

Growing and Rebalancing the Australian Economy



 AUSTRALIAN INDUSTRY GROUP

Ai Group's 10 point plan for a strong and diversified economy

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While considerable attention is rightly focused on the challenge of budgetary consolidation, the Australian economy also urgently requires rebalancing as it digests the effects of the 'supercycle' in mining investment and mining output growth. Put simply, investment, employment and production need to lift in other parts of our economy if we are to improve incomes and living standards across the community.

This rebalancing is critical both for the strength of the economy and its resilience. Australia's exposure to volatile commodity prices has already increased and is set to rise further as mineral and energy exports rise. Similarly, our exposure to conditions in a handful of commodity purchasing countries has climbed and is on a path to climb further.

Meeting these challenges requires confronting the twin barriers of high costs and low productivity. Currency movements, the escalation in energy costs and the rise in our relative unit labour costs have transformed Australia into a high cost economy. At the same time our productivity growth has slowed.

As a result, we are not in a strong position to overcome the national income-sapping impacts of lower commodity prices and the retreat of investment from resource and energy projects. We now urgently need a strong and concerted effort to lift productivity and competitiveness across the economy, including through better use of labour, capital and energy.

Action is needed on a broad front: in consolidating national and state budgets; upgrading infrastructure; addressing shortcomings in our workplace relations framework; lifting the skills of the workforce; raising Australia's innovation performance and our business capabilities; reducing regulatory burdens; ameliorating price rises in energy markets and meeting our emissions reduction and renewable energy targets at least cost to the Australian community.

A major focus needs to be put on lifting the performance of Australia's trade-exposed industries. These industries have been squeezed and undermined by cost and productivity pressures. Yet these same industries have a critical role to play in rebalancing the economy. These industries require rapid recapitalisation; their productivity growth needs to accelerate and they need to search for and develop competitive opportunities both locally and in export markets.

As our fourth largest industry, the manufacturing sector is central to this national project.

Manufacturing is a large and diverse sector, which, while under considerable pressure marked by prominent announcements of closures and distress, nevertheless has tremendous opportunities for growth within Australia and through global supply chains.

These opportunities are important not just for the manufacturing sector but also for broader economy both because manufacturing is a key avenue for the diversification of the economy and because conditions in manufacturing multiply across the broader economy by its roles as a purchaser of goods and services; as a supplier to a wide range of industries; and as a disproportionately large contributor to national research and development.

Modern Australian manufacturing includes large and high-value sectors such as food processing, confectionery, wine and other beverages, pharmaceuticals and medical appliances, toiletries and cosmetics, transport and mining equipment, and specialist building materials. These sectors do not require or desire direct financial support from Government. But they do need a supportive policy environment in which to thrive. Government policies must facilitate their innovation, investment and growth and not impede it.

10 point plan for a strong and diversified economy

Ai Group believes the health of manufacturing - and that of the wider Australian economy - requires a number of key policy issues to be addressed. These range across 10 national economic policy priority areas:

1. Consolidation of Government Budgets
2. Investing in Infrastructure
3. Removing Key Workplace Relations Roadblocks
4. Boosting Workforce Skills
5. Building Innovation and Business Capabilities
6. Lifting Manufacturing Performance
7. Successful Transition for Automotive Manufacturing
8. Reducing Regulatory Burdens
9. Reforming Energy Markets
10. Reducing Emissions and Meeting the Renewable Energy Target at Least Cost

1. Consolidation of Government Budgets

Australia should target the restoration of resilient and sustainable federal, state and territory budgets by the end of the decade.

Ai Group recognises and supports the need for major and politically difficult changes both to spending and taxation.

The timing of the budget consolidation should be sensitive to the state of the macro-economy and in particular to the risks of exacerbating the current slow patch.

2. Investing in Infrastructure

Ai Group is a keen promoter of the benefits to national productivity and amenity from greater levels of investment in infrastructure and particularly in transport and telecommunications infrastructure to reduce congestion and freight costs and to lay the foundation for a wholesale take-up of digital opportunities.

The time is ripe for an acceleration of activity to take advantage of the progressive release of construction capacity as the mining boom winds down.

We support a rigorous and transparent approach to project assessment and prioritisation.

We are also a strong supporter of tapping private sector involvement both in greenfields and brownfields projects. In relation to brownfields projects, we are an advocate of capital recycling proposals and are aware that there is no shortage of funds ready to add to the very substantial investments in Australian infrastructure by industry superannuation funds in particular.

Ai Group supports prudent public sector borrowing to finance infrastructure development and supports distinguishing between capital and recurrent outlays in public sector accounts.

3. Removing Key Workplace Relations Roadblocks

Industry cannot afford to wait until the next Federal Election to have key problems with the Fair Work Act addressed. Some important changes are needed without delay to remove barriers to productivity and competitiveness.

- The breadth of permitted bargaining claims needs to be reduced to ensure that bargaining is focused on matters which genuinely pertain to the employment relationship, rather than on matters which seriously impede the ability of employers to manage their businesses in a productive manner.
- The general protections in the Act need to be tightened to enable companies to implement reasonable changes without the risk of general protections claims.



- The transfer of business laws need to be amended to restore the “character of the business test” so that companies can restructure and outsource to remain competitive, without industrial instruments flowing on to other businesses in inappropriate circumstances.

Given the current challenges which manufacturing and other businesses are facing, Ai Group has proposed a number of changes to the bargaining laws to create a more appropriate framework for bargaining, and to assist companies to change industrial arrangements implemented in more prosperous times but which are now unsustainable:

- Companies should be able to put proposed changes to enterprise bargaining agreements to their employees regardless of whether a no extra claims clause is in the agreement. The recent Federal Court decision preventing Toyota asking its employees whether they support proposed changes to their EBA has highlighted the absurdity of the current arrangements.
- A further important issue which needs to be addressed is the very high bar which the Fair Work Act and decisions of the Fair Work Commission have placed on applications to terminate an enterprise agreement after its nominal expiry date.

Further changes should be made in the following areas:

- Industry-wide pattern agreements should be prohibited.
- When a union or employer representative body makes a bargaining claim it should be required to disclose in writing to the employees and the employer any direct or indirect financial benefit that they may derive from the claim.
- The overly-generous extension of the General Employee Entitlements and Redundancy Scheme (GEERS), renamed the Fair Entitlements Guarantee (FEG), made by the previous Government create serious risks both from a union push to increase redundancy entitlements under EBAs and to the Commonwealth Budget. The protections under the scheme should be wound back to a more reasonable level of entitlements.

4. Boosting Workforce Skills

Boosting the skills and creativity of Australia's workforce and management is central to lifting national productivity and well-being. There is strong potential to improve the performance of all levels of our education and training systems by lifting the quality of teaching and learning and by making it more relevant to the dynamic requirements of industry, government and other employers.

- **Apprenticeships**

Our apprenticeship systems should be put on a more productive path to better align with workforce needs and to remove unnecessary duplication and complexity. Better alignment requires a substantial refocus on the core relationship between apprentice and employer, rather than on the training and allied support systems. Ensuring national consistency of the apprenticeship system and removing the burden of duplicative regulation and administration across jurisdictions could be achieved by establishing a National Apprenticeship Commission charged with delivering on these objectives.

The current decline in commencements should be addressed by introducing targeted incentives similar to the former Kickstart initiative.

- **Workplace literacy**

While early-childhood learning and school-level initiatives are required to lift the literacy and numeracy of the future workforce, the more immediate opportunities for productivity gains are through targeted Workplace Language, Literacy and Numeracy programs.

The National Workforce Development Fund (NWDF) is a highly efficient and effective up-skilling model. An extension of the NWDF, or a similar co-contribution model that focuses on the up-skilling of existing workers in the context of the business needs of the enterprise, would help deliver immediate productivity benefits at the enterprise level.



- **Vocational Education and Training**

The VET sector plays a critical role in the training of both new workforce entrants and the existing workforce. There is considerable scope to shift the VET system to become streamlined, more efficient and more closely in tune with workforce needs.

5. Building Innovation and Business Capabilities

There is considerable scope to boost the productivity of Australian industry over both the long and shorter-terms by lifting business capabilities among Australia's small and medium-sized businesses and along supply chains and by greater and smarter facilitation of business innovation.

- **Business capabilities**

The very successful Enterprise Connect program through which Business Advisors provide tailored advice to guide SME self-improvement should be expanded and backed by initiatives that encourage businesses to work actively to lift capabilities in their networks and along their supply chains.

The considerable opportunities available through greater international trade and investment can be lifted by enhancing the Export Market Development Grants (EMDG) program; by extending, broadening and better co-ordinating our trade and investment support networks and by facilitating SME engagement in global supply chains.

The competitive performance of Australian businesses can be raised through greater business awareness of and engagement with, the commercial opportunities presented by the "digital revolution" and by the large investments underway in telecommunications infrastructure. The Digital kits program is a promising start and can be used as a basis of greater efforts.

An important avenue for business improvement lies in raising the capacity of management to improve workplace performance and better orientate employee engagement towards business improvement and innovation. Ai Group recommends the development of information and tailored programs to lift these important management capabilities.

- **Innovation**

The development of successful new products and services and investing in process and design-led innovation are fundamental to improving the contributions Australian businesses make to the dynamism and strength of the Australian economy. While primarily areas of business responsibility, governments have critical facilitating roles to play.

A well-designed Research and Development tax incentive is a key part of the innovation policy mix and there are important refinements that should be made to ensure Australia maintains the considerable momentum it has displayed in raising business expenditure on research and development. Australia is now within reach of, and should target, a level of business R&D spending that at least equals the average of OECD countries.

Notwithstanding the gains that have been made in business R&D, Australia still has comparatively low levels of collaboration between business and the very strong capabilities in our publicly-funded research organisations. Lifting the depth and breadth of engagement should be a core priority. A number of successful and promising initiatives should be retained and expanded.

- A fundamental emphasis should be given to ensuring that incentives within research organisations for business collaboration are improved so that researchers are encouraged to search for and develop close and productive relationships with innovative businesses.
- The Commonwealth Government's emphasis on targeted centres of excellence dedicated to improving business innovation by linking research, capability development and business expertise is a promising direction that should be built on in close collaboration with the broader business community.
- Ai Group is also a strong supporter of the Cooperative Research Corporation (CRC) program and there is strong scope to refine the program by encouraging CRCs to engage more actively with the business community.
- The successful Researchers in Business program linked with Enterprise Connect is also an important initiative and should be maintained and expanded.

Australia's early-stage capital markets should be strengthened and deepened to the point where they are self-sustaining and provide adequate private capital to the development and commercialisation of new businesses.



- **Lifting the capabilities and innovation focus of businesses through procurement**

Federal and state government procurement is a major market and a potential driver of innovation. Smart procurement can deliver value for taxpayers while also stretching the capabilities of innovative Australian suppliers, by targeting development of new products and services tightly integrated with customer requirements and local market conditions.

6. Lifting Manufacturing Performance

Effective, economy-wide policies in relation to infrastructure, workplace relations, skills, innovation and business capabilities would provide a very solid basis for an acceleration of the rejuvenation of Australian manufacturing.

In addition, in view of the extended period of under-investment and the impacts on revenues, margins and reserves of the long phase of very high exchange rates, Ai Group proposes the selective introduction of a period of rapid depreciation for manufacturers making new investments in plant and equipment over the next five years. A similar case can be also made for investments in plant and equipment in other trade-exposed industries that have been similarly disrupted over the past decade.

A well-targeted period of accelerated depreciation would support a rapid and much-needed recapitalisation of the manufacturing sector. The assessment of budgetary impacts should take into account not just the bring-forward of capital write-off deductions but also the additional revenue from a boost to investment, output and sales revenue.

There is very strong potential in taking a number of defence-related initiatives to develop domestic capabilities to meet security objectives. These include:

- Australian construction of the Future Submarine, supply vessels and the replacements for the ANZAC Frigate and the Armidale Class Patrol Boat;
- An early commitment to building the Hawke and Land 400 armoured vehicles domestically; and
- Boosting Australian Defence company engagement with regional countries (e.g. Indonesia) through training, simulators, maintenance support, and technical and systems integration and support.

Governments can also play a role in ensuring a level-playing field for Australian manufacturers and other businesses. This includes having a fair and transparent anti-dumping regime; by ensuring – at the federal and state levels - that domestic businesses are given full and fair opportunities to supply major projects including through streamlined but nevertheless effective Australian Industry Participation Plans; and through effective measures to ensure that Australian businesses are not unfairly disadvantaged by poor enforcement of regulatory requirements or non-conformity with standards.

7. Successful Transition of Automotive Manufacturing

Governments are committed to assisting the transition of employees, regions and businesses in the face of the end of automotive assembly in Australia. Ai Group supports the commitments that have been made to date to assist the transition. A number of areas already mentioned, including workplace relations and initiatives for the manufacturing sector, are very relevant to the successful management of this important structural shift. We also propose a number of specialised initiatives.

- Imaginative regional economic strategies for areas hardest hit by manufacturing closures in Victoria and South Australia. These should be developed in close consultation with regional communities including a strong input from businesses.
- For employees, targeted skills and training initiatives are required and should be developed in close collaboration both with restructuring businesses in automotive supply chains and with potential employers in other industries.
- The transition of businesses can be assisted by an additional and focused extension of Enterprise Connect to help assess capabilities and opportunities for restructuring. Restructuring opportunities could be greatly assisted by government-funded market assessments of opportunities.
- Working closely with the businesses in automotive supply chains would assist in informing a successful “soft loans” program where finance is made available to businesses with good prospects for successful transition. A loans program would have a number of advantages over a grants program and would address the weaknesses in financial markets that denies capital to businesses in areas of industry perceived to be high risk.

8. Reducing Regulatory Burdens

Ai Group is a strong supporter of the Commonwealth Government's regulatory reform initiatives and the extension of this into the Council of Australian Governments (COAG). Clear targets, identification of responsibilities and accountabilities and transparent assessment of outcomes are key ingredients of success. Incentive payments across the federation may be needed to secure and accelerate state and territory cooperation in addressing the many areas of duplication and conflicting approaches.

Regulatory costs associated with development and construction are frequently identified by Ai Group members as is the potential for improving government procurement processes more generally to reduce the cost and risk of participation. Many businesses also identify the considerable opportunities available if governments took a more innovative approach to using digital technologies to reduce transaction costs.

Many streamlining opportunities large and small are available. To identify them, governments should pursue continuous consultation with business nationwide. Ai Group is assisting in this process by identifying areas of concern across our membership.

9. Reforming Energy Markets

The biggest issues in the electricity markets are managing network costs and keeping downward pressure on wholesale prices by keeping supply in excess of demand. An existing reform agenda agreed by COAG is useful but is losing steam. Energy efficiency measures and policies that inject additional generation capacity can also assist in reducing current prices and deferring future price increases.

The rise in the eastern gas price is the biggest energy issue in Australia today. The response required is a combination of pro-competitive market reforms to build transparency and encourage new entrants, workable science-based regulation to enable greater supply from unconventional gas, and a national interest assessment of any new LNG export capacity. The latter will not directly impact prices in the near term, but will help underpin the rest of the agenda and limit future risks of tight supply and prices above export parity. While steps can be taken to avoid extreme price spikes, a shift to significantly higher prices appears inevitable and extra emphasis is required on measures to improve energy productivity to maintain competitiveness.

10. Reducing Emissions and Meeting the RET at Least Cost

Over the past decade, Ai Group has had a close involvement in the development of policies aimed at reducing greenhouse gas emissions. We continue to work on a principled basis with governments' proposals and in the current context we support:

- Removing the carbon tax as soon as possible.
- Meeting Australia's 2020 commitments at least cost while developing an effective policy model that will deliver post 2020. The Direct Action policy should:
 - Inform businesses about, and support investment in, emissions reduction technologies and processes;
 - Develop any regulatory support with a light touch and in close consultation with business; and
 - Encourage innovation in emissions reduction to reduce long-term costs.

Incorporating significant use of high quality, low cost international emissions units would allow Direct Action to achieve these goals within the Government's budget allocation.

In relation to the current review of the RET, we are mindful of the complex nature of costs and benefits involved for energy users and recognise in particular that the RET is putting downward pressure on wholesale prices in addition to increases in costs at the retail level. The review of the RET should also consider the adequacy of shielding for emissions intensive trade exposed businesses and the impacts this shielding has on other users.

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