

AMWU

Submission to the House of Representatives Standing Committee on Industry, Science and Resources

Inquiry into increasing value-adding to Australia's raw materials

Introduction

The AMWU believes that the development of a viable import competing manufacturing industry is imperative for the long-term prosperity of working Australians and their families. Value adding takes advantage of Australia's abundance of natural resources and fuels the linkages inherent to these industries by promoting development of the down and upstream processes of manufacturing and value adding. This submission will look at the importance of manufacturing both as an employer and as a contributor to the wealth and knowledge base of the nation as a whole. For too long in the boardrooms of Australia there has been a perception that the Australian resources industry is not in a viable position for effective and competitive value adding. This has allowed investment to be directed elsewhere.

Manufacturing is currently 29 per cent (or \$23.9 billion) of Australia's trade mix, up from 23 per cent a decade ago. Primary or commodity products are still the majority of Australia's export base at 59 per cent (or \$47.9 billion), although this is down from 68 per cent a decade ago.

Because of Australia's land mass and the availability of minerals we have always been a commodity producing nation, and neglected the development of other sectors. But unprocessed commodities are particularly sensitive to changes in price on the world market. As well, competition from developed nations who subsidise their commodities is fierce. So too is increasing competition from developing nations whose governments actively pursue the development of manufacturing and processing industries as a means of development.

The AMWU defines two broad levels of manufacturing. Both are necessary to maintain growth and development into the future;

- 1. Simply Transformed Manufacturers (STMs)** - these are the product of basic manufacturing and tend to be less capital intensive and more labour intensive. For instance transforming raw materials into other components or products, value adding.
- 2. Elaborately Transformed Manufacturing (ETMs)** - these are the product of capital and technology intensive manufacturing industries known as strategic industries for their higher returns.

The AMWU supports the definition of value adding that is sectorial or industry based, such as the definition supplied by AFFA that value adding encompasses any activity that adds to or enhances the value of products. The AMWU focus is on the value added accrued for an industry which then flow to increasing the value-added for an economy as a whole, the macroeconomic figures. For there to be economic growth we must focus on the linkages between sectors and industry's, with manufacturing or value adding of raw materials beginning this process. The AMWU opposes an economy or macroeconomic approach to value adding and industry development. To have such an approach only serves to further neglect the special role of the processing and manufacturing sector as fueling the demand for inputs in other sectors.

Australia sells its commodities on the world market, but then often buys them back in the form of manufactured goods. The AMWU attests to the fact that the initial manufacturing process must be completed in Australia. The flow on generated in developing a larger ETM sector will only occur if the inputs to this sector are localised to different stages of the manufacturing process or the consumer.

"Value-adding" overseas or transforming commodities into STMs and ETMs and then importing the finished product fuels the current account deficit. This problem of the current account deficit arises because once they have been value added overseas we are often buying back our own primary products at a higher price than we sold them on the world market. The development of both the STM and ETM sectors is imperative for Australia to compete effectively in the world market.

The AMWU believes that the key to Australia's manufacturing sector is to invest more in the manufacturing and processing of our primary products and to increase the proportion of STMs and ETMs we export to the world. But to increase our manufacturing exports we need to invest in research and development and in education, training and innovation to create a skilled workforce that can compete internationally and attract investment to Australia.

The AMWU has found that the capacity of Australian manufacturing to invest and improve its productivity is critical to Australia's capacity to improve real wages. In the 20 years to 1995, despite its decline in size and employment, the manufacturing industry contributed 50 per cent of Australia's total productivity growth, as measured across all industries. The capacity of a nation or an economy to increase its productivity is a measure of how it can increase profits on production, which in turn is the measure of a nation's ability to share those rising profits in the form of higher wages for its workers.

The AMWU supports the view that the further development of processing of raw materials is an essential part of the development of an import-competing industry. This industry broadly falls into the STM sector of manufacturing, as it is at the first transformation process from basic metal to a manufactured product. We also believe that for capital intensive industries to develop it is necessary for the state to reduce the inherent risk to investment through various types of industry assistance, which will be outlined later.

This submission will firstly look at the manufacturing industry in Australia, and discuss the linkages to other industries that also helps fuel employment growth. The AMWU believes strongly in the development of a manufacturing and processing industry and as such we have looked extensively at the relationship of education and innovation to the industry, and the role that government needs to play for the sector to grow. Finally, we propose a broad action plan for the development and sustainment of the

industry, as well as some essential factors that can be enacted by all Governments. As this submission will show, the AMWU supports the continued growth and relevance of manufacturing in Australia, particular ensuring that benefits flow through to the people we represent; the working people of Australia and their families.

Manufacturing in Australia

All developed nations (e.g. OECD members) continue to have a large manufacturing base, and the rapid acquisition of manufacturing industry remains the chosen path to high per-capita income among developing countries such as China and Korea in the Asia-Pacific. Within OECD nations manufacturing is a key generator of full-time well paid jobs, technical innovation, new products and export income. Australia has allowed, and indeed encouraged, its manufacturing base to decline to the point that its share of output is one of the very lowest among developed nations.

Manufacturing represents only 14 per cent of Australian GDP, compared to around 20 per cent of output for all other OECD nations. For technologically advanced countries such as Japan and Germany it represents around 25 per cent of output.

Australia has a manufacturing sector between five and seven per cent smaller than comparative OECD countries and is one of only three OECD countries where manufacturing growth during the 1990s was less than half that of economy-wide growth.

In light of the above the AMWU believes that we must invest more strategically in developing manufacturing such as processing of raw materials and in the STM sector. As will be discussed later in this submission the development of a competitive STM sector flows through to all other manufacturing and indeed other industries, hence increasing employment and economic growth. The current rational of withdrawing government intervention in the development of industry, particularly by the current federal government, ignores the long-term ramifications this will have for Australia, particularly on workers and their families.

Australia has one of the highest current account deficits in the world - constantly in excess of 5 per cent of GDP whenever the economy grows by more than 3.5 per cent.

In a report commissioned by the AMWU¹ looking at innovation and growth in the NSW manufacturing industry it was found that in the absence of industry policy to develop Australian manufacturing the only way to reduce the growth rate of the current account deficit is for the government to engineer a recession, i.e. to reduce economic growth and the trade deficit. Rising current account deficits and the necessity for the government to slow the economy to reduce imports was precisely the cause of the 'recession we had to have' in 1991.

The AMWU strongly opposes the continuing use of short term fixes to solve Australia's chronic current account deficit. The workers and their families that the AMWU represents should not be made to bear

¹AMWU (1999) *Growth and Innovation in the NSW Manufacturing Sector*, Submission to the Public Accounts Committee on Industry Assistance Policy in NSW pg. 12

the brunt of the ineffectiveness of successive state and federal governments in assisting the development of industry in Australia

Linkages to other industries

The AMWU recognises that manufacturing has better linkages with other industries, therefore fueling employment growth. Many service-based firms are dependent on demand from manufacturing. For example, 33 per cent of demand for services from the Transport and Storage industry is from manufacturing. Manufacturing is also a major user of services from private scientific establishments, engineering and computer consultancy firms therefore increasing demand on R&D. These service firms are also key generators and diffusers of new technology, or what is commonly referred to as the 'new' over the 'old' industries. The AMWU supports the view that it is in fact the use of such 'new' technologies by the manufacturing industry that is ensuring the growth of the technology sector.

In the STM sector much of the output is not directly consumed by consumers, but is capital goods and intermediate inputs which enter into the production process of other industries. These capital goods and intermediate products embody a continual improvement in technologies which, in turn, improves the productivity and efficiency of user industries.

The manufacturing industry is both a key source of inputs for other industries and a key source of demand for output of other industries. These linkages are effectively the purchasing and supply chains with other industries. Our research has shown that it is in fact manufacturing that has the highest level of demand for inputs when compared to other industries.²

The significance of these closer linkages with other industries is that every dollar of manufacturing output generates more activity and jobs in the economy compared to a dollar increase in the output of other industries, especially in agriculture and mining. The manufacturing industry has a total multiplier effect of 20 per cent and 25 per cent larger than that of agriculture and mining respectively.³

This again proves the necessity of developing a viable manufacturing sector that compares to our trading partners. As stated previously, with a manufacturing industry in Australia representing only 14 per cent of GDP, compared to on average 20 per cent in comparable developed nations, this begs the question if Australia is in fact a developed nation, or simply a consuming nation.

Therefore, the AMWU believes it is paramount to rebuild our manufacturing sector. However, it is also necessary to close the increasing knowledge deficit and brain drain that is afflicting Australia and the development of Australian industry.

Education, Training and Innovation: Skilling the workforce

²ibid pg. 11

³ibid pg. 11

There are many reasons why manufacturing is so important to economic growth as outlined above. Another being the flows through to education, training and innovation which in itself promotes and sustains long-term industry development, hence economic growth of a nation. A skilled workforce can only secure long-term benefits for the country. We don't support or believe that short-term quick fixes are suitable to promote the kind of industry development that Australia needs if we are to be a competitor in the international market place well into the future.

Manufacturing is the driving force in the generation of new technologies and new products. In Australia 60 per cent of all private sector Research and Development (R&D) expenditures is made by the manufacturing industry. This R&D is used to devise more efficient products and production methods, new products and industries. It is now widely accepted that R&D is an essential element in the maintenance of the competitiveness of a nation and its industries. World exports are increasingly 'knowledge intensive' (the share of R&D in value-added which increases over time) and the fastest rate of growth in merchandise exports is in these knowledge-intensive industries. The AMWU has already outlined the necessity of a structured long-term view of industry development, but we also recognise that it is all sectors of manufacturing that must continually be developed to ensure effective linkages and flow-on of technological advancement.

Relative to other OECD countries we are investing 1.5 per cent less of our GDP each year in education, R&D and innovation. If this continues over the next decade we will have a knowledge deficit of some \$135 billion (cumulative over the decade in current prices).⁴

The AMWU is far from alone in pursuing greater investment in education, R&D and innovation. This year the Chief Scientist of Australia released a report on the brain drain in Australia, again proving the dire predictions to Australian industry if the decline in investment is not halted. From the report the Chief Scientist has reiterated what the AMWU has been arguing for. For Australia to thrive we must follow what other nations have already been doing, translating knowledge into wealth as being the main focus of sustainable economic development.

Themes for investment need to involve:

- Culture - The Science, Engineering and Technology (SET) base is reliant upon people who have progressed through a supportive educational system, from primary school through to tertiary and beyond;
- Ideas - Australia needs to create environments in which the best ideas are identified quickly and easily, to promote our contribution to the global knowledge pool and to respond to business and community needs; and
- Commercialisation - The innovation system is dependent on strong links between all players, government, industry and research performers. Government has a special role to play in aiding the linkage process.⁵

Effective use of the intellectual property system is also an integral part of increasing the added value of raw material exports. A considerable proportion of the value added to raw materials can be attributed to

⁴AMWU (2000) *Manufacturing in the New Economy*, AMWU discussion paper

⁵Batterham, Robin Dr. (2000) *The Chance to Change*, Discussion paper by the Chief Scientist

specific know how or patented technology, and the better this know how and technology is protected by the intellectual property system, the greater our continuing competitive edge. If Australia is to be a creator of technology then our intellectual know how has to be supported and protected from abuse both domestically and internationally. Currently, however there is obvious lacking in both the funding arrangements for our knowledge industries and protection, this will only serve to restrict the competitive nature of advancements in knowledge and innovation in the manufacturing industries.

Industry Assistance

Throughout this submission the AMWU has reiterated the dire straits of Australia's economy if we continue to neglect the further development of strategic industries in Australia. However, to develop these kinds of industries, industry assistance is necessary. Industry assistance is not just about tariffs. Instead, governments can support the development of these industries through, for example:

- Capital grants;
- Purchasing policies;
- Research and development assistance and coordinated education and training. But this needs to be linked with industry effectively or all that Australia will be doing is paying for trained staff, who leave Australia to North America and Europe where there are better and more job opportunities.

The AMWU submits that these issues are of paramount importance for the long-term prospects of the Australian economy. They can be ignored no longer. Therefore we have proposed an eight point action plan for all governments to consider and act on if Australia is going to continue to grow and prosper into the future for the working people of Australia and their families.

1. Invest 5% of GDP into the education system (compared to 4.3% today). This must be sustained at or above the OECD average;
2. Implement policies aimed at lifting business investment in R&D;
3. Lift government support to the SET sector as advocated by the Chief Scientist;
4. Encourage the mobilisation of venture capital (from institutions, individuals, companies and Government) to support start up and early stage businesses with the commercialisation of new technologies;
5. Prioritise sector action plans for Australia's science and engineering based industries including a refocusing of investment promotion activities to ensure additional greenfield site capacity is established in these industries;
6. Ensure development of worlds best pro-active innovation system, such take up rates and capabilities of the on-line economy, commercially driven networks and clusters of firms including those in business incubators/technology parks, as well as strong linkages between public and private sector agencies (two way flows of scientist, engineers, resources etc.) that drive the innovations system;
7. Foster a socio-political culture that "manufacturing matters", and to "make it here or jobs disappear". Ensure Australia establishes an international reputation as a location within which to manufacture for both domestic and global markets;
8. Encourage linkages between government agencies that ensure investment in innovation and the development of industry;