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LEADING BUSINESS

Hunter Business Chamber

Manufacturing Industry Action Plan Submission
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Executive Summary

The Hunter Business Chamber welcomes the opportunity to provide a submission to the NSW Government Manufacturing Industry Action Plan Issues Paper.

The manufacturing industry in the Hunter Region has both a long and proud history. There are thousands of manufacturers in this region who are at the forefront of innovation and contribute a great deal to our regional, state and national economies.

The Chamber is dedicated to ensure that the Hunter's diverse manufacturing industry is sustainable well into the future.

This submission outlines a number of key recommendations to the Taskforce to consider when developing the Manufacturing Industry Action Plan

In short, it will be vital to;

1. *Create the right investment climate by;*
 - *developing a strong national competitiveness strategy; a partnership between federal and state governments*
 - *selling the message; that Australian manufacturing equals the world's best quality manufacturing.*

2. *Look to the Hunter manufacturing industry with our diversity and capacity to grow;*
 - *Study Hunter success stories*
 - *Future proof manufacturing in regional NSW*

Background

The Hunter Business Chamber is the largest regional business chamber in Australia and in 2011 it celebrated its 125th year. The Chamber represents over 900 member businesses to all levels of government.

The Hunter Region has long held the reputation as the powerhouse of the NSW economy and ranks highly as one of the most valued, diverse and resilient regions in Australia. The Hunter has significant untapped capacity to grow in a sustainable manner and provides a highly desirable lifestyle and strong employment opportunities. The manufacturing industry plays a vital role in our region.

The Hunter Business Chamber welcomes the opportunity to provide feedback to the NSW Government Manufacturing Industry Action Plan Issues Paper.

The Chamber commends the NSW Government for commencing the development of the Manufacturing Industry Action Plan and is looking forward to reviewing the final plan due to be submitted to the Deputy Premier in September 2012.

The Chamber agrees that the eight Terms of Reference as outlined in the Issue Paper are an appropriate framework for identifying the key issues, performance indicators, roles and responsibilities and ensuring deliverable results.

Create the right investment climate

Over the past few months there has been a heightened public focus on the manufacturing industry in Australia, particularly in light of issues such as the debate on the effect of the carbon tax and the timing of BlueScope's decision to exit its export business which will significantly reduce its operations at Port Kembla. However, this current concentration on the state of flux in Australian manufacturing is by no means new.

The list of external pressures on the Australian manufacturing industry constantly hits the media and when it does it shakes business confidence. This list is both long and worrying in nature, from the high Australian dollar, carbon tax uncertainties, skills shortages, rapidly increasing competition from globalisation, the ability to access capital, to some of the world's highest input costs, just to name a few.

This perfect storm for manufacturing has been brewing for a considerable period of time and those within the industry have been working hard to alert governments at all levels.

It is vital to deal head on with the burdens on the manufacturing industry. The Chamber has noted the list of Government Initiatives as outlined in the Issues Paper and agrees that many of these programs are effective and are of substantial assistance to business.

However, there are many opportunities that can be acted upon now and the Chamber offers four key recommendations in this regard.

STRONG NATIONAL COMPETITIVENESS STRATEGY – FEDERAL AND STATE GOVERNMENTS

The Hunter Business Chamber welcomes the development of a NSW ten year manufacturing strategy with both two year and five year goals.

Unfortunately it appears there is a significant gap in regard to Federal and State co-operation on the future of this important sector. Both levels of government have made strong statements that it is crucial to ensure the manufacturing sector is a sustainable component of our economy well into the future. Yet rightly or wrongly, the perception of a disconnect between governments on this matter remains.

The manufacturing sector would welcome the development of a comprehensive and dynamic manufacturing policy as a key component of a national competitiveness strategy.

This is by no means a new suggestion. In 2007, The Hon Bruce Baird MP, Chair of the House of Representatives Standing Committee on Economics, Finance and Public Administration, said in the *Australian manufacturing: today and tomorrow* report:

“The committee’s primary recommendation is that the Australian Government develops a national manufacturing strategy in response to the sector’s current and expected future transformations. In line with this, the committee recommends that manufacturing-oriented federal government programmes are reviewed to improve their relevance and accessibility and to dovetail with the national manufacturing strategy.”¹

The Hunter Business Chamber notes that the newly established Prime Minister’s Taskforce on Manufacturing is due to have its first meeting in November 2011. The aim of this taskforce is to map out a shared vision for the future of the Australian manufacturing sector and help companies adapt to changes in the economy.

The Chamber strongly supports close co-operation between both the federal and state taskforces and notes that Mr Chris Jenkins, CEO, Thales Australia Limited is a representative on both taskforces.

A truly collaborative approach from Federal and State governments is vital. Business and industry endorses the need for a strong national competitiveness strategy combined with the appropriate funding and underpinned by smart State strategies and solutions.

Recommendation 1 – STRONG NATIONAL COMPETITIVENESS STRATEGY: *That all levels of government take a proactive stance on acknowledging the importance of the manufacturing sector and develop a strong strategy and responsive manufacturing industry policy.*

SELL THE MESSAGE: AUSTRALIAN MANUFACTURING = WORLD’S BEST QUALITY MANUFACTURING

On 15th November 2011, Innovation Minister Senator Kim Carr said;

“I am confident Australia is well-placed to collaborate and compete for new investment. Our proximity to Asia, our world-class research capabilities and our stable business environment set us apart in the OECD. We need to keep building the strengths that attract global investment: high-speed broadband, global research hubs, advanced manufacturing capabilities, robust governance frameworks and a high-skill workforce.”²

There is constant public discussion regarding the importance of the strategies manufacturers need to employ to survive and the hurdles to be overcome.

For instance, the importance of enacting structural change, innovation, investment in research and development, strategies to improve productivity, the cost of compliance and impediments to start up manufacturers are issues that are constantly on the table.

All of these concerns and many more are vital to address in the forthcoming NSW Manufacturing Industry Action Plan. Each of these issues focus on what the industry needs to do to survive in turbulent times.

¹ July 2007 House of Representatives Standing Committee on Economics, Finance and Public Administration, *Australian manufacturing: today and tomorrow. Inquiry into the state of Australia’s manufactured export and import competing base now and beyond the resources boom*

² Manufacturers Monthly <http://www.manmonthly.com.au/news/>

However, it is interesting that the emphasis on the high quality nature of the Australian manufacturing industry is often absent from the public policy discussion. The perception of the Australian manufacturing industry among domestic and international consumers also appears to be somewhat mixed.

The NSW Manufacturing Industry Action Plan Issues Paper clearly says that confidence is affected by continuing negative perceptions of manufacturing and this discourages new operators and investors, reduces the value of 'Australian-made' in the eyes of both local and international consumers, discourages young people from entering the manufacturing workforce and hampers our international competitiveness³.

This of course, does nothing to improve the perception that an Australian made item is a high quality item.

It is acknowledged that government assistance is available from both State and Federal levels to assist manufacturers with specific programs such as, Innovation Pathways, Innovation Capability Network, TechVouchers, R & D Tax incentives, and sector specific Supplier Advocates.

However, there is an obvious gap when it comes to sending an overarching message of high quality to both international and domestic consumers.

Recommendation 2 – MARKET HIGH QUALITY AUSTRALIAN MANUFACTURING: *That a clear focus on the high quality nature of our manufacturing industry is presented to global and domestic markets in a strategic and co-operative manner through government and industry partnerships.*

³ pg 8 NSW Government Manufacturing Industry Action Plan Issues paper 2011

Hunter Manufacturing – diversity & capacity to grow

“The regional economic outlook remains moderately strong. If the Euro crisis is contained, while global demand for commodities may still slow, it will nevertheless continue to provide a valuable engine for growth.”⁴

There can be no doubt that the Hunter Region is at the forefront of the manufacturing industry in Australia, yet we are not immune to external pressures currently being faced across the nation.

The State of Australian Cities report, released in October 2011 by the Australian Government noted the effect that the terms of trade have had on the manufacturing industry;

“Mining has now overtaken manufacturing as the industry contributing the second highest proportion of gross value added due to a significant recent increase in the terms of trade.”⁵

The Hunter Region is renowned for its strong mining industry, yet the vital role that manufacturing plays in the region is less well known.

STUDY HUNTER SUCCESS STORIES

The Hunter has a strong cross section of the three broad types of manufacturing; from the very large industries that process minerals and agricultural products, to fabricators and those that create consumer products or value add to core industrial activities, to high growth, high technology innovators of the latest scientific advances.

The Hunter has many success stories in each of these three categories above. For a region with a population of just over 650,000 the number of world leading manufacturing innovators is astounding. From the very large to the very small, the Hunter Region is adept at manufacturing and has weathered previous storms better than many other parts of the country.

The Hunter is also a prime example of a booming coastal regional area that is of great attraction to an increasingly mobile workforce. This pattern was also identified in the *State of Australian Cities* report;

“Alongside the established trend of older Australians moving away from cities, a similar trend is evident among younger Australians and higher skilled people moving to near-city and coastal regional areas, with housing affordability and less congestion reported as possible reasons.”⁶

The Hunter Region’s current unemployment rate sits at 2.8% (actual rate) compared with a NSW figure of 5.2% (and a national figure of 5.3% in October 2011).

⁴ Hunter Region Economic Indicators September Quarter 2011 Hunter Valley Research Foundation

⁵ p5 State of Australian Cities Department of Infrastructure and Transport 2011

⁶ p3 State of Australian Cities Department of Infrastructure and Transport 2011

Over the past five years the region has experienced a decline in unemployment at the same time as it has seen a small increase in the participation rate.⁷ This is a positive sign for the strength of the region's economy.

Manufacturing is a large employer in the Hunter, second only to the health care and social assistance sector. Approximately 11.1 per cent of the Hunter workforce is employed in manufacturing, compared to 8.9 per cent across Australia.⁸

A quick examination of recent employment figures at national and regional level paints an interesting picture of the capacity of the manufacturing industry in the Hunter and the status of the regional workforce.

Manufacturing employment fell by approximately 53,000 people through the year to the September 2011 quarter across Australia, down by 5.4 per cent compared to the same period in 2010.⁹

During a similar period (August 2010 to August 2011) Hunter trend data showed that we experienced growth in manufacturing employment by around 4,000 positions.¹⁰

It should be emphasised that the Hunter Valley Research Foundation clearly stated that trend data shouldn't be relied upon for the precise number of job gains and losses, however, this data is a very strong indicator that the Hunter manufacturing industry is, once again, proving to be more resilient than most.

There is no doubt that the Hunter Region's mineral resources boom and the diverse industry mix has had a shielding influence on employment in the region, yet it is noteworthy that Hunter based trade exposed industries, such as manufacturing seem to be holding firm while the rest of the nation's manufacturing workforce was in decline.

It is acknowledged that a good number of Hunter based manufacturers are working to directly support the resources sector in a variety of ways. However, the region does have a strong presence in other sectors, particularly aluminium (producing over 30% of Australia's aluminium), steel production and defence industry manufacturing.

The clear message here is that the Hunter Region has an edge when it comes to attracting high calibre employees to the region and producing products that are attractive to a number of markets.

There is no doubt that there are serious problems with skills shortages across the country, yet there are organisations in this region using smart strategies to attract and retain the right people and manufacture the right products.

Recommendation 3 - STUDY HUNTER SUCCESS STORIES: *The Hunter Business Chamber recommends that the Manufacturing Industry Action Plan Taskforce closely examine a number of case studies in this region to identify successful business strategies.*

⁷ p2 Hunter Region Economic Indicators September Quarter 2011 Hunter Valley Research Foundation

⁸ Extract from 2010 ABS Monthly Labour Force Survey in 2011 Hunter Region At A Glance HVRF

⁹ Australian Department of Innovation, Industry, Science and Research Manufacturing Portfolio fact Sheet September 2011

¹⁰ Extract from ABS Monthly Labour Force Survey in Hunter Region Economic Indicators September Quarter 2011 Hunter Valley Research Foundation

FUTURE PROOF MANUFACTURING IN REGIONAL NSW

The Terms of Reference for the NSW Manufacturing Industry Action Plan highlight the importance of identifying drivers and barriers to growth and innovation in the industry. There is also particular attention paid to the role of regional NSW.

It will be vital for NSW to build manufacturing capacity in smart ways and the right places. The Chamber agrees there is no one size fits all approach to our current manufacturing issues. However, there are obvious areas where a positive partnership between governments and business will reap strong dividends.

There are a number of key regions outside Sydney that offer exceptional capacity for further growth across the broad spectrum of manufacturing.

The Hunter Region, for instance, is poised to capitalise on the rapid expansion of manufacturing that directly supports the defence industry. There are already a number of high quality organisations directly supporting defence, based in the Hunter and their capacity to expand is noteworthy.

The Hunter already has a substantial defence presence with key bases at both RAAF Williamtown and the Singleton Army Base, however, with the proposed development of the F-35 Joint Strike Fighter (JSF) and the Lockheed Martin led, Australian Industry Participation Plan, further growth is planned.

The JSF program is a next generation combat aircraft and Australia is one of nine partners in the US\$300 billion worldwide F-35 JSF Program. The Federal Government plans to purchase up to one hundred aircraft for a cost of approximately \$15.5 billion.

The Hunter Business Chamber is partnering with HunterNet to redevelop the Hunter Defence brand and ensure this region is positioned as a strong and 'defence friendly' area. However, this will be a difficult task unless there is strong leadership and support from the NSW Government. This region is well placed to expand our defence industry support and defence manufacturing presence. The positive flow on effect to the NSW economy and the number of jobs that could be created will be substantial.

The Chamber strongly recommends that the NSW Government (and the Manufacturing Industry Taskforce) undertake a strategic review of the defence industry capacity in NSW and commit appropriate funds towards positioning NSW as a leader in defence manufacturing and support.

Recommendation 4 – FUTURE PROOF MANUFACTURING IN REGIONAL NSW: *deliver a clear direction for manufacturing in regional NSW, particularly in growth areas such as the defence industry in the Hunter.*

CONCLUSION

The Hunter Business Chamber commends the NSW Government for its commitment to developing a Manufacturing Industry Action Plan by September 2012. The Chamber would be pleased to engage with the Taskforce throughout 2012 and reinforces the following recommendations:

RECOMMENDATIONS

Recommendation 1 – STRONG NATIONAL COMPETITIVENESS STRATEGY: *That all levels of government take a proactive stance on acknowledging the importance of the manufacturing sector and develop a strong strategy and responsive manufacturing industry policy.*

Recommendation 2 – MARKET HIGH QUALITY AUSTRALIAN MANUFACTURING: *That a clear focus on the high quality nature of our manufacturing industry is presented to global and domestic markets in a strategic and co-operative manner through government and industry partnerships.*

Recommendation 3 - STUDY HUNTER SUCCESS STORIES: *The Hunter Business Chamber recommends that the Manufacturing Industry Action Plan Taskforce closely examine a number of case studies in this region to identify successful business strategies.*

Recommendation 4 – FUTURE PROOF MANUFACTURING IN REGIONAL NSW: *deliver a clear direction for manufacturing in regional NSW, particularly in growth areas such as the defence industry in the Hunter.*

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