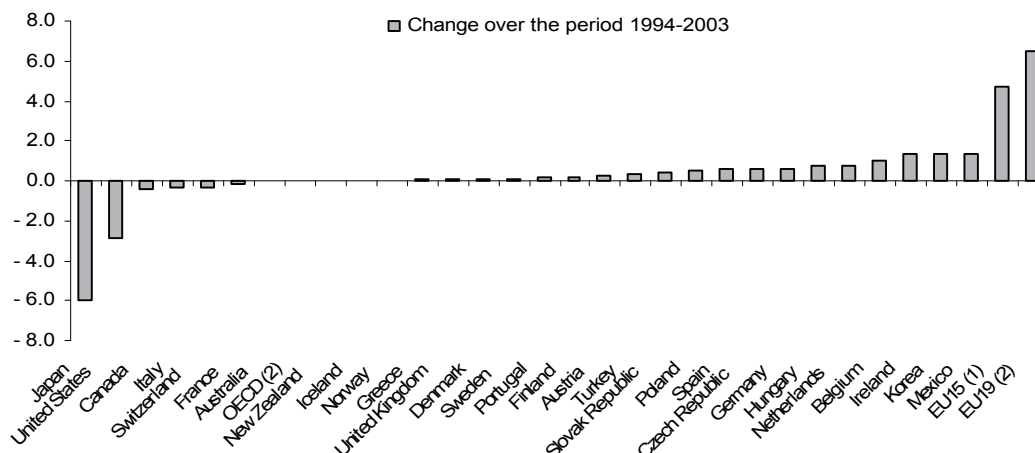
If Australia is to move up the value adding chain and into niche products that take us further away from directly competing with China and other developed countries, Australia’s R&D policy must be to encourage investment in technology intensive industries.

Increasing R&D is becoming internationally competitive.

Many multi-national companies are choosing to set up R&D laboratories in foreign countries providing Australia with an opportunity to become a major research hub in the Asia Pacific. The OECD noted this trend in one of its recent publications:

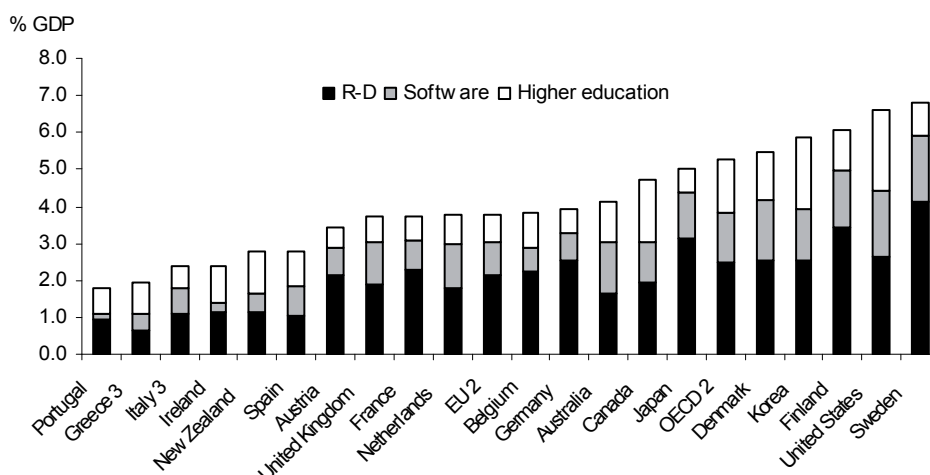
More multinationals are setting up offshore R&D laboratories, and many R&D activities have become more internationalised and more closely linked to production abroad. Still, there are differences in foreign affiliates’ shares in total R&D manufacturing expenditure compared to their shares in total manufacturing turnover. Countries such as Portugal and Germany seem to be more attractive

**Figure 30**  
**Share in Total OECD High and Medium-High Technology Exports 1994-2003**  
**Percentage Change of Export Growth Shares Over the Period**



Source: OECD STAN Indicators database, March 2005.

**Figure 31**  
**Investment in Knowledge 2002**



Source: OECD (2006), OECD Factbook 2006, Economic Environmental and Social Statistics, OECD Publishing; Statlink: <http://dx.doi.org/10.1787/554030183064> Note: 1. 1994-2001 for Greece and Italy, 1995-2002 for Korea, EU figure excludes Belgium, Greece and Italy. OECD figure excludes Belgium, Greece, Italy and New Zealand; 2. Exclude Greece and Italy, 3; 2001 data.

for R&D investments than for production activities and vice versa.<sup>27</sup>

Secondly the trend towards co-operation between companies forming international networks between each other, governments and universities. The OECD notes that this trend is not confined to multi-national firms but includes all innovation intensive businesses.

## SKILLS

To undertake world class R&D Australia's manufacturing

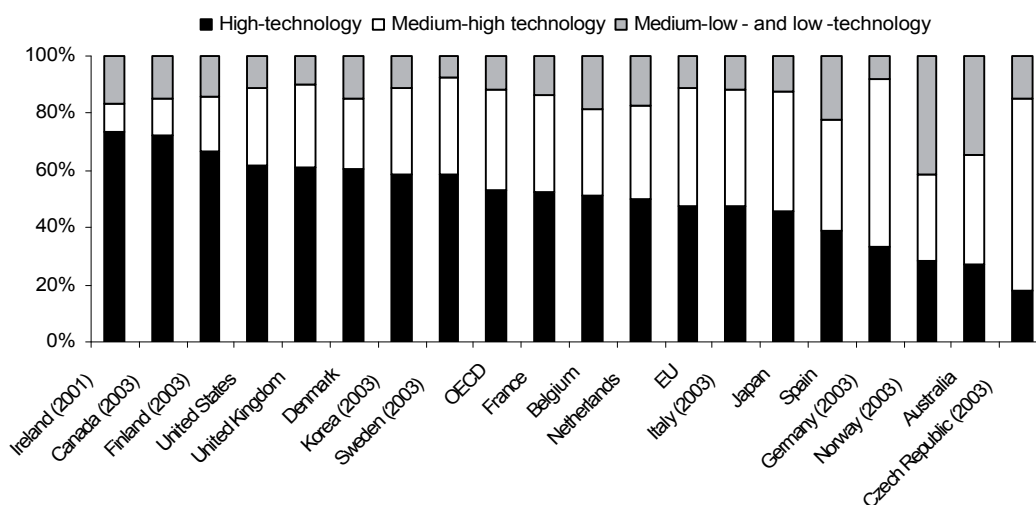
<sup>27</sup> OECD, OECD Science, Technology and Industry Scoreboard 2005 – Towards a knowledge based economy, R&D and innovation: creating and diffusing knowledge, OECD Paris 2005.

sector will rely on employees undertaking tertiary level education in areas such as engineering, maths and science. A skilled workforce not only relies on higher-level education but is also underpinned by trainees and apprentices.

Expenditure on education both public and private (see figure 34), along with the number of years at school are considered partial indicators of educational quality (see figure 35), other indicators include student to staffing ratios and international examination comparisons.

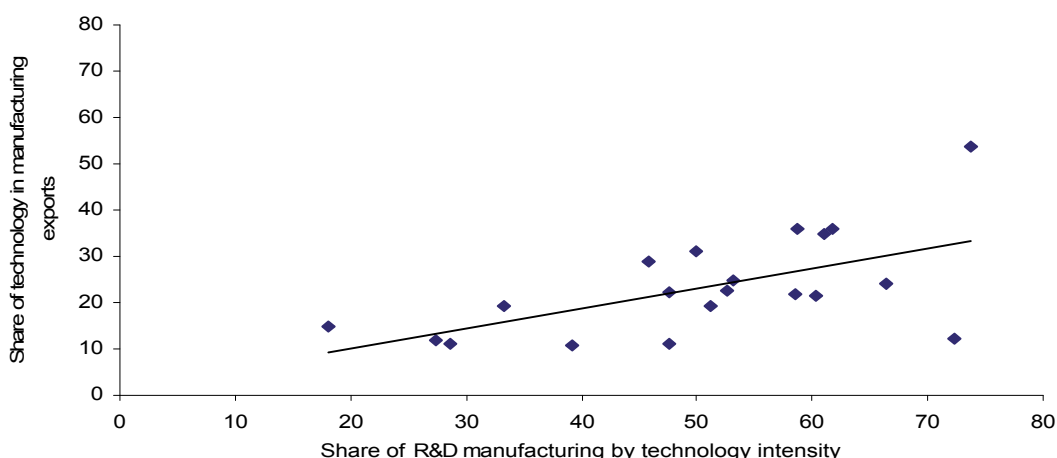
While expenditure on education may provide some indication of the stock of human capital, the quality of education as measured by the comparative results of international examinations in science, maths and reading

**Figure 32**  
Share of Business R&D in the Manufacturing Sector by Technology Intensity 2002



Source: OECD, ANBERD Database, April 2005.

**Figure 33**  
Share of Technology in Exports and R&D in Manufacturing



Source: ACCI calculation..

provides another metric of educational quality.<sup>28</sup>

Spending is not necessarily a guarantee of higher quality in terms of education, though: Australia, Belgium, the Czech Republic, Finland, Japan, Korea, the Netherlands and New Zealand all have moderate expenditure on education per student at the primary and lower secondary levels but are among the countries where 15-year-olds perform strongest in key subject areas.<sup>29</sup>

While Australia has a skilled workforce by international standards it is important to recognise that partnerships

28 Comparisons of international test scores have been subject to some discussion on their validity as a measure of quality, culture bias and a number of other criticisms. In recent years a number of measures have been taken to address these concerns.

29 Education at a Glance, “OECD calls for broader access to post-school education and training”, Media Release, 2005.

between government and industry are vital in extracting the full benefits of our educated labour market.

Through strong economic growth Australia is now faced with a skills shortage. Many firms are unable to hire suitable employees inducing employers to pay higher wages in order to attract suitable staff (see figure 36). Higher wages are the consequence of the labour market redistributing resources to those industries which return and offer the highest rewards.

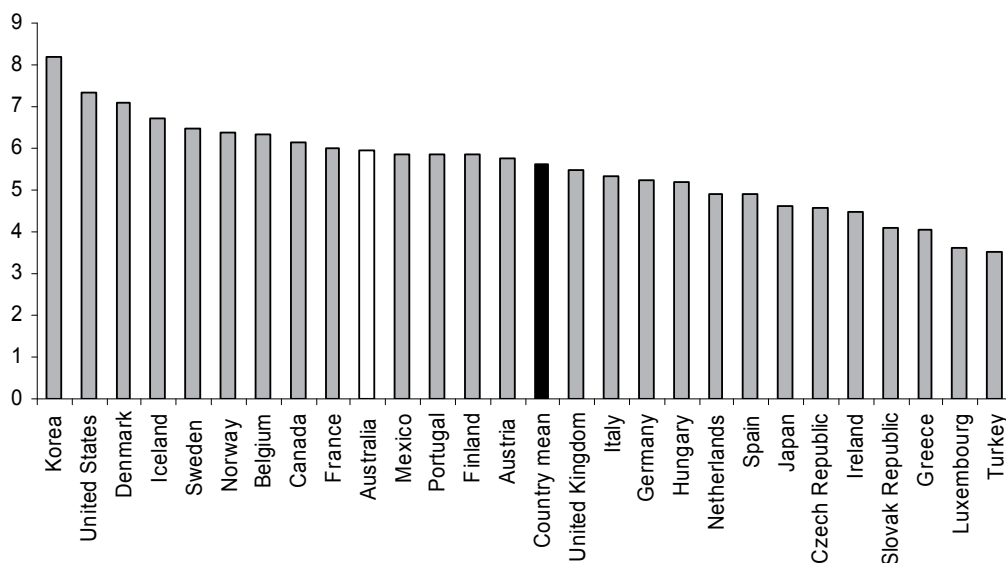
With record low unemployment and high participation rates the manufacturing sector has to compete with other industries for scarce resources. This across the economy results in both skills gaps and skills shortages. A skills gap highlights the difference between those skills obtained by the employee and those required by the employer while a



**Figure 34**  
Distribution of Persons Aged 25-64 Years by Educational Attainment

Country	Below Upper Secondary Education	Upper Secondary and Post-Secondary Non-Tertiary	Tertiary Type B (Undergrad)	Tertiary Type A (Bachelor or Above)
Australia	41	30	10	19
Canada	18	40	21	20
France	36	41	11	12
Greece	49	33	5	12
Indonesia	77	18	2	3
Italy	55	35	0	10
Japan	17	49	15	19
Korea	32	44	7	17
New Zealand	24	47	15	14
Sweden	19	49	15	17
United Kingdom	17	57	8	18
USA	13	50	9	28

**Figure 35**  
Expenditure on Educational Institutions - Public and Private (% GDP)



Source: Education at a Glance - OECD Indicators 2004, OECD Paris, 2004; Statlink <http://dx.doi.org/10.1787/650383071321>.

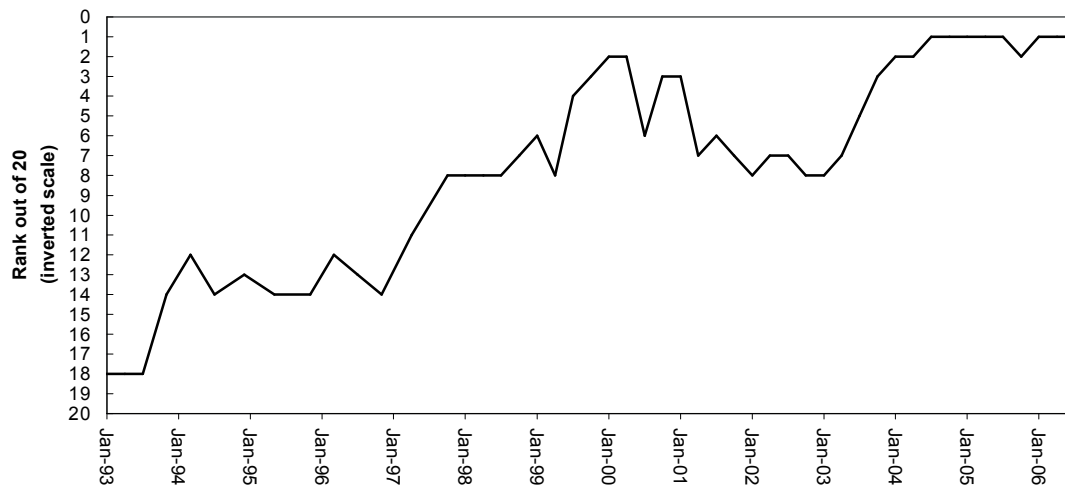
skills shortage refers to a lack of specialised or experienced workers.

Industry requires a system that retains incentives to choose education and training options which meet specific industry needs. This is crucial in meeting the short and long term economic goals of Australia and provides business with a competitive edge to compete in the global economy.

Training and re-training programs must be flexible in providing marketable skills to employees, to adjust to changing economic and industry structures. The total number of persons in training has fallen by 1.9 per cent while the number of commencements has increased by 4.4 per cent over the past year.

The number of completions increased by 5.5 per cent while cancellations increased by 6.4 per cent over the year (see figure 37). The most popular enrolled qualification is

**Figure 36**  
**Availability of Suitability Employees**



Source: SAI Global - ACCI Survey of Investor Confidence..

Australian Qualifications Framework certificate level III (see figure 38).

While not all skills gaps and shortages can be addressed through training and education, particularly allowing for lags, they do provide a number of solutions. Due to Australia's ageing population competition for employees is likely to be greater in the future. Although Australia's ageing population is a real concern competitor countries are also facing the same issue and many have larger problems than us. In fact, China will see a dramatic rise in the number of elderly residents as a proportion of the population by 2050, mainly due to its one-child policy.<sup>30</sup>

To support the manufacturing sector become more competitive Australia must not only focus on domestic skills development but also internationally skilled persons. At the Commonwealth level, the numbers of migrants arriving under the Skill Stream has risen from 71,240 in 2003-04 to 77,880 in 2004-05.

A number of common elements contribute to skills shortages including:<sup>31</sup>

- The ageing of the Australian population means that across a wide range of industries, a significant number of skilled workers have either retired, or are about to retire;
- Career moves, where skilled workers have moved to other roles within industry or moved into other

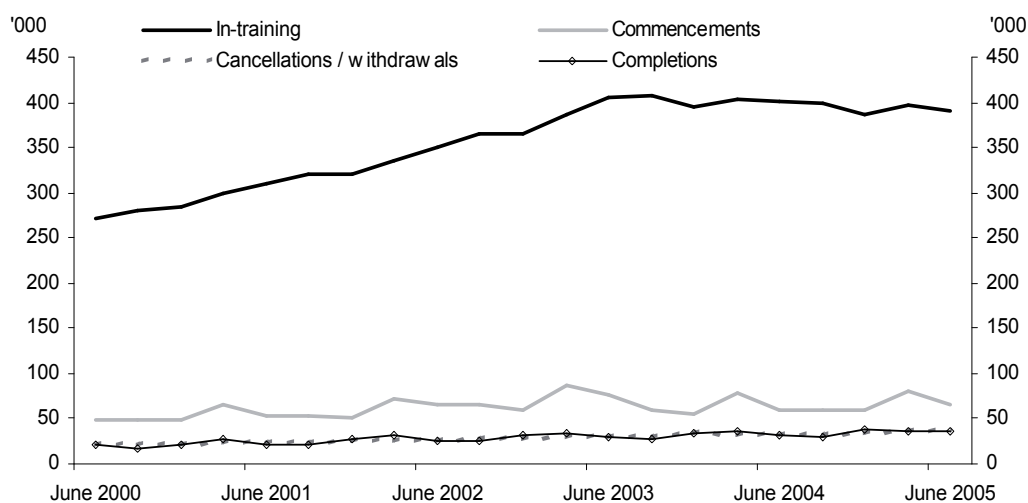
industries ("going off the tools");

- New and emerging technology has put many existing workers at a disadvantage because they have not been trained to use these technologies and in some cases are resistant to change or to undertaking training;
- Many young people, and their parents, have outdated perceptions of some industries that do not encourage school leavers to seriously consider a career in those industries and these perceptions are not always accurately addressed by the career counselling services available to them;
- A training regime and delivery system that does not meet the needs of employers and potential employees and does not reflect realities of the modern workplace or workplace practices;
- The complex and complicated structure of, and information about, the Vocational Education and Training system and the New Apprenticeships program that discourage employers from engagement; and
- The different career expectations of Generation X and Y compared with those of previous generations, meaning that they do not necessarily expect to remain in the one occupation or with the one employer for extended periods of time. Consequently, employers may be reluctant to invest in training when there is a realistic possibility that the employee will not remain with them long enough for them to achieve a return on their investment in the training.

<sup>30</sup> OECD Observer (1999), China, a demographic time bomb, Observer No 217-218, Summer 1999

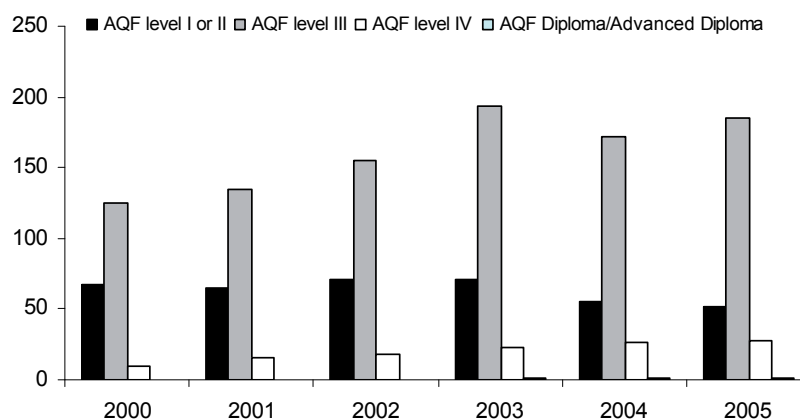
<sup>31</sup> ACCI Review, Number 134, April 2006

**Figure 37**  
**Apprentice and Training Activity June 2000 to June 2005**



Source: National Centre for Vocational Education and Research Ltd, *Australian vocational education and training statistics – Apprentices and trainees June quarter 2005*, Australia Tables.

**Figure 38**  
**Course Enrolments by Qualification June 2000 to June 2005**



Source: Ibid.

While there are common underlying factors influencing skills development across a number of different industries, effective strategies to provide solutions will in many cases need to be address the issues on an industry to industry basis.

### Training and Education Policy

Employers seek quality outcomes from the VET sector. It is therefore important that the Institute for Trade Skill Excellence becomes operational in 2006.

The New Apprenticeships program currently caters for a range of formal workplace training arrangements with one set of incentives and regulatory arrangements applying. Over the past six years the underlying concept of an apprenticeship, that is structured learning in a work

based environment, has become well established outside the trades.

ACCI believes that there is an opportunity for a new strategic positioning of the New Apprenticeships program in the VET system to revitalise its role in meeting the skills needs of those entering the labour market, those already in the existing workforce or those who are on income support.

It is imperative that the incentive arrangements, which currently apply across all industries, be maintained. However, it would be timely to extend the arrangements to cover all levels of New Apprenticeship pathways, including at the higher levels of Australian Qualification Framework levels V and VI.

The National Skills Shortages Strategy (NSSS) has funded a range of industry developed and managed projects that have identified significant issues regarding the recruitment, training and retention in occupations in shortage of suitably skilled workers across a range of industries.

The Australian Technical Colleges will provide an innovative approach to encouraging young people to merge employment and learning options during their secondary senior years and will further help to raise the esteem of VET pathways in the community. Clearly identifiable industry leadership will be important to the success of the Colleges.

ACCI believes that further sites for Australian Technical Colleges should be investigated, especially in regional areas experiencing skill shortages.

ACCI members support the policy directions of the Government in the broad area of welfare reform and are particularly interested in programs that connect the various government agencies dealing with a specific issue taking a whole of government approach. There is also strong support for initiatives that address Australia's skill and labour shortages.

As such, ACCI believes that the concept of providing Job Network clients with an opportunity to take up a New Apprenticeship is therefore critical in providing unemployed persons with dual opportunities of work and gaining skills, and providing targeted interventions to address the supply of skills problems.

ACCI proposes that an incentive payment of \$5,000 be provided to Job Network members who place people in their target groups in a New Apprenticeship identified under the National Skill Shortage Register through New Apprenticeship Centres. Payments should be made at the end of six months and 18 months. A trial program could be operated to test the efficacy of this approach with support to facilitate industry association involvement, marketing and the development of tools for the Job Network and employers.

## TAXATION

In recent times, policy makers have become more aware of the benefits of competition, efficiency and globalisation. There has also been increased awareness of the drivers of economic growth such as skills development, research and development, investment and education. Tax policy must provide an environment that encourages each to

flourish within an international context. Economies that stagnate will be unable to maintain the living standards of contemporary and future generations. ACCI's taxation reforms create the incentives and structure that will deliver economic security and prosperity for all Australians.

In the next ten years Australia's economy will continue to experience the long process of intergenerational change. Australia's future economic fortunes and wealth of its people will, in part, be determined by the decisions and actions taken today in reforming Australia's taxation system.

By addressing the challenges of tomorrow, today, through the creation of an efficient, simple and equitable tax regime, current policy makers will be building a strong foundation for productivity and economic growth. ACCI's *Taxation Reform Blueprint* represents a business case for further taxation reform by the year 2014.

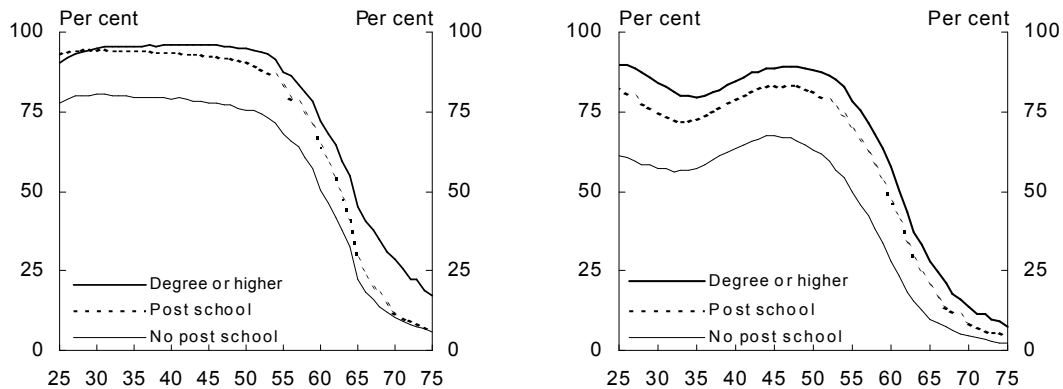
## The Case for Further Reform

Australia's economy has become more dynamic, efficient and productive over recent decades. However, the tax system has only adapted slowly to these changes. As a result, taxes have been a brake on Australia achieving its full potential and being as internationally competitive as it can be. These problems will continue and grow into the future, particularly as globalisation increases and major demographic changes occur.

While changes over the past ten years to Australia's taxation regime have improved equity, sustainability and efficiency, there is still much more room for improvement. Based on the tax design objectives above, the main reasons for further reform of Australia's tax system include:

- improving the efficiency and international competitiveness of the Australian economy;
- continuing Australia's strong growth and productivity results;
- ensuring Australia can meet long term challenges, particularly demographic changes, in the most cost effective way;
- promoting innovation, risk taking and entrepreneurship;
- encouraging investment in human capital, for example through education and training;

**Figure 39**  
**Participation Rates by Age, Educational Attainment and Sex**



Source: Steven Kennedy, David Hedley (2003), *Educational attainment and labour force participation in Australia*, Economic Roundup, Treasury, Winter.

- encouraging skilled migration and the retention of skilled people; and
- reducing tax avoidance and evasion, to improve the perceived and actual fairness of the tax system.

The ageing of Australia's population will become one of the great economic challenges faced by policy makers. Australia's ageing population will lower the supply of labour while placing significant fiscal pressure on Government budgets (see figure 39). The choices faced by Government include: borrowing to fund the health and retirement services; raising taxation on those who remain in the workforce; reducing the benefits for those who are retired; or implementing taxation policies that promote growth and encourage participation.

Of all the choices available, the Government should undertake the strong pro-growth path. The alternatives, such as raising the average tax rate and deferring the tax burden to future generations, will reduce growth, create higher unemployment and reinforce the problems inherent in the current system. Therefore, they are not sustainable in the long-term.

Some policies to increase Australia's growth include: reducing taxation of savings, increasing incentives to invest, reducing the compliance and administration costs on business and stimulating the supply-side of the economy by providing better incentives for people to enter the labour market.

Higher rates of growth in productivity and labour market participation will not be achieved by raising taxes or debt. The benefits of successful tax reform are clear. With higher productivity, participation rates and growth

future generations and governments will benefit from our decisions today. The improved growth path will provide tax revenues to fund the necessary services for an ageing population. ACCI's 2004 Pre-Election Survey of almost 1700 businesses highlights the case for tax reform showing that tax issues were the first, second, fourth and fifth highest concerns of business.

### Australia's Comparative Taxation Landscape

If Australia's manufacturing sector is to compete internationally it is vital that the taxation regime does not disadvantage domestic firms. Corporation tax as a proportion of GDP in Australia is higher than other comparable OECD countries, although there are difficulties in using disaggregated data of this type (see figure 40).<sup>32</sup>

Australia's high proportion of corporate income tax to total tax receipts and GDP, 5.3 per cent compared with an OECD average of 2.6 per cent, is likely related to strong profits growth in the mining and minerals industries. The *International Comparison of Australia's Taxes* Report, co-authored by ACCI's CEO Peter Hendy, highlights that the effective tax rates on various investments are very high and the majority of OECD-10 countries<sup>33</sup> have a more lenient treatment of losses, with seven providing for amortisation of goodwill.

The reduction in the corporate tax rate since 2000 (from 36 to 30 percent) is greater than the fall in the OECD and the OECD-10 and the statutory company tax rate of 30

<sup>32</sup> For a brief discussion see Australian Government (2006), *International Comparisons of Australia's Taxes*, Corporations Taxation Canberra, April.

<sup>33</sup> OECD-10 countries: Australia, Canada, Ireland, Japan, the Netherlands, New Zealand, Spain, Switzerland, the United Kingdom, and the United States.

percent is well below the average OECD corporate rate of 35.6 percent.

So the evidence on the company tax rate is mixed. ACCI does not consider that the priority for tax reform should be reducing the company tax rate. While a company tax rate reduction could be considered in the future, the priority for the moment is reducing the high rates of personal tax, particularly as the difference between the company and personal tax rates (18.5 percent) is above the unweighted OECD average of 17.8 percent.<sup>6</sup> A reduction in the company rate without an equal or larger reduction in the top marginal tax rate would exacerbate this difference.

The Report also notes that the effective tax rates on various investments are very high and the majority of OECD-10 countries have a more lenient treatment of losses, with seven providing for amortisation of goodwill (Australia does not). While Australia's depreciation allowances are low compared to the OECD-10, many small firms can access better depreciation arrangements through the Simplified Tax System (STS). ACCI thinks the Government should examine the Report's findings on write offs and depreciation.

Unweighted averages have been criticised for being Eurocentric. The weighted average is more relevant than the unweighted average, because the unweighted average equates the relevance of the United States and Luxembourg, which is of limited relevance when the US economy is about 450 times the size of the Luxembourg economy. Furthermore, European countries account for three quarters of OECD countries yet only account for

35 per cent of OECD countries GDP and less than 20 per cent of Australia's two-way trade.

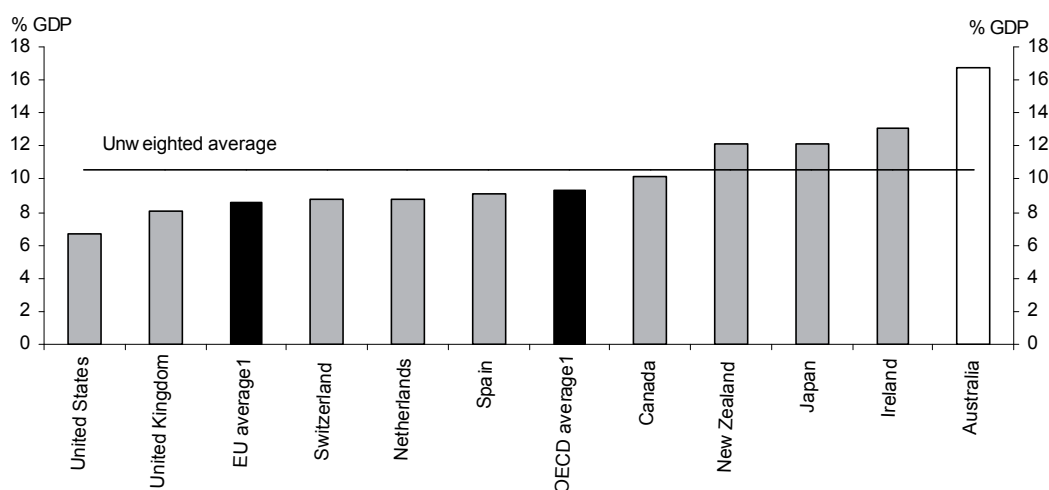
Due to Australia's location in the Asia-Pacific region, we are increasingly competing with these countries and the Report shows that we have a highly uncompetitive tax system. The Report shows that Australia is losing highly-skilled people to Hong Kong and (until recently) Singapore, which may be evidence that we are uncompetitive. Some tax comparisons are shown in Figure 41.

Over time, competition with Asia is becoming more and more relevant for Australia due to increased globalisation. Strong economic development in the richest Asian countries mean that they are able to compete directly with Australia on quality of life, meaning other factors such as tax become increasingly relevant.

Therefore, any comparison for Australia's taxation competitiveness would need to take account of Australia's trading partners including both Hong Kong and Singapore. A Canadian report finds that for Hong Kong and Singapore have corporate tax rates of 17.5 per cent and 20.0 per cent respectively while marginal effective tax rates on manufacturing investment are 5.8 and 6.1 per cent. Australia's effective tax rate on manufacturing is 29.4 per cent (see figure 42).

On capital gains, Australia's top personal rate is 24.3 per cent for assets held for greater than one year. Australia has the eighth highest capital gains tax (CGT) on shares held between one and two years (the OECD average is 15.2 per cent) and the seventh highest GCT on shares held for ten

**Figure 40**  
**Corporation Income Tax as % of Total Tax Receipts 2002**



Source: OECD, *OECD in Figures*, Taxation. Noted average does not include OECD or EU averages.  
1: unweighted.

years (the OCED average is 14.0 per cent). The averages are low because eleven OECD countries do not impose CGT on shares.

ACCI considers that it is important to revisit and improve on the CGT reforms introduced in 1999. We believe that the Government should seriously consider introducing a stepped rate CGT, where the proportion of the capital gain that is taxed diminishes over time. A possible steeped rate schedule is shown in figure 43.

Comparisons against our nearest neighbours are more relevant than most others - Hong Kong, Singapore and Taiwan which are developed non-OECD countries within the Asia Pacific, and South Korea and Japan which are OECD members. As global competition increases and Asian economies become more developed Australia will need to compare itself with Asia, for those countries previously mentioned we need to compare ourselves now.

**ENERGY**

Throughout the world, the importance of energy is paramount. For OECD countries it is the foundation of manufacturing industry and the key to maintenance of high living standards. For developing countries, universal access to low-price reliable energy is an indispensable driver for realising economic potential and improving quality of life.

In Australia, the energy sector contributes significantly to our economic prosperity and standard of living. The reliable availability of competitively priced energy is fundamental to the international competitiveness of Australian industries, particularly those that are energy intensive. Exports of energy commodities, technologies and resources have also contributed to wealth and job creation. Put simply, the nation's economic prosperity is determined by access to energy at competitive prices.

The key issues are the continued reliable supply of energy products including coal, liquid fuels, electricity and natural gas at competitive prices for industry, commerce and

households; and the continued removal of impediments to ongoing reform of the energy sector.

Australia is well endowed with conventional energy resources. It is to be expected that Australia will remain substantially reliant on its fossil fuel supplies for the foreseeable future. However, it is important that the opportunity for the development of reliable and competitively priced supply of energy from other sources, including renewables and nuclear, is available. This is because of the potential contribution such energy sources can make in reducing overall greenhouse gas emissions. However, as with all energy options, consideration should be subject to full cost benefit analysis, including examination of relevant economic, technical and environmental issues.

The pervasive nature of energy means that energy policy decisions will impact throughout the economy. Energy policy is concerned as much with broader economic, social and environmental issues as it is with simply energy supply and use. A government energy policy should underpin its policy response to many issues including investment, infrastructure, innovation, transport, regional development, and greenhouse issues.

ACCI acknowledges global concern over possible changes to the earth's climate caused by the enhanced greenhouse effect and accepts that the weight of scientific evidence increasingly supports the enhanced greenhouse hypothesis.

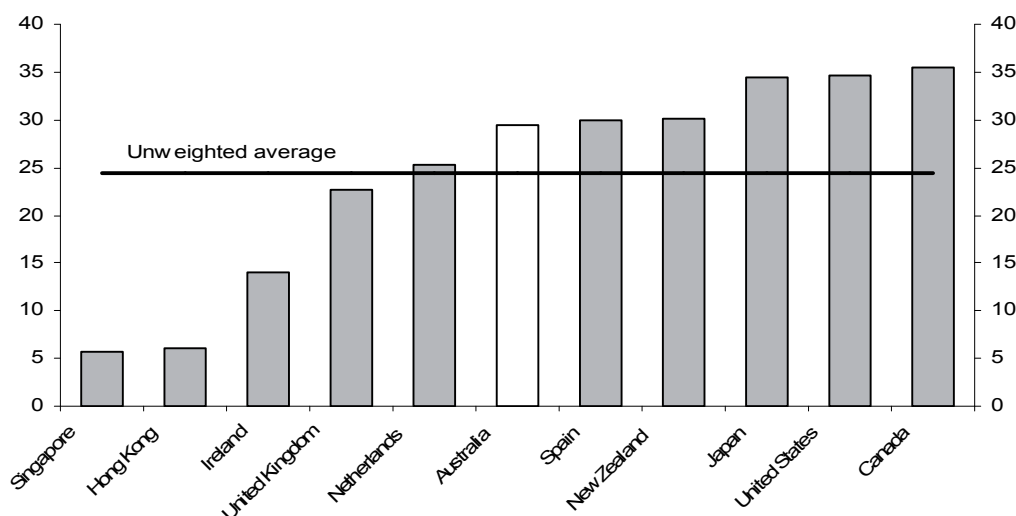
ACCI accords a high priority to climate change policy. Although the economics and the science guiding policy makers on this issue is developing, and sometimes called into question, ACCI believes there is enough evidence to suggest that industry, governments and the community must continue to understand and systematically address this issue.

However, any balanced assessment of the various policy options for addressing the enhanced greenhouse effect will be impossible without further impartial and rigorous

**Figure 41  
Tax Comparison with Hong Kong, Singapore and Taiwan**

Tax	Hong Kong	Singapore	Taiwan	Australia
Top Personal Rate	19%	21%	40%	48.5%
Company Rate	17.5%	20%	25%	30%
CGT	None	None	Fully taxed, but shares exempt	24.25%
VAT	0%	5%	5%	10%

**Figure 42**  
**Effective Tax Rates on Manufacturing Investment**



Source: C.D. Howe Institute, *Commentary: The 2005 Tax Competitiveness Report*, September 2005.

**Figure 43**  
**Possible Capital Gains Tax Stepped Rate Schedule**

Time Asset Held	Proportion of Capital Gain Subject to Tax
Less than 1 year	100%
1 - 2 years	50%
2 - 5 years	25%
5 - 10 years	10%
More than 10 years	0% (i.e. tax free)

research on its climatic, environmental, social and economic ramifications. This research is fundamental to address uncertainty about the global effects of greenhouse gas emissions arising from human activities and the even greater uncertainty about their regional impacts.

Under the Kyoto Protocol, a global emissions trading mechanism has been identified as a potentially effective international framework for controlling emissions while fulfilling the overriding principle of minimising the social, economic and environmental costs of greenhouse policy.

However, ACCI is less convinced of the potential benefits of emissions trading within Australia. In particular, its benefits may be overstated because of our dependence on greenhouse gas producing fossil fuels.

Furthermore, ACCI is concerned that the domestic emissions trading agenda is being driven by organisations likely to gain financially from an emissions trading regime without proper consideration of the impact on those who would be required to pay. In the process, the key objective

– achieving the least economic impacts in return for the greatest environmental benefits – could be given relatively low priority in the design of trading mechanisms.

An internationally comprehensive Emission Trading Scheme (ETS) can be an efficient mechanism for reducing greenhouse gases, however, this does not take account of other greenhouse gas taxes already present in the economy.<sup>34</sup> It is possible that a permit selling country will have a net welfare loss because the reduced use of the already taxed good may dominate the welfare gain from the permit-trading scheme. Therefore, any government policy must include the effects of pre-existing taxes and the introduction of an ETS, against removing pre-existing taxes on goods and introducing an ETS.

Whichever scenario a state emission-trading scheme adopts it cannot escape the fact that unilateral declarations constraining carbon are costly. More specifically the costs

<sup>34</sup> Australian Bureau of Agricultural and Resource Economics, 'The welfare consequences of emission trading with pre-existing taxes', 7th Annual Conference on Global Economic Analysis, Washington, D.C., June 17-19, 2004



associated with reducing GHG emissions by 50% by 2050 as modeled by ABARE imply a 10% reduction in GDP, a 20% fall in real wages, a doubling of petrol prices and a 600% increase in electricity and gas prices. ABARE has also noted that:

Unilateral action to achieve deep cuts in Australia's emissions is estimated to cost the Australian economy significantly more than not undertaking that action and offers no perceptible additional benefits to the rest of the world — neither in economic terms nor in terms of global environmental benefits (scenario 2d vs scenario 2a, table C).

'Late action', based on a plausible expectation that renewed emphasis on a technology solution to climate change would result in the development and diffusion of cleaner and more cost competitive technologies beyond 2050, is estimated to cost the global economy (as well as the Australian economy) substantially less than any 'early action'.<sup>35</sup>

ACCI supports a policy response which is focussed on technological solutions, international co-operation and involves business as part of the solution.

The key to achieving such a desirable outcome would be to develop a well focused and internationally coordinated technology strategy for the enhanced development, adoption, diffusion and transfer of energy efficient, cleaner technologies. This would involve governments taking a proactive approach to pursue possible technology 'push' policy measures (such as research and development policies, setting industry technology standards, etc.) as well as to reinvigorate energy research through effective public-private partnerships. In the long run, both technology 'push' policies and technology 'pull' policies (such as carbon taxes, emissions trading schemes) would be needed to effectively address climate change related issues.<sup>36</sup>

The manufacturing sector is presently facing severe competition which will likely increase in the future. Increasing costs unilaterally will severely damage sections of the Australian economy which rely on low cost electricity as a source of competitive advantage.

35 Ahammad, H., Matysek, A., Fisher, B.S., Curtotti, R., Gurney, A., Jakeman, G., Heyhoe, E. and Gunasekera, D. 2006, Economic Impact of Climate Change Policy: The Role of Technology and Economic Instruments, ABARE Research Report 06.7, Canberra, July.

36 Ibid

Those States in which manufacturing plays a significant economic role will be the most disadvantaged at the time where many are developing policies designed to the aid manufacturing.

## REGULATION

Australian manufacturers require an efficient regulatory framework in which to operate competitively. ACCI believes that the aim of improving regulation can be achieved and has developed a position paper entitled *Holding Back the Red Tape Avalanche*, which addresses all regulation of economic significance affecting commerce and industry. Principles of good regulation policy are raised in this paper along with practical solutions.

The paper highlights ACCI is not opposed to regulation. ACCI acknowledges that regulation is not fundamentally or inherently damaging to society or business. In fact regulation provides many benefits for business including competitive advantages through improving economic stability, operating and governance arrangements. Such regulations increase public and investor confidence and provide operational certainty.

However, increasingly governments are pressured to regulate business activities in response to high profile cases, relating to safety, natural disasters, corporate collapses and other significant events.

Regulation imposes restrictions on businesses, individuals, volunteer groups and the community. While developing and applying a single regulation can be reasonably costless, multiple and overlapping regulations and the impact of those regulations on economic behaviour and processes can be very expensive.

Regulations affect all facets of business including inputs, prices, output and volumes all of which constrain the ability of business to provide the best product at the lowest cost. Taxes and regulations distort the allocation of resources within firms, limit flexibility of inputs and provide disincentives to increase output. In dynamic economies, the negative effects of regulation on business performance may be even more detrimental— numerous changes to regulations (or the prospect of changes) might also adversely affect productivity and business performance.<sup>37</sup>

37 Ian Bickerdyke and Ralph Lattimore, "Reducing the Regulatory Burden: Does Firm Size Matter?", Staff Research Paper, Industry Commission, December 1997, p11.

The regulation of all facets of business such as its exit, growth and entry of firms has detrimental effects on a number of macro-economic variables. "Once a firm is legally registered and allowed to operate, its decisions are conditioned by regulations on hiring and firing workers, taxes, safety standards, environmental regulations, interest rate controls, trade barriers, legal procedures, etc. Finally, a firm going out of business must again follow a sometimes costly and lengthy procedure."<sup>38</sup>

Regulatory bodies may have little incentive to reduce costs where cost recovery principles apply to those they regulate. They may set higher standards than risk analysis would consider prudent and given a culture of avoiding blame many regulators become risk adverse. Regulators may adopt a culture or view that this is a 'job for life', rather than facilitating the market through a period of change.<sup>39</sup>

ACCI considers responsibility for regulation must be afforded the highest priority by government. Accordingly, ACCI recommended that responsibility for regulation must be vested in the Department of Prime Minister and Cabinet.

The specific features of the ACCI approach are as follows:

- Tabling in Parliament an annual regulatory budget that provides a cost and benefit analysis of all business-related regulations as measuring the cost of regulation is the first step in controlling its growth.
- All regulatory budgets to be placed on a centralised website. This will help to inform the public of the amount of regulation being created and the amount of regulation required to be complied with.
- The Office of Regulatory Review should be moved from the Productivity Commission to the Department of the Prime Minister and Cabinet. The new body, to be known as the Prime Minister's Regulatory Reform Unit (PMRRU), should be headed by a Chief Executive chosen from the business community.
- A modelling unit located in the Productivity Commission should be created to develop a standardised costing

tool to be applied to all new regulatory proposals. Line departments will be required to apply this costing tool to objectively measure the compliance costs of their regulatory bids. We consider this initiative has been addressed through the development of the Business Cost Calculator.

- Regulation that does not pass the Regulatory Impact Statement (RIS) process as determined by the PMRRU must not be allowed to proceed.

ACCI has also proposed related initiatives which will ultimately reduce the amount of regulation faced by all businesses. These include:

- The Commonwealth offering financial assistance to the states for the simplification and alignment of state regulations. This is to deal with problems faced by businesses operating across state boundaries and dealing with inconsistent regulatory approaches.
- Governments should reduce the number of regulators across Australia.
- The Productivity Commission should undertake the process of grading the significance, according to the economic impact of regulation. The areas regarded as most economically significant would then provide the 'beachhead' with which to begin a program to reduce the stock of regulation in that sector.
- A 'one in one out' approach to new regulation proposals should be adopted, whereby policy makers can only introduce new regulation if a redundant or superseded regulation is removed.

The full version of ACCI's  *Holding Back the Red Tape Avalanche: A Regulatory Reform Agenda*  can be downloaded from [www.acci.asn.au](http://www.acci.asn.au).

## INFRASTRUCTURE

Infrastructure development in Australia has in the past revolved around the government's provision of funds, expertise in building, owning and operating projects on behalf of the public. In recent years this paradigm has shifted to include a greater role for the private sector to operate, in some, if not all stages of infrastructure development. Although this trend is well established in many countries the primary responsibility for selecting the project and the method through which to fund infrastructure development implicitly rests with governments.

38 Norman Loayza, Ana María Oviedo and Luis Servén "Regulation and Macroeconomic Performance", Parallel Session 5.2, EGDI and UNU-WIDER Conference, Helsinki, 17-18 September 2004.

39 Better Regulation Task Force, "Imaginative Thinking for Better Regulation" Classic Regulation – Unintended Consequences, September 2003, p19.

ACCI has argued in a number of submissions that there is no overwhelming infrastructure crisis, but there are areas where significant infrastructure investment is needed. Business concerns with infrastructure are more about pricing than access (as indicated by the 2004 pre-election survey).

ACCI has also recently adopted a new infrastructure policy. In summary, the policy argues:

- Infrastructure is vital to Australia. It is essential to improving Australia's economic performance; education and training; national security; social cohesion; and enhancing our built and natural environment.
- Infrastructure needs should be addressed by the private sector where possible, with the Government assisting investment through a facilitative tax and regulatory system.
- The private sector is generally more efficient at developing and operating infrastructure. Government investment should only be used when there is clear and demonstrated market failure and after a thorough cost benefit analysis has been undertaken.
- Where government involvement in infrastructure is required, governments should make full use of partnerships with the private sector to reduce costs.
- The tax and regulatory system should provide appropriate incentives to investment while restricting monopoly power. Reforms should continue under National Competition Policy, in line with the recommendations of a recent inquiry by the Productivity Commission.
- We do not support proposals for an independent National Infrastructure Council or similar to take over decision making on infrastructure projects, but we do support proposals for greater coordination in infrastructure regulation.

The people and organisations in a position to affect the direction of infrastructure policy should not underestimate its importance to the economic and social wellbeing of Australia. Infrastructure can enhance both public and private sector productivity when undertaken in a manner consistent with maximising efficiency both in the short-term and over the long-term. The private sector can bring commercial dynamism, innovation and efficiencies, through the harnessing its own capital, skills and experience.

Australia has a small economy in world terms but is large geographically, making many infrastructure projects very expensive. In addition, numerous studies suggest that public sector infrastructure increases private sector productivity irrespective of whether it is developed using public or private funds.

National infrastructure is defined and categorised in different ways, which serves to highlight the breadth of projects governments must consider. These include economic or physical infrastructure, social infrastructure and human capital infrastructure.

Economic infrastructure is required to produce services, which assist the economy to develop and grow for example, physical infrastructure refers to facilities such as utilities and transportation infrastructure.

Social infrastructure includes education, health, legal and correctional facilities. In contrast to economic infrastructure, the cost of providing social infrastructure is often skewed heavily to the operating phase of the project, although some facilities do, however, require significant capital outlays.

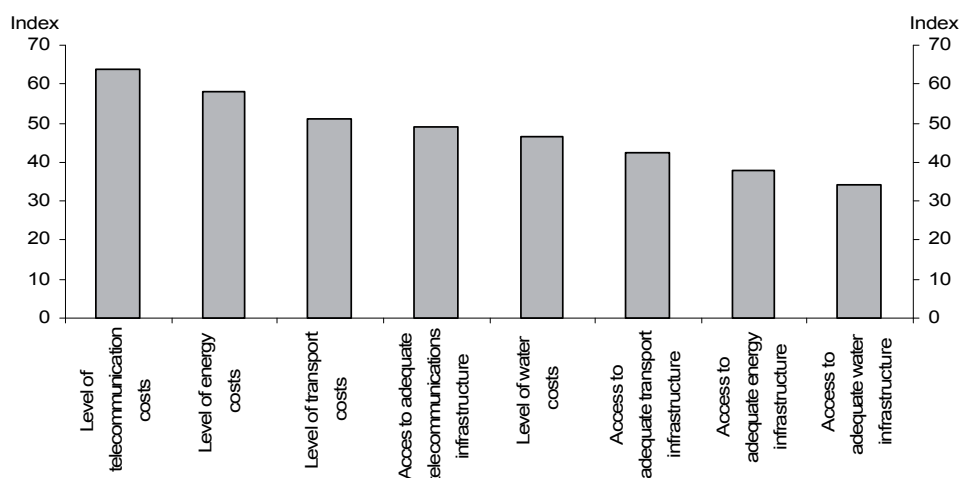
Human capital infrastructure comprises human knowledge and experience and the long-term health of the members of the community, which are as necessary for a productive economy as the facilities described in the other two categories.<sup>40</sup>

Of the different types of infrastructure there are some characteristics relevant and applicable to most forms. Once built, a development will generally have few alternate uses, infrastructure usually exhibits increasing returns to scale making provision of one facility optimal over duplication. Most infrastructure produces essential community services. Infrastructure also plays a key role in overall economic performance and development, influencing investment decisions, access to education and information, the ability to develop local small medium enterprises (SME) and generally enhances the ability of firms to participate in the globalisation process.

ACCI has argued in a number of submissions that there is no overwhelming infrastructure crisis, but there are areas where significant infrastructure investment is needed. Business concerns with infrastructure are more about pricing than access as indicated by the 2004 pre-election survey (see figure 44).

<sup>40</sup> Raphael Henry Arnat, "Getting a fair deal: Efficient risk allocation in the private provision of infrastructure"

**Figure 44  
Infrastructure**



Source: ACCI Pre-Election Survey, 2004.

COAG signed a Competition and Infrastructure Reform Agreement to provide for a simpler and consistent national system of economic regulation for nationally significant infrastructure, including for ports, railways and other export-related infrastructure. The reforms aim to reduce regulatory uncertainty and compliance costs for owners, users and investors in significant infrastructure and to support the efficient use of national infrastructure.

COAG must develop a tax and regulatory system that provides appropriate incentives to invest while restricting monopoly power. Reforms should continue under National Competition Policy, in line with the recommendations of a recent inquiry by the Productivity Commission.

ACCI does not support proposals for an independent National Infrastructure Council or similar to take over decision making on infrastructure projects, but we do support proposals for greater coordination in infrastructure regulation.

## ACCI MEMBERS CHAMBERS OF COMMERCE AND INDUSTRY

### ACT and Region Chamber of Commerce & Industry

12A Thesiger Court  
DEAKIN ACT 2600  
Telephone: 02 6283 5200  
Facsimile: 02 6282 5045  
Email: [chamber@actchamber.com.au](mailto:chamber@actchamber.com.au)  
Website: [www.actchamber.com.au](http://www.actchamber.com.au)

### Australian Business Limited

140 Arthur Street  
NORTH SYDNEY NSW 2060  
Telephone: 02 9927 7500  
Facsimile: 02 9923 1166  
Email: [member.service@australianbusiness.com.au](mailto:member.service@australianbusiness.com.au)  
Website: [www.australianbusiness.com.au](http://www.australianbusiness.com.au)

### Business SA

Enterprise House  
136 Greenhill Road  
UNLEY SA 5061  
Telephone: 08 8300 0000  
Facsimile: 08 8300 0001  
Email: [enquiries@business-sa.com](mailto:enquiries@business-sa.com)  
Website: [www.business-sa.com](http://www.business-sa.com)

### Chamber of Commerce & Industry Western Australia (Inc)

PO Box 6209  
EAST PERTH WA 6892  
Telephone: 08 9365 7555  
Facsimile: 08 9365 7550  
Email: [info@cciwa.com](mailto:info@cciwa.com)  
Website: [www.cciwa.com](http://www.cciwa.com)

### Chamber of Commerce Northern Territory

Confederation House  
1/2 Shepherd Street  
DARWIN NT 0800  
Telephone: 08 8936 3100  
Facsimile: 08 8981 1405  
Email: [darwin@chambernt.com.au](mailto:darwin@chambernt.com.au)  
Website: [www.chambernt.com.au](http://www.chambernt.com.au)

### Commerce Queensland

Industry House  
375 Wickham Terrace  
BRISBANE QLD 4000  
Telephone: 07 3842 2244  
Facsimile: 07 3832 3195  
Email: [info@commerceqld.com.au](mailto:info@commerceqld.com.au)  
Website: [www.commerceqld.com.au](http://www.commerceqld.com.au)

### Employers First™

PO Box A233  
SYDNEY SOUTH NSW 1235  
Telephone: 02 9264 2000  
Facsimile: 02 9261 1968  
Email: [empfirst@employersfirst.org.au](mailto:empfirst@employersfirst.org.au)  
Website: [www.employersfirst.org.au](http://www.employersfirst.org.au)

### State Chamber of Commerce (NSW)

GPO Box 4280  
SYDNEY NSW 2000  
Telephone: 02 9350 8100  
Facsimile: 02 9350 8199  
Email: [enquiries@thechamber.com.au](mailto:enquiries@thechamber.com.au)  
Website: [www.thechamber.com.au](http://www.thechamber.com.au)

### Tasmanian Chamber of Commerce and Industry Ltd

GPO Box 793  
HOBART TAS 7001  
Telephone: 03 6236 3600  
Facsimile: 03 6231 1278  
Email: [admin@tcci.com.au](mailto:admin@tcci.com.au)  
Website: [www.tcci.com.au](http://www.tcci.com.au)

### Victorian Employers' Chamber of Commerce & Industry

GPO Box 4352QQ  
MELBOURNE VIC 3001  
Telephone: 03 8662 5333  
Facsimile: 03 8662 5367  
Email: [vecci@vecci.org.au](mailto:vecci@vecci.org.au)  
Website: [www.vecci.org.au](http://www.vecci.org.au)

## ACCI MEMBERS NATIONAL INDUSTRY ASSOCIATIONS

### ACCORD

Dalgety Square  
Suite C7, 99 Jones Street  
ULTIMO NSW 2007  
Telephone: 02 9281 2322  
Facsimile: 02 9281 0366  
Email: [bcapanna@acspa.asn.au](mailto:bcapanna@acspa.asn.au)  
Website: [www.acspa.asn.au](http://www.acspa.asn.au)

### Agribusiness Employers' Federation

GPO Box 2883  
ADELAIDE SA 5001  
Telephone: 08 8212 0585  
Facsimile: 08 8212 0311  
Email: [aef@aef.net.au](mailto:aef@aef.net.au)  
Website: [www.aef.net.au](http://www.aef.net.au)

### Air Conditioning and Mechanical Contractors' Association

30 Cromwell Street  
BURWOOD VIC 3125  
Telephone: 03 9888 8266  
Facsimile: 03 9888 8459  
Email: [deynon@amca.com.au](mailto:deynon@amca.com.au)  
Website: [www.amca.com.au/vic](http://www.amca.com.au/vic)

### Association of Consulting Engineers Australia (The)

75 Miller Street  
NORTH SYDNEY NSW 2060  
Telephone: 02 9922 4711  
Facsimile: 02 9957 2484  
Email: [acea@acea.com.au](mailto:acea@acea.com.au)  
Website: [www.acea.com.au](http://www.acea.com.au)

### Australian Beverages Council Ltd

Suite 4, Level 1  
6-8 Crewe Place  
ROSEBERRY NSW 2018  
Telephone: 02 9662 2844  
Facsimile: 02 9662 2899  
Email: [info@australianbeverages.org](mailto:info@australianbeverages.org)  
Website: [www.australianbeverages.org](http://www.australianbeverages.org)

### Australian Hotels Association

Level 1, Commerce House  
24 Brisbane Avenue  
BARTON ACT 2600  
Telephone: 02 6273 4007  
Facsimile: 02 6273 4011  
Email: [aha@aha.org.au](mailto:aha@aha.org.au)  
Website: [www.aha.org.au](http://www.aha.org.au)

### Australian International Airlines Operations Group

c/- QANTAS Airways  
QANTAS Centre  
QCA4, 203 Coward Street  
MASCOT NSW 2020  
Telephone: 02 9691 3636

### Australian Made Campaign Limited

486 Albert Street  
EAST MELBOURNE VIC 3002  
Telephone: 03 8662 5390  
Facsimile: 03 8662 5201  
Email: [ausmade@australianmade.com.au](mailto:ausmade@australianmade.com.au)  
Website: [www.australianmade.com.au](http://www.australianmade.com.au)

### Australian Mines and Metals Association

Level 10  
607 Bourke Street  
MELBOURNE VIC 3000  
Telephone: 03 9614 4777  
Facsimile: 03 9614 3970  
Email: [vicamma@amma.org.au](mailto:vicamma@amma.org.au)  
Website: [www.amma.org.au](http://www.amma.org.au)

### Australian Paint Manufacturers' Federation Inc

Suite 1201, Level 12  
275 Alfred Street  
NORTH SYDNEY NSW 2060  
Telephone: 02 9922 3955  
Facsimile: 02 9929 9743  
Email: [office@apmf.asn.au](mailto:office@apmf.asn.au)  
Website: [www.apmf.asn.au](http://www.apmf.asn.au)

### **Australian Retailers' Association**

Level 2  
104 Franklin Street  
MELBOURNE VIC 3000  
Telephone: 03 9321 5000  
Facsimile: 03 9321 5001  
Email: [vivienne.atkinson@vic.ara.com.au](mailto:vivienne.atkinson@vic.ara.com.au)  
Website: [www.ara.com.au](http://www.ara.com.au)

### **Housing Industry Association**

79 Constitution Avenue  
CANBERRA ACT 2612  
Telephone: 02 6249 6366  
Facsimile: 02 6257 5658  
Email: [enquiry@hia.asn.au](mailto:enquiry@hia.asn.au)  
Website: [www.buildingonline.com.au](http://www.buildingonline.com.au)

### **Insurance Council of Australia**

Level 3  
56 Pitt Street  
SYDNEY NSW 2000  
Telephone: 02 9253 5100  
Facsimile: 02 9253 5111  
Email: [ica@ica.com.au](mailto:ica@ica.com.au)  
Website: [www.ica.com.au](http://www.ica.com.au)

### **Investment and Financial Services Association Ltd**

Level 24  
44 Market Street  
SYDNEY NSW 2000  
Telephone: 02 9299 3022  
Facsimile: 02 9299 3198  
Email: [ifsa@ifsa.com.au](mailto:ifsa@ifsa.com.au)  
Website: [www.ifsa.com.au](http://www.ifsa.com.au)

### **Live Performance Australia**

Level 1  
15-17 Queen Street  
MELBOURNE VIC 3000  
Telephone: 03 9614 1111  
Facsimile: 03 9614 1166  
Email: [info@liveperformance.com.au](mailto:info@liveperformance.com.au)  
Website: [www.liveperformance.com.au](http://www.liveperformance.com.au)

### **Master Builders Australia Inc.**

16 Bentham Street  
YARRALUMLA ACT 2600  
Telephone: 02 6202 8888  
Facsimile: 02 6202 8877  
Email: [enquiries@masterbuilders.com.au](mailto:enquiries@masterbuilders.com.au)  
Website: [www.masterbuilders.com.au](http://www.masterbuilders.com.au)

### **Master Plumbers' and Mechanical Services Association Australia (The)**

525 King Street  
WEST MELBOURNE VIC 3003  
Telephone: 03 9329 9622  
Facsimile: 03 9329 5060  
Email: [info@mpmsaa.org.au](mailto:info@mpmsaa.org.au)  
Website: [www.plumber.com.au](http://www.plumber.com.au)

### **National Electrical and Communications Association**

Level 3  
100 Dorcas Street  
SOUTH MELBOURNE VIC 3205  
Telephone: 03 9645 5566  
Facsimile: 03 9645 5577  
Email: [necanat@neca.asn.au](mailto:necanat@neca.asn.au)  
Website: [www.neca.asn.au](http://www.neca.asn.au)

### **National Retail Association Ltd**

PO Box 91  
FORTITUDE VALLEY QLD 4006  
Telephone: 07 3251 3000  
Facsimile: 07 3251 3030  
Email: [info@nationalretailassociation.com.au](mailto:info@nationalretailassociation.com.au)  
Website: [www.nationalretailassociation.com.au](http://www.nationalretailassociation.com.au)

### **NSW Farmers Industrial Association**

Level 10  
255 Elizabeth Street  
SYDNEY NSW 2000  
Telephone: 02 8251 1700  
Facsimile: 02 8251 1750  
Email: [industrial@nswfarmers.org.au](mailto:industrial@nswfarmers.org.au)  
Website: [www.iressentials.com](http://www.iressentials.com)

### **Oil Industry Industrial Association**

c/- Shell Australia  
GPO Box 872K  
MELBOURNE VIC 3001  
Telephone: 03 9666 5444  
Facsimile: 03 9666 5008

### **Pharmacy Guild of Australia**

PO Box 7036  
CANBERRA BC ACT 2610  
Telephone: 02 6270 1888  
Facsimile: 02 6270 1800  
Email: [guild.nat@guild.org.au](mailto:guild.nat@guild.org.au)  
Website: [www.guild.org.au](http://www.guild.org.au)

### **Plastics and Chemicals Industries Association Inc**

Level 2  
263 Mary Street  
RICHMOND VIC 3121  
Telephone: 03 9429 0670  
Facsimile: 03 9429 0690  
Email: [info@pacia.org.au](mailto:info@pacia.org.au)  
Website: [www.pacia.org.au](http://www.pacia.org.au)

### **Printing Industries Association of Australia**

25 South Parade  
AUBURN NSW 2144  
Telephone: 02 8789 7300  
Facsimile: 02 8789 7387  
Email: [info@printnet.com.au](mailto:info@printnet.com.au)  
Website: [www.printnet.com.au](http://www.printnet.com.au)

### **Restaurant & Catering Australia**

Suite 32  
401 Pacific Highway  
ARTARMON NSW 2604  
Telephone: 02 9966 0055  
Facsimile: 02 9966 9915  
Email: [restncat@restaurantcater.asn.au](mailto:restncat@restaurantcater.asn.au)  
Website: [www.restaurantcater.asn.au](http://www.restaurantcater.asn.au)

### **Standards Australia Limited**

286 Sussex Street  
SYDNEY NSW 2000  
Telephone: 1300 65 46 46  
Facsimile: 1300 65 49 49  
Email: [mail@standards.org.au](mailto:mail@standards.org.au)  
Website: [www.standards.org.au](http://www.standards.org.au)

### **Victorian Automobile Chamber of Commerce**

7th Floor  
464 St Kilda Road  
MELBOURNE VIC 3000  
Telephone: 03 9829 1111  
Facsimile: 03 9820 3401  
Email: [vacc@vacc.asn.au](mailto:vacc@vacc.asn.au)  
Website: [www.vacc.motor.net.au](http://www.vacc.motor.net.au)