

# A future for Australian Manufacturing

Australian Council of Trade Unions submission to the Senate Inquiry into the Australian Manufacturing Industry

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## Executive Summary

The Australian Council of Trade Unions welcomes the opportunity to provide a submission to this inquiry. A strong and resilient manufacturing sector is a key part of the answer to the biggest challenges we face.

These include the COVID-19 pandemic that has disrupted existing supply chains and trade patterns, leading to shortfalls in the goods needed to keep people safe. The global transition to zero emissions also throws up huge challenges for Australia – one of the most energy intensive economies in the world. But our abundant potential for wind and solar power generation, has us ideally placed to become a renewable “superpower”, if we seize that opportunity. Finally, even before the pandemic hit, Australia was facing a crisis of insecure work, deeper than nearly all of the developed world. The erosion of secure and fairly paid work is putting the lives of too many Australians on hold.

A thriving manufacturing sector can play significant role in meeting all of these challenges. It drives innovation, dominates world trade, anchors hundreds of thousands of jobs throughout the economy, and offers relatively high-quality jobs – more likely to provide full time hours and above average incomes.

And our manufacturing sector has proven to be remarkably resilient: it employs about 900,000 people and indirectly supports the jobs of another 1.5 million. But as a share of our economic output and trade, our manufacturing lag significantly behind the rest of the developed world.

The benefits could be immense if we turned this around: as the Centre for Future work has calculated, if we produced as much manufactured goods as we consumed, we would create over 400,000 new direct jobs in manufacturing and an additional 265,000 new jobs throughout the manufacturing supply chain.<sup>1</sup>

Yet Federal Government policy has lacked vision and ambition, and an active role in shaping manufacturing to help us meet the global challenges confronting us. The Morrison Government’s

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<sup>1</sup> Dr Jim Stanford (July 2020), *A Fair Share for Australian Manufacturing: Manufacturing Renewal for the Post-COVID Economy*. Centre for Future Work. Page 5.

Modern Manufacturing Strategy falls well short of what is required – it is narrowly focussed, and its rollout is slow.

Turning this around needs a government leading with an ambitious vision to shape our economic and social future, in partnership with businesses, the public sector, and workers and their unions. In that spirit the ACTU released its National Economic Reconstruction Plan last year which included a proposed Sustainable Manufacturing Strategy (SMS) to assist with economic recovery from the COVID-19 pandemic.<sup>2</sup> If implemented as a package they would leverage an additional \$12 billion in new capital spending over three years, representing a 30% increase in annual investment in Australian manufacturing. That would support some 15,000 person-years of construction work and underpin the creation of an estimated 100,000 new manufacturing jobs moving forward. This submission builds on the ideas in that plan with the following key recommendations:

## Energy Transition

1. Zero Interest long run loans to facilitate investments in new renewable energy developments with a direct link to manufacturing.
2. An accelerated depreciation bonus for large gas and electricity users to upgrade equipment as part of energy conversation plans.
3. Expanded Commonwealth Investments in rapid decarbonisation of the energy sector by modernising and strengthening national electricity grid infrastructure.
4. Technology grants to support commercialised research and development activities in technologies related to sustainable manufacturing.
5. Five new Sustainable manufacturing clusters be established to strengthen information sharing, supply chain development and product mandates in key opportunity areas.
6. A “Superpower” Investment Fund be established, endowed with \$1 billion in initial capital, to undertake co-investments in new sustainable manufacturing activities.
7. Ensure that domestic gas requirements are met as a priority over export arrangements, especially until green hydrogen is available to replace gas in any uses which cannot be electrified.
8. Supporting and investing in green hydrogen production projects and supporting manufacturers to replace gas use with green hydrogen.

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<sup>2</sup> ACTU (2020) *National Economic Reconstruction Plan*

9. A National plan to manage Australia's energy transition that:
  - a. support workers and communities in declining industries and as coal-fired power stations retire;
  - b. ensure jobs in new clean energy industries are secure, safe and attractive jobs; and
  - c. Ensure greater local content and manufacturing for Australia's energy transition.

## Procurement

10. Reforming Government procurement rules and the Australian Industry Participation Plans to maximise the use of Australian-made manufactured products and promote positive social and economic outcomes.
11. Re-establish the Australian Industry Participation Agency and reform Australian Industry Participation Plans.
12. Infrastructure investments linked to minimum Australian-made content
13. Promote responsible and ethical procurement by supporting ethical Australian businesses.

## Research & Development

14. Establish the Commission for Australian Manufacturing tasked with setting direction for research, developing partnerships, fostering innovation and assisting industry to grow.
15. Establish a Manufacturing Investment Fund (MIF) to be managed by the Commission for the purpose of facilitating and encouraging investment in manufacturing firms, in coordination with the CECF and ABGF.
16. Reform the R&D tax credit, incentivising firms that commercialise ideas onshore, improve productivity, reduce emissions and improve our sovereign capabilities.

## Skills

17. Rebuild the Vocational Education & Training (VET) system to ensure coherence, certainty and confidence to deliver skilled manufacturing workers.
18. A Training for Reconstruction (TFR) program to strengthen the ability of Australia's deeply troubled VET sector to respond to the urgent needs for training and retraining due to the pandemic.

## Trade policy and supply chains

19. Ensure trade agreements Australia is a party to do not unfairly restrict Government assistance to local industry.

20. Strengthen Australia's anti-dumping system to ensure that Australian producers are not damaged by unfair trade practices.
21. Ensure Australia's trade agreements have enforceable labour and environmental standards as well as strengthening our domestic laws to prohibit the importation of goods made with forced labour and combat modern slavery in global supply chains.

## Introduction

Australian manufacturing has enormous untapped potential. Australians are buying more manufactured goods over time, not less. And manufacturing output is growing around the world, not shrinking. Manufacturing is not an “old” industry. It is in fact the most innovation-intensive sector in the whole economy – and no country can be an innovation leader without the ability to apply innovation in manufacturing. Manufactured goods account for over two-thirds of world merchandise trade. A country that cannot successfully export manufactures will be shut out of most trade.

If there is a global race in manufacturing, we are coming last. Manufacturing in Australia accounts for a smaller share of national employment in Australia (around 7%) than in any other OECD country. We also have the lowest level of manufacturing self-sufficiency of any of these countries.<sup>3</sup>

Instead of tolerating and trying to “explain away” industrial decline, Australia needs to join the global manufacturing resurgence. If not, even more of this high-value work will move to other jurisdictions, and Australia’s status as an advanced industrial economy will be in jeopardy. Australia’s manufacturing downturn is partly the result of major policy errors by governments – which accepted too readily the idea that Australia doesn’t really need manufacturing. The costs of those errors will be long-lasting and broad (felt not just by displaced manufacturing workers, but by the whole national economy)

We also need ambition and vision. The Morrison Government’s 1.3bn Modern Manufacturing Initiative was announced a year ago, with three streams - one has paid \$65m in grants (Translation stream), the second has paid 33m (Integration Stream) and the third is yet to spend a cent (Collaboration stream). While countries around the world are clamouring to grow their manufacturing industries and jobs and secure their supply chains, the Federal Government has announced a policy that falls well short of what is needed and then takes forever to roll it out.

## The Value of Manufacturing

Globally manufacturing is still the engine room of national economic well-being and resilience. Looking internationally, there are compelling reasons for Australia to have a thriving

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<sup>3</sup> Ibid. Page 61-62

manufacturing sector. As the Centre for Future Work outlines in its 2020 report *A Fair Share for Australian Manufacturing*:<sup>4</sup>

- Australians are buying more manufactured goods over time; and manufacturing output is growing around the world. The absolute decline of manufacturing in Australia is an exception to the experience of other industrialised countries.
- Manufacturing is the most innovation-intensive sector in the whole economy. No country can be an innovation leader without manufacturing.
- Manufactured goods account for over two-thirds of world merchandise trade. A country that cannot successfully export manufactures will be shut out of most trade.
- Production costs in Australia are not expensive relative to other industrial countries (now that the Australian dollar is once again trading in normal range).
- Even small remote countries (like Korea, Ireland, New Zealand and Israel) are increasing their manufacturing output, and preserving and creating manufacturing jobs. Their experience demonstrates that we cannot blame geographic isolation for our deindustrialisation.
- Manufacturing anchors hundreds of thousands of other jobs throughout the economy, thanks to its long and complex supply chain. A myriad of supplies and inputs are purchased by manufacturing facilities.

There's another key reason to be optimistic about Australian manufacturing — if we create an appropriate policy environment for it. Australia is poised to take advantage of our bountiful renewable energy endowment to reinvigorate manufacturing, on the foundation of plentiful, competitive, and reliable power.

The benefits could be immense. Again, the Centre for Future Work calculated the economic benefits of a “fair share” of manufacturing in the Australia economy would look like. If Australia were to produce as much manufactured output as we consume this would bring:<sup>5</sup>

- \$180 billion per year in new manufacturing output
- \$50 billion per year in new manufacturing value-added
- Over 400,000 new direct jobs in manufacturing
- \$115 billion in new purchases from suppliers in other industries
- 265,000 new jobs throughout the manufacturing supply chain

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<sup>4</sup> Dr Jim Stanford (July 2020), *A Fair Share for Australian Manufacturing: Manufacturing Renewal for the Post-COVID Economy*. Centre for Future Work. Page 5.

<sup>5</sup> Ibid. Page 6.



- At least \$40 billion per year in additional manufactured exports
- Tens of billions of dollars in additional tax revenue for governments at all levels

While these are ambitious goals, they are not impossible. Achieving for example, an even ratio of imports to exports of manufactured goods is not impossible – ours is currently the worst ratio in the OECD, but countries like Spain, France and New Zealand are able to achieve roughly equal ratios while maintaining strong wages for manufacturing workers. Germany, Netherlands and Sweden all export more manufactured goods than they import.

### **Making Australia more self-reliant**

In current circumstances Australia needs greater resilience to global economic, health and political shocks. This will require bold new initiatives to build domestic demand, support business, have a national Australian manufacturing plan, ensure that our workers have the incomes to buy more of the products and services produced within Australia and continue to expand our population.

In these tense and turbulent times Australia needs to rely more on our own communities, businesses and multi-cultural population to provide economic security and good quality jobs. Our Government needs to support local endeavour with action not just empty words. This means boosting investment in manufacturing and infrastructure, providing incentives for research and development while making our health, education and community services world class. Public investments in these areas should have been implemented during the last four years when it was evident the resources boom was over and new domestic engines of economic growth were required. But it is not too late to take bold initiatives now. The business community in Australia will respond positively to rising demand for the products and services they provide. In a world where we cannot be confident about the levels of international demand it makes sense to boost sales at home. The combination of a much-needed pay rise for local workers and a 'Australia made' strategy is required to boost domestic demand and underpin economic growth going forward. Rising domestic demand, rather than cuts in company tax, are more certain to spur local investment and generate jobs.

The COVID-19 pandemic has disrupted existing supply chains and trade patterns. This disruption reminded Australians of the critical need to preserve a well-rounded domestic manufacturing capability. We were very vulnerable to disruptions in supplies of critical medical equipment, masks, PPE and medicines – and now policymakers of all stripes acknowledge that strengthening our domestic manufacturing base must be a critical part of the broader plan for economic reconstruction. This is an opportune moment to work towards the broader

revitalisation of Australian manufacturing, for several reasons: diversifying our international trade, spurring more research and innovation, enhancing our sovereignty and national security, and creating tens of thousands of decent manufacturing jobs.

We also need to ensure that the transportation aspects of our supply chains are similarly resilient, secure, efficient, and functional. This is a particular concern in shipping where there is an urgent need to mitigate our dependency on foreign shipping in both domestic and international trade. The submission of the Maritime Union of Australia to this Inquiry provides more detail on this point, including the proposal for an Australian strategic fleet, which the ACTU supports.

Australia's manufacturing sector is poised to take maximum advantage of breakthroughs in renewable energy technology, and improvements in energy efficiency and productivity. The manufacturing sector has been badly served by inconsistent and short-sighted swings in energy policy in recent years: privatisation, unregulated energy exports, and inadequate investments in infrastructure have produced skyrocketing energy bills and great insecurity in supply for Australian manufacturers. Energy could become a huge competitive advantage for domestic industry, rather than a barrier. Accelerating the shift to low-cost and sustainable renewable energy sources has potential to reduce energy costs for Australian manufacturers by \$1.6 billion per year and support the continued operation and expansion in Australia of many energy-intensive industries. As eminent policy leader Professor Ross Garnaut has suggested, these developments hold the potential to make Australia a sustainable manufacturing 'superpower'. Our national manufacturing plan should embrace Industry 4.0 with greater investment in our capital infrastructure and labour, create sustainable manufacturing hubs including in lithium batteries, support small and medium manufacturing, invest VET training and TAFE and have a plan for regional development.

### **Industry 4.0 and Manufacturing clusters**

Australia will be left behind by Industry 4.0 if the nation fails to invest in its capital infrastructure and labour force. Mid-tier firms in particular need further investment and finance. The Clean Energy Finance Corporation (CEFC) is an effective model that uses innovative financing models to develop industry and could be replicated in other sectors.

An explicit government commitment to strategic long-term planning and investment in technologies and research would help boost business confidence and unlock the substantial private investment funds which are currently withheld. The development of Industry 4.0 manufacturing sites would bring Australia to the fore in high-tech manufacturing, increasing

domestic independence, high-skilled jobs and the agility required to respond to unanticipated needs and developments in the future.

Sustainable manufacturing clusters could be created around lithium battery and value-added manufacturing, renewable hydrogen production, green primary metal manufacturing, electric vehicle manufacturing and servicing, technical and medical textiles, and renewable energy machinery. Following the recommendation of Ross Garnaut, a Superpower Investment Fund should also co-invest in new sustainable manufacturing activities.

If Australia worked towards a better balance of manufactured imports and exports, it could create 400,000 manufacturing jobs and 265,000 more in manufacturing supply chains at a time when a host of insecure, unskilled jobs are being lost in the service sector. Far from being a drain on the national economy, this would generate \$180 billion every year in additional manufacturing output and tens of billions of dollars of tax revenue.

### **Small and Medium Enterprises**

Nine in ten Australian manufacturers are small businesses employing less than 20 people, as the economy's major engine of job growth,<sup>6</sup> and so developing capacity in small and medium-sized firms should be a priority as manufacturing is re-energised. Major industrial producers will need a raft of smaller, local suppliers – just as the car industry once did – to reduce their reliance on foreign supply chains.

While businesses are still operating, their uncertainty about the short-term outlook creates a wider anxiety about the future. State and federal plans charting a way out of lockdown would help rebuild the confidence they need. SMEs in rural and regional Australia tend to be more exposed to market volatility and revenue risk than their metropolitan peers, and so research might track their relative health and understand the barriers they face in becoming more resilient and adaptable. Manufacturing can be a plan to develop and revitalise our regions.

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<sup>6</sup> [https://www.globalaccesspartners.org/A\\_Vision\\_for\\_Australia\\_2017\\_Summit\\_Report.pdf](https://www.globalaccesspartners.org/A_Vision_for_Australia_2017_Summit_Report.pdf)

## Energy Transition

**The world is moving to net zero emissions and Australia's manufacturing industry needs to be positioned to thrive in a zero-carbon world.**

The international community through its commitment to the Paris Agreement on Climate Change has signalled its intention to keep global warming 'well below 2 degrees Celsius', and 'make efforts' to keep it below 1.5°C. This will require rapid decarbonisation of the global economy. Under the Paris Agreement countries are expected to set net zero emissions targets and shorter term 2030 emissions reduction targets consistent with achieving net zero emissions by mid century to achieve the temperature goals of the Paris Agreement. Wealthy nations like Australia are expected to achieve net zero emissions sooner than less developed nations recognising our larger historical contribution to global warming.

Australia's major trading partners have made net zero emissions commitments and are increasingly aiming to halve their emissions by 2030. Our largest export markets including China, Japan, South Korea, the EU and the US have all set net zero emissions targets.

Country-level net zero ambitions represent nearly 60 per cent of global emissions and cover more than 70 per cent of Australia's two-way trade.<sup>7</sup> As of September 2021, 2 countries have already achieved net zero emissions, twelve countries have a net zero target in law, four countries have net zero targets proposed to be in legislation, and 38 countries have a net zero target in policy.<sup>8</sup>

It is in this global context that Australian manufacturers operate. Australia's lack of a national net zero emissions plan and credible 2030 emissions reduction targets represent a growing threat to our manufacturing industries in a world that is increasingly demanding low emissions products and services.

**Australian manufacturing is vulnerable to a shift to net zero emissions in the absence of government leadership**

The manufacturing sector is the third largest consumer of energy, accounting for almost 18% of Australia's total consumption and sitting behind the transport and electricity sectors which use 27.5% each<sup>9</sup>. Australian manufacturing is also among the most energy intensive of countries in the OECD. This reflects in part the high percentage of basic metals and chemical manufacturing

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<sup>7</sup> IGCC, Investors role in an equitable transition to net zero emissions, 2021.

<sup>8</sup> Energy and Climate Intelligence Unit, <https://eciu.net/netzerotracker>

<sup>9</sup> Australian Energy Update, Commonwealth of Australia, 2018

in Australia's industrial portfolio.<sup>10</sup> The combination of high energy intensity and one of the highest emissions electricity grids in the world means Australian manufacturing is starting behind the pace in a carbon constrained world.

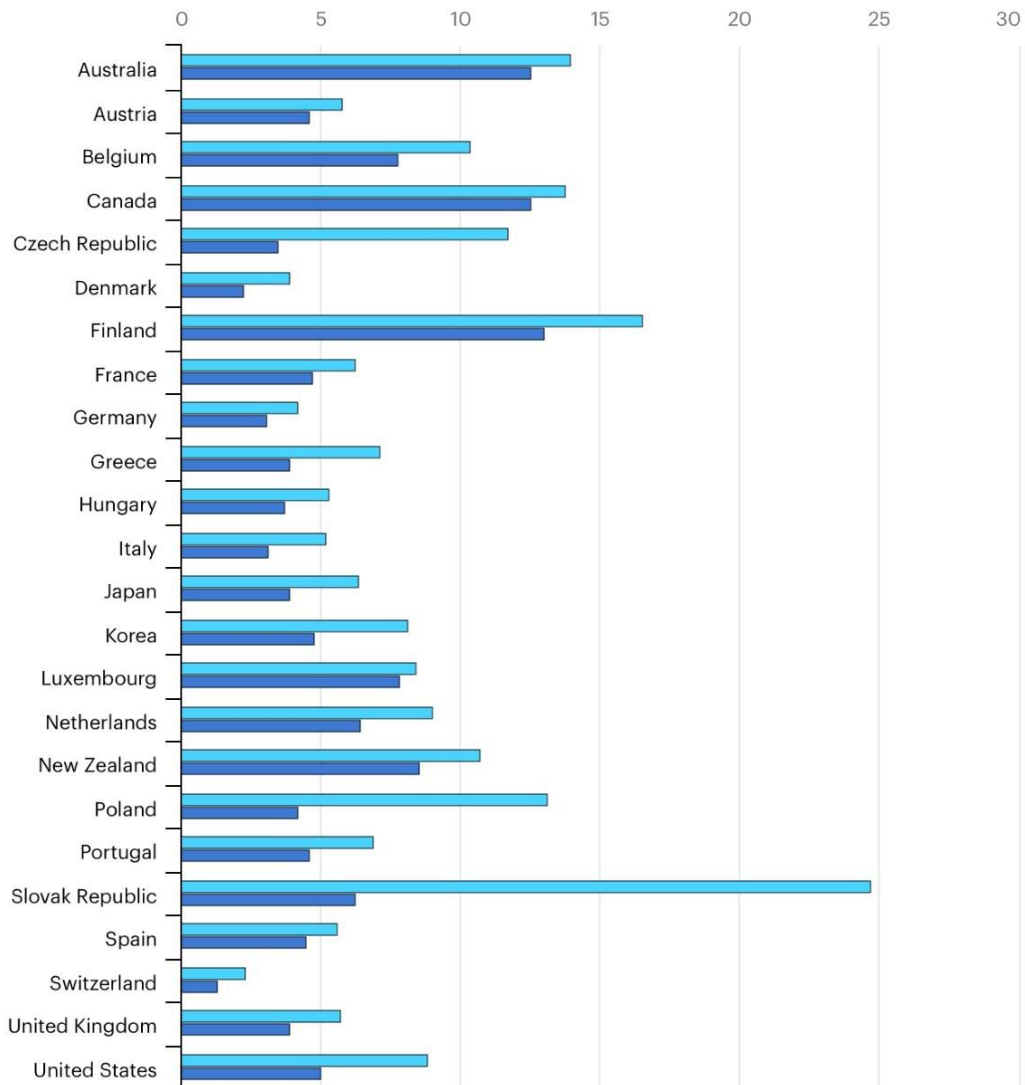
The graph below shows that Australia's energy intensity of manufacturing (energy used per \$ of manufacturing output) is among the highest across OECD nations and has not been improving at the same rate as other OECD nations in the past 2 decades.

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<sup>10</sup>Australian Manufacturing Insights <https://ermpower.com.au/wp-content/uploads/2019/06/Manufacturing-v.-13-June.pdf>

Graph: Energy intensity of manufacturing in selected IEA countries, 2000-2018<sup>11</sup>

MJ/2015 USD PPP



IEA. All Rights Reserved

● 2000 ● 2018

<sup>11</sup> <https://www.iea.org/data-and-statistics/charts/energy-intensity-of-manufacturing-in-selected-iea-countries-2000-2018>

According to industrial energy provider ERM Power, nearly half of large manufacturing businesses in Australia have energy costs greater than 25% of EBITDA and the sector spends an estimated \$14b on electricity and gas each year with energy costs typically representing the third highest operational expenditure item for manufacturing after the cost of raw materials and staff.<sup>12</sup>

Australian manufacturers account for around 40 per cent of Australia's total natural gas consumption.<sup>13</sup> Gas in the manufacturing industry is typically used for process heat including steam, hot water, dryers, kilns and furnaces, while some manufacturers, particularly in chemicals and plastics manufacturing, require gas as a feedstock.

For those manufacturers who use large amounts of electricity Australia's largely unplanned and disorderly energy transition has seen significant price fluctuations over the past decade in a period in which 12 coal-fired power stations have closed and dozens of solar and wind farms have entered the market. Durable national climate and energy policy, and greater government oversight of generator retirement would increase the ability of electricity intensive manufacturers to make long term commitments for instance to expand production or to equipment renewal and upgrade.

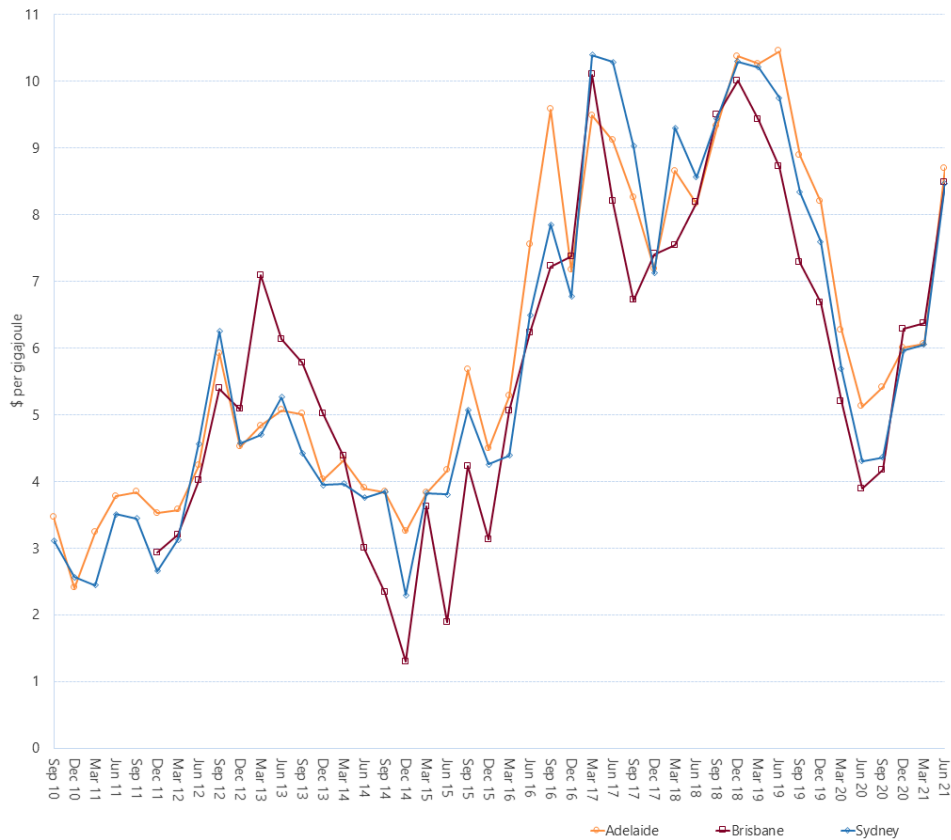
Gas-reliant manufacturers in the NEM states have had a particularly wild ride over the past decade, falling victim to massive increases in the wholesale (and in turn contract) price of gas that resulted from Australia's east coast gas market being linked to global gas markets via LNG shipments from Queensland. The Australian Energy Regulator graph below shows the devastating increase in wholesale gas prices since LNG exports commenced in early 2015.

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<sup>12</sup> [Manufacturing-v.-13-June.pdf \(ermpower.com.au\)](#)

<sup>13</sup> <https://www.cefc.com.au/media/media-release/energy-relief-in-sight-for-australian-manufacturers-with-practical-new-efficiency-guide/>

**Graph: Quarterly wholesale gas prices as traded on the Short Term Trading Market.**



Source: AER; AEMO, Last updated: 23 Jul 2021 - 2:10 pm

Some large gas users have dealt with these cost increases by electrifying plant and equipment or upgrading to more efficient boilers, some have secured long term gas contracts with gas producers to try and avoid price volatility and some have reduced production or closed their businesses. Meanwhile, research has identified that manufacturers could save 13% of gas usage through energy efficiency measures alone by 2030, with additional savings made possible by switching from gas to electricity.<sup>14</sup> The Federal Government has been largely missing in action when it comes to supporting manufacturers to negotiate this difficult energy environment or to realise the opportunities in energy efficiency and fuel switching.

<sup>14</sup> ClimateWorks, Solving the gas crisis: A big problem deserves a big solution



## A critical step is futureproofing manufacturing by reducing the energy and emissions intensity of our manufacturing industries

Australian manufacturers need coherent national climate, energy and industry policy and support to thrive in a low carbon world.

The Coalition Government's Technology Investment Roadmap, while a step towards industry policy, is not a plan to decarbonise Australia's economy. It is no substitute for a genuine plan to reduce carbon emissions while supporting industries, communities and workers to adapt to a low carbon world.

In addition to overarching climate and energy policy the ACTU supports government programs and grants to future-proof Australian manufacturing by helping them use energy more efficiently, electrify plant and equipment and power their businesses with renewable energy.

During the COVID pandemic, many countries around the world ensured their economic recovery activities were aligned with efforts to reduce emissions. In the next phase of economic recovery through 2022 and 2023 Australian unions seek the following interventions to support manufacturers prepare for a low emissions future;

- An accelerated depreciation bonus (at 150% of qualifying capital costs) for large gas and electricity users to upgrade or electrify equipment as part of energy conservation plans which offer audited energy cost paybacks within three years or less. Such a program would reduce energy bills, increase the competitiveness of Australian manufacturers, create jobs in both equipment manufacturing and installation and refurbishments, and enhance energy security.
- Zero-interest long-run loans to facilitate investments in new renewable energy developments with a direct link to manufacturing. These could include loans to renewable projects at manufacturing sites, or for renewable energy projects party to a purchase power agreement (PPA) with a manufacturer. The funds could be provided through the Clean Energy Finance Corporation, on the strength of an initial \$1.5 billion addition to its capital base. Government owned electricity generators would be encouraged to bid for this finance.
- Providing assistance to heavy industry to shift away from the use of gas for heat, pressure and power, for examples supporting steel forges to switch to electric arc furnaces or supporting alumina refineries to electrify their boilers.
- Until green hydrogen is available to replace gas in any uses which cannot be electrified, government needs to ensure that there is adequate and affordable gas for Australian businesses and households by ensuring that domestic gas requirements are met as a priority over export arrangements. This could be achieved through imposing a flexible

minimum gas supply requirement to be applied to current and future projects whereby the total expected future demand forecast by energy regulators for the East Coast is satisfied for the following year;

- Supporting and investing in green hydrogen production projects and supporting manufacturers and the allied transport sector, including shipping, among others, to replace gas use with green hydrogen. This may require government co-investment in equipment upgrades to ensure they are 'hydrogen-ready'. The Morrison Government's Technology Roadmap sets a price target for hydrogen production price target but fails to coordinate the significant industry activity already happening or to ensure there is accompanying demand for any hydrogen that is produced.
- Expanded Commonwealth investments in rapid decarbonisation of the energy sector by modernizing and strengthening national electricity grid infrastructure, to facilitate more reliable and efficient interregional electricity flows, enhance the system's ability to pool variable renewable energy flows from various parts of the country, and facilitate feed-in power flows from new renewable developments. Investments would be consistent with priorities identified by the Australian Energy Market Operator in its Integrated System Plans. The existing Grid Reliability Fund (managed by the Clean Energy Finance Corporation) would be supplemented with an additional \$2 billion to support these infrastructure investments, to be allocated in negotiation with state governments and utilities; allocated funds must be reflected in public equity shares in supported transmission assets.
- Technology grants to support commercialised research and development activities in technologies related to sustainable manufacturing, including: new industrial uses of renewable energy; new value-added products and processes which can be supported by renewable energy assets; and the made-in-Australia manufacture of machinery and other value-added inputs to renewable energy systems and energy efficiency upgrades. These grants could be delivered through new Cooperative Research Centres (focusing on new industrial uses of renewable energy; value-added inputs to renewable energy systems; and sustainable production and uses of hydrogen) located within the Department of Industry, with an initial endowment of \$500 million over the first three years. Additional funding will be provided to retain and expand the Australian Renewable Energy Agency (ARENA) and expand its support for commercial applications of research in this field.
- Five new Sustainable Manufacturing Clusters will be established to strengthen information sharing, supply chain development, and product mandates in key opportunity areas related to the overall SMS strategy, including: lithium battery and value-added manufacturing; renewable hydrogen production; green (ie. carbon-neutral) primary metal manufacturing; electric vehicle manufacturing and servicing; and renewable energy

machinery (solar, wind, and geothermal equipment). The Clusters will be supported through infrastructure services provided within the Department of Industry, and will receive start-up funding for administration, research, and project development of \$60 million over 3 years.

- A Superpower Investment Fund will be established, endowed with \$1 billion in initial capital, to undertake co-investments (including public equity shares) in new manufacturing activities falling within the SMS mandate (including manufacturing-tied renewable energy projects, new industrial uses of renewable energy, application of digital and 'Industry 4.0' systems in carbon neutral manufacturing, and value-added manufactured inputs to renewable energy and transportation systems). A priority in allocating research, cluster, and investment funds under the SMS should be to support new investment and employment opportunities in regions of Australia with current high concentrations of fossil fuel extraction-activity. This will assist fair employment adjustments as the transition toward sustainable energy sources continues to gather momentum. And all supported projects in renewable energy or energy efficiency receiving public funding or assistance will need to demonstrate that they are paying fair wages, creating ongoing and permanent jobs, avoiding labour hire and casual hiring arrangements, and investing in training and apprenticeships and local and inclusive hiring practices.

### **Maximising the benefits of cleaning up our energy supply by ensuring we attract supply chain and manufacturing jobs**

Decarbonising our manufacturing industries will require major investment in new clean energy supply. For our electricity system alone the Australian Energy Market Operator's (AEMO) Integrated System Plan concludes that by 2040 under the most likely scenarios:

- 26-50 GW of new Variable Renewable Energy is needed to replace the 63% of Australia's coal-fired generation set to retire due to reaching the end of its technical life;
- 6–19 GW of new dispatchable resources are needed to back up renewables, in the form of utility scale pumped hydro or battery storage, demand response and distributed batteries participating as virtual power plants.
- 14-26 GW of coal-fired generation will be retired by 2040.

Newer AEMO scenarios that envisage Australia becoming a major exporter of energy intensive products such as hydrogen, ammonia, green steel and aluminium would require even greater build of renewables and storage.

In the absence of coherent climate and energy policy and a national Just Transition strategy Australia has not maximised the benefits or minimised the costs of our accelerating energy transition. We urgently need a national plan, developed in conjunction with unions, business, regulators and state governments to manage Australia's energy transition. In this plan particular attention needs to be paid to:

**1) Supporting workers and communities in declining industries and as coal-fired power stations retire:** as new low emissions technologies are adopted, emissions intensive industries will decline, with the associated loss of regional jobs and economic activity. This is entirely predictable and it is critical that government acts to support workers and communities impacted by the energy transition. At a minimum Australia needs a Just Transition Authority or Energy Transition Authority to undertake planning, invest in reskilling, retraining and redeploying workers, and invest in diversifying the economies of impacted communities. Germany has managed to phase out its hard coal mines without a single forced redundancy as a result of significant government planning, investment and institutional support over a period of 2 decades. The ACTU and the CFMEU have published details papers examining this issue in more detail.<sup>15</sup>

**2) Ensuring jobs in new clean energy industries are secure, safe and attractive jobs:** Secondly, as new low emissions technologies are deployed there needs to be attention paid to ensuring that these industries are being built on solid foundations with good outcomes for workers and host communities in order to maintain social license for continued (and increased) operations. Renewable energy projects, for instance, have often paid more attention to keeping neighbours happy about the visual impacts of projects than ensuring that the projects have sound labour agreements with good working conditions for employees. New technologies like renewable energy, hydrogen or energy efficiency need to be paying Enterprise Agreement wages, negotiated fairly and transparently with workers and their unions which provide for ongoing and permanent jobs, eschewing the use of labour hire and casual hiring arrangements, and investing in training and apprenticeships and local and inclusive hiring practices. Such behaviours will ensure these industries are embraced by host communities and reach their full potential.

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<sup>15</sup> These resources are available at <https://www.actu.org.au/our-work/climate-change/the-need-for-a-just-transition> and <https://me.cfmeu.org.au/policy-research/ruhr-or-appalachia-deciding-future-australias-coal-power-workers-and-communities>. See also, the ILO Guidelines Guidelines for a just transition towards environmentally sustainable economies and societies for all: [https://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_ent/documents/publication/wcms\\_432859.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_432859.pdf)

### 3) Ensuring greater local content and manufacturing for Australia's energy transition:

While 27,000 Australians are currently employed in Australia's renewable energy industry, that number could be significantly larger and the jobs more enduring if we were manufacturing more of the components used in the industry in Australia. The ACTU estimates that of the 27,000 jobs in renewable energy, there are less than 2000 jobs in renewable energy manufacturing in Australia. Existing renewable energy manufacturers include Keppel Prince who fabricate wind turbine towers at their Portland factory in Victoria; Tindo Solar who assemble solar panels at their Adelaide factory; Vestas who assemble wind turbine nacelles at the old Ford factory in Geelong; Nexans Olex cables and Wilson Transformers who manufacture electrical equipment; and a number of small battery manufacturers are emerging.

In this regard, Australia needs to ensure that it retains flexibility to deploy public policy, such as procurement and the regulation of imports in our international trade arrangements including the proposed WTO Environmental Goods Agreement.

Stronger commitment to local content and manufacturing as a pre-requisite for government support (whether through renewable energy auctions, transmission investment finance from the CEFC or grants from ARENA) would create thousands of ongoing manufacturing jobs in clean energy. Local content rules for transmission projects could further boost our domestic steel industry.

Australian unions are particularly optimistic about the role an offshore wind industry. Research completed by CSIRO and the Blue Economic CRC in partnership with Australian unions found that Australia enjoys world-class offshore wind reserves, located near industrial precincts and coal regions with good electricity transmission assets.<sup>16</sup> Importantly offshore wind projects would provide new opportunities for Australian manufacturing particularly given the massive size of components which makes international transport expensive and local manufacturing more viable. The submission of the Maritime Union of Australia to this inquiry provides more detail on the significant benefits of offshore wind for employment creation and as an energy source for manufacturing.

Forthcoming research commissioned by the ACTU, Business Council of Australia, Australian Conservation Foundation and WWF highlights that the global battery market will be \$432 billion

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<sup>16</sup> Blue Economy CRC, CSIRO, UTS, MUA, ETU, AMWU, ACTU, 2021, [Offshore wind energy in Australia](#)

by 2040, with lithium batteries being the dominant technology. With Australia currently producing roughly half of the global lithium supply and other rare earths used in energy storage technologies Australia has an enormous opportunity to value add to our mineral exports and manufacture batteries for domestic use and export. Capturing just 6% of the global market for batteries would see us generate \$27 billion in revenue and nearly 25,000 jobs by 2040.<sup>17</sup>

### **With low emissions energy we can manufacture the goods we need and become a major clean energy exporter.**

If Australia can successfully navigate a fair and fast transition to net zero emissions we have the potential to become a major supplier of the goods and services a low carbon world will require, including through increased value-adding and manufacturing to create new export industries, as well as through shipping.

In mid-October 2021 the ACTU, Business Council of Australia, Australian Conservation Foundation will release a major piece of research which explores these clean manufacturing and export opportunities. We will provide the research to this inquiry when it is complete. As we near completion of this work it is clear though that given we have abundant renewable energy resources we could become a major player globally in producing hydrogen and ammonia, green steel and aluminium, refining of and value-adding to critical minerals, and battery manufacturing. Key to realising these opportunities will be developing local markets for these clean energy powered products. For instance to encourage the establishment of a renewable hydrogen industry we should introduce targets for domestic hydrogen demand and where possible blend hydrogen into the gas network. We will save detailed commentary on these clean energy export opportunities for the release of the work mentioned above.

## **Procurement**

Government procurement represents tens of billions of dollars a year, many of which are spent on categories of goods which could be provided by Australian manufacturing firms or which could spur the development of domestic manufacturing capacity and supply chains. Unfortunately, the current government's approach to procurement squanders these potential benefits, as well as ignoring an opportunity to encourage good labour practices. Significant reform is needed not just to the infrastructure of procurement within government, but to the way that procurement is

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<sup>17</sup> Accenture, Clean Energy Exports, report commissioned by ACTU, BCA, ACF & WWF. Full report to be published October 2021.

thought about by government. We can, and must, extract more value from the dollars our government spends for Australian workers and businesses.

### The magnitude of government procurement

Commonwealth Government procurement represents a significant investment in the Australian economy each year. According to the Department of Finance, the Commonwealth spent \$54 billion on goods and services in the 2019-20 fiscal year, slightly down on the 6-year average of \$58.9 billion.<sup>18</sup> As chart 1, below, shows, despite the fluctuation in government procurement since 2010-11 it has never represented less than tens of billions of dollars in value.<sup>19</sup>

Procurement runs the gamut, with 94 per cent of contracts in 2019-20 having a value of under \$1 million but with 337 high-value contracts (0.4 per cent by volume) representing 52.4 per cent of the total value of contracts awarded at \$28.3 billion in total value.<sup>20</sup> 85% of all federal government suppliers were small or medium enterprises (SMEs). Despite the fact that overseas firms represent only 4% of all suppliers to government, in 2019-20 more than \$1 in every \$10 spent by the government on goods or services went to an overseas provider – to a total value of \$6.3 billion.

In terms of manufacturing, procurement of goods represented 38% (or \$20.6 billion) of government spending in 2019-20 but has risen as high as 55% (\$39.3 billion) in 2017-18. Military Watercraft, Military fixed-wing aircraft, aerospace components and equipment, aircraft, launchers and electronic components, parts and accessories were all among the top 20 categories for government expenditure in 2019 -20 – all categories that the Australian manufacturing industry could provide or support.

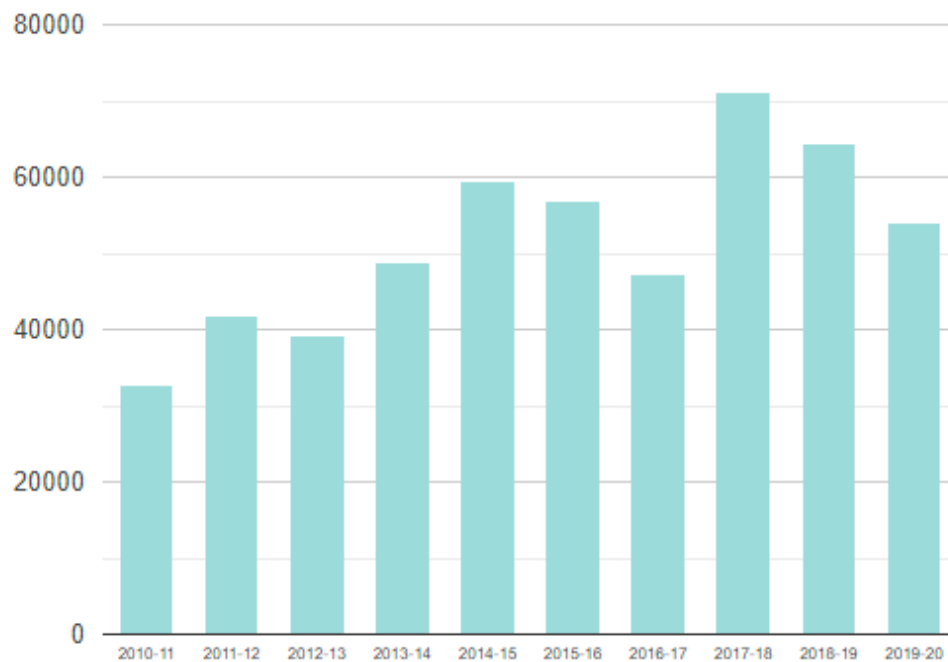
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<sup>18</sup> <https://www.finance.gov.au/government/procurement/statistics-australian-government-procurement-contracts->

<sup>19</sup> [Ibid](#)

<sup>20</sup> [Ibid](#)

Chart 1 - Total Value of Procurement Contracts by Financial Year - \$million<sup>21</sup>



Federal government procurement represents a vast pool of potential investment in Australian businesses of all types, including manufacturing businesses across the spectrum of size and sophistication. Properly targeted, government procurement can ensure that not only do the Australian public receive the best quality goods and services for their tax dollars, but that the greatest total value for the Australian economy is extracted from every dollar spent and that critical industries like manufacturing are supported. This can be done by ensuring that government spending is targeted at Australian businesses who deliver the greatest value – as opposed to the ‘cheapest’ price.

#### The lost opportunity of government procurement.

The government current approach to procurement is, despite its thousands of pages of rules and requirements, unsophisticated. Government procurement is stuck in a least cost model, where the only consideration is price and no meaningful weight is given to the concepts of value or the power of procurement as a force for good within the economy and society. The governments’ narrow focus on cheapest price rather than the broader economic and social benefits of procurement, and the current government’s agenda to attack procurement policies that support local business, is disadvantaging local industry, costing jobs and resulting in exploitation of workers and breaches of industrial, superannuation and taxation law. Even worse, this attitude

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<sup>21</sup> <https://www.finance.gov.au/government/procurement/statistics-australian-government-procurement-contracts->



squanders the opportunity to use government expenditure of taxpayer's money to actually raise standards for Australian workers.

As it stands, government procurement represents a lost opportunity each and every year. Tens of billions of dollars are thoughtlessly spent by government. Exacting standards and requirements apply to each individual procurement to ensure minimal money is 'wasted' but there is no overarching strategy to government procurement which ensures that the maximum value is extracted. Manufacturing is just one of many industries that stands to gain from a change to government procurement to deliver wider benefits to the Australian economy and workforce.

### **A new model for government procurement**

Properly structured procurement policies that support local SMEs will fill our factories with work, helping to kick start the economic recovery. When this money is spent locally, it supports local industry and local jobs, whilst also having a multiplier effect in downstream industries.

Government should also be doing everything it can to maximise the jobs it creates with its procurement spending. To support and encourage local industry, economic policies must be consistent and ambitious in stimulating the demand for the goods and services Australians produce and support the growth and development of local industries. There are also many opportunities to develop Australian businesses by improving domestic participation in supply chains. Not only will this deliver local jobs, but it will also help to fill capability gaps, allow local firms to diversify their work and improve our sovereign capability in times of crisis.

To unlock and realise the vast untapped potential of government procurement, Australian unions recommend a suite of reforms – aimed at fundamentally reorienting government procurement while also providing support to local manufacturing firms to better access government spending.

- **Changes to government procurement rules**
  - The Governments Commonwealth Procurement Rules (CPRs) must be rewritten to explicitly require government entities and procurement officers to preference local suppliers, manufacturers and service providers. The Rules should require governments to take into account factors such as ethical wages and conditions, the proportion of Aboriginal and Torres Strait Islander (ATSI) employees, WHS compliance, corporate tax and industrial records, length and transparency of supply chains (and in the case of ships, whether the ships employs national or non-national seafarers), the gender pay gap, provision of paid domestic violence leave, various workplace factors (such as Health and Safety Representatives, registered agreements etc), environmental outcomes, secure jobs, regional renewal and minimum numbers of apprentices when choosing a supplier. The rules must be required to be applied in a manner that consistently and correctly

ensures overall economic and social benefits from tenders are considered when assessing value for money, rather than just an assessment of the cheapest cost.

- To facilitate this, when opening public procurement contracts (above a certain threshold) to bid by private and non-profit suppliers, governments should require in advance a full and transparent reporting by prospective suppliers regarding their adherence to minimum or better ethical labour standards (including the principle of paying at least living wages), and making transparent the detail and nature of their own sub-contracting and supply chains. Prospective suppliers which successfully complete this prequalification process would then be entitled to bid on upcoming contracts. In this regard, government would simply be requiring from its own top-tier suppliers a commitment to transparency and reporting no more onerous than is already imposed by leading private companies (including retail, mining, and security firms) through their own supply chain regulations. The pre-qualification process would need to be renewed every five years – sooner in the event that a contractor to government (or one of its own suppliers) is found to have significantly breached minimum labour standards.
- The government can, and should, amend the CPRs to better utilise existing exemption in trade agreements to preference local Australian manufacturers in government procurement, including:
  - The threshold for requiring an AIP plan should be reduced to \$10 million and be provided by all tenderers. An evaluation of the overall economic benefit provided by respective tenders, with respect to their impact on local jobs, investment and multiplier effects, should be included in the final decision (ICN engagement on any such plan should be an automatic requirement).
  - The AUSFTA, and many subsequent trade agreements, included provisions that allow governments to preference SMEs in procurement. The US has numerous policies that do exactly that. If the CPRs fully implemented the AUSFTA carve out for all SMEs under 500 workers it would cover more than 97% of Australian businesses. Australia has also negotiated an exemption to the WTO Government Procurement Agreement protecting small businesses. A program could be put in place to preference Australian SMEs in government procurement immediately and would offend neither WTO rules nor the various FTAs.

- **Increasing domestic participation in supply chains**
  - This can be achieved both indirectly - by working with major firms to encourage them to engage local firms to supply the goods and services that they need - and directly - through increased local content government procurement – and the government must pursue both options.
- **Australian Industry Participation Agency**
  - The Australian Industry Participation Agency must be re-established and there must be an increased focus on Australian Industry Participation Policies that encourage local participation in major projects and their supply chains through the provision of full, fair and reasonable access to domestic markets. These policies must be mandatory for all tenders and all procurers must be required to use these plans, and be able to demonstrate how they are used, in assessing and comparing the benefits of tenders.
- **Reform of Australian Industry Participation plans**
  - Plans should be reformed such that they are required of all tenders and included in decision-making and implementing a Small Business Innovation Research-style program to get the most out of our investment infrastructure.
- **Improve the operation of the Australian Jobs Act 2013**
  - The operation of the *Australian Jobs Act 2013* (Jobs Act) be improved to facilitate the opportunity for Australian ship transportation companies to have full, fair and reasonable opportunity to bid and win contracts for both sea freight transportation services for carriage of the production outputs of major projects, and the support vessel component of offshore wind energy projects, to increase the employment of Australian maritime workers.

#### **Infrastructure investment**

- As outlined in *Australia's Economic Reconstruction after COVID-19: A National Jobs Plan, And Five Ways to Get Started*, in the 1960s and 1970s, public capital spending averaged 8% of GDP; in recent years, it has averaged just 4-5% of GDP. The ACTU's proposals in this submission will aim to recover up to half of that lost ground: boosting public capital spending back to 6.5% of GDP, and maintaining it there for the rest of the decade. This would also include
  - Infrastructure Australia will receive a broader mandate to identify, negotiate and manage qualifying projects including specific effort on reducing the costs and fees of transactions and prioritising a role of Australian superannuation funds as principal investors.

- Strong benchmarks for minimum Australian-made content in all funded projects will be mandated, including:
    - 75% Australian content in structural primary metals
    - 75% Australian content in other manufactured inputs
    - 90% Australian content in engineering and design services
  - Supported projects would establish ambitious community benefit targets, including hiring of workers and apprentices, trainees and cadets from disadvantaged groups of the labour market (including women, Indigenous workers, racial and ethnic minorities, and young workers), and engagement with local communities on design and planning matters.
- **Support procurement from and reduce disadvantages faced by ethical Australian businesses**
  - Local businesses who use ethical and responsible practises are disadvantaged against international or local competitors that do not. We must focus on ethical and responsible procurement, including clear government mandated obligations on suppliers to commit to environmental, social and governance (ESG) standards to ensure that Australian producers and providers who do the right thing are not disadvantaged against international or local competitors that do not. The mandating of accreditation with Ethical Clothing Australia a joint industry union body which ensures minimum labour standards in Australian manufactured textiles, clothing and footwear is a measure used by the Victorian Government which should be adopted nationally. Government should also commit to avoiding negative labour practices which have undermined job stability and wage growth in private-sector workplaces, including excessive use of casual employees, temporary and irregular hours, unpaid internships, sham contracting arrangements, and others. Government must be held to a higher standard in its labour practices, including strict limits on these unacceptable practices.

In this regard Government needs to note that nothing in our international trading agreement prohibits taking any measure of preference to ensure ethical procurement, especially when the measures support local SMES. One good example is the Victorian Government's approach to textile clothing and footwear procurement:

- directs government departments and agencies engaged in textile, clothing and footwear procurement to ensure suppliers are accredited by Ethical Clothing Australia and encourage other suppliers to become accredited with Ethical Clothing Australia;

- ensures that businesses who tender for contracts from Victorian Government entities are accredited, or in the process of seeking accreditation, with Ethical Clothing Australia;
- only awards contracts to suppliers who are accredited,
- established a Textile, Clothing and Footwear Ethical Procurement Register from which the Victorian Government where it exclusively sources its textile, clothing and footwear products;
- requires the purchase of locally manufactured textiles clothing and footwear (where the required goods are manufactured locally, meet all requirements of bid specifications and there is a genuine market) by all Victorian Government departments and agencies and Victorian Local Government Authorities;
- requires contractors on publicly funded projects to purchase locally manufactured Textile Clothing and Footwear (where the required goods are manufactured locally, meet all requirements of bid specifications and there is a genuine market) from businesses which are accredited by Ethical Clothing Australia; and
- Provides financial support provided to Ethical Clothing Australia.

This approach should be replicated by Government's. Similarly, the Australian Government's recent change in approach to photocopy procurement which sees suppliers in the Whole of Government arrangement supply exclusively Australian manufactured paper, precipitated by the requirements in the department of agriculture water and the environment's waste and recycling initiative should be replicated by all Australian governments.

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- **Lead by example**
  - The Australian government should drive a campaign to encourage consumers to buy Australian made goods. These need to be more sophisticated than labels or tv ads, a recent South Australian solar battery program that provided early access for consumers who chose Australian made products is one example of this approach.
- **Defence procurement**
  - A focused and coordinated effort must be made to maximise the employment and technological spill-overs from defence procurement. This must include specific mandated targets and timelines for domestic content in input purchases and final assembly.

## Research & Development

Research and Development (R&D) must be the core of Australia's ongoing manufacturing strategy both as a source of new products and manufacturing techniques but also as a critical part of the day-to-day work of manufacturing businesses. Managing the threat of a global recession, disruptive technology and a national response to Covid-19 will take a collective effort which it has not seen for generations. Massive changes are coming. An agile, collaborative and innovation-focussed manufacturing sector is what Australia will need for the future – but it will not be brought into being without government investment and guidance.

As pointed out in *A Fair Share for Manufacturing*, there is a crucial link between manufacturing and innovation, making manufacturing the most innovation-intensive, and R&D dependent, part of the economy. The handling and transformation of physical objects is especially suited to technological improvement, mechanisation, and other forms of innovation. No other sector of the economy utilizes as much innovation, technology, robotics, and other advanced knowledge as manufacturing. It is no coincidence that the eight OECD countries which allocate over 3 percent of their GDP to research and development (twice or more of Australia's R&D expenditure share), are all successful export-oriented manufacturing nations: Israel, Korea, Switzerland, Sweden, Japan, Austria, Germany and Denmark.<sup>22</sup>

Fundamental reform to industrial relations is required to allow this culture of innovation to develop. We need a system which focuses on increasing and improving productivity while supporting our businesses to succeed, both in the workplace and the marketplace. Existing government R&D incentives also require significant reworking and government will need to create several manufacturing R&D dedicated bodies in order to ensure that ongoing innovation and development is central to future of this vital industry.

### **The current state of manufacturing R&D in Australia.**

Under the current regime, attempts to stimulate R&D are fractured, lack clear direction and some are overly bureaucratic, focus on incremental change and have done little to establish a culture of entrepreneurship and calculated risk-taking. There are numerous programs to encourage innovation and build partnerships in Australia. To date most have not been able to stimulate the desired growth in high skill, high wage jobs or foster a growing and diverse manufacturing industry.

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<sup>22</sup> A Fair Share for Manufacturing, Australia Institute.

Due to this lack of effective support, too often ideas are developed in Australia, only to be commercialised overseas when they become viable. There is too little focus on investing in those areas where commercialisation linkages already exist which means Australian-developed intellectual property heads overseas and we do not capture its real value to create new jobs in growing companies.

Without adequate support, the sector has been left to its own devices – which has presented issues of its own. The sector in Australia has been in recent years characterised by a tight lending market. Access to finance by and for manufacturing companies has never been harder to obtain – often meaning that companies are unable to access capital for the purposes of R&D or for implementing the fruits of R&D.

Australia has needed, for several decades now, a brand-new approach to fostering a collaborative and innovative manufacturing sector. Unfortunately, the government has singularly failed to take the required action – leaving the sector with patchwork support and at the mercy of the vagaries of the market.

### **The inadequacy of the current R&D regime**

Arguably, the most minimal role that government could take in fostering R&D in the manufacturing sector is that of facilitator – providing fora and opportunities for the sector to work together. Unfortunately, the government's commitment to this role has been cursory at best. Perhaps the closest they have come to fulfilling this role in a systematic manner was the Prime Minister's Taskforce on Industry 4.0, a tripartite consultative, research, skills, cybersecurity and procurement process which led to significant work in all of those areas for the period in which it existed. The Taskforce was instituted in parallel to Platform Industrie 4.0 processes initiated by government of Angela Merkel and which resulted in the German-Australia cooperation agreement in 2017. Sadly, this agreement, and the Taskforce, have now has now been allowed to lapse, along with the funding arrangements that drove the outcomes they delivered. The taskforce still technically in existence as the Industry 4.0 Advanced Manufacturing Forum operated by the Australian Industry Group, but it receives no funding from the government. It remains only as a husk, a reminder of a period in which the government took active interest in fostering innovation in the manufacturing industry.

Industry best practice across the world shows that building R&D capacity to support manufacturing industries requires an interventionist state. Instead, for the majority of its tenure, this government has relied on a market solution – from a market that has consistently sought short term solutions to problems. An entrepreneurial state that looks to assist, nurture and at times protect the manufacturing industry is needed. For too long manufacturing has been the runt of the litter in industry policy questions that have favoured the mining, agriculture and the tourism industry.

In addition to a lack of meaningful government leadership, current government R&D incentives are poorly targeted. Research and Development tax credits are a key plank of government policy to encourage innovation and investment but have failed to generate significant results and have, by the government's own admission, in the past been poorly targeted and lacked fiscal integrity.<sup>23</sup> Despite multiple attempts at reform, the current policy is not fit for purpose and is in dire need of reform. Unfortunately, the reform agenda in recent years has been one which would negatively impact businesses with large Australian operations and favour those who commercialised their ideas overseas. Government support for manufacturing and R&D activities are crucial but should not be in the form of blank cheques & corporate welfare. Whether they be in the forms of government subsidies or corporate tax cuts, payments without oversight and clear purpose paid to Australia manufacturers will not fix the problem –We need to develop a manufacturing sector that can stand on its own two feet.

### **The way forward**

Australia desperately needs a fundamental rethink of our approach to building R&D capacity within the manufacturing sector. Leaving it to the market will not work - capital for starts ups and existing firms seeking to expand has not been readily available for many years. Previous Government-led approaches have failed or have been abandoned by an apparently disinterested government. A new approach is required. Our goal should be to build an Australian Mittelstand of firms and help more of our small firms to move into the \$20 to \$250 million range where they can be more diverse and sustainable. This can only be achieved through significant reform to government mechanisms to encourage R&D spending, as well their stewardship of R&D in the manufacturing industry.

Australian unions recommend the below series of reforms and initiatives to ensure that the required action is taken.

- **Commission for Australian Manufacturing**
  - Establish the Commission for Australian Manufacturing (the Commission) as a commonwealth statutory authority under its own Act, with support from the National Cabinet and a mandate to support Australian manufacturing. It would be overseen by a board made up of equal representation from business, research and workers, with an independent chair. There are numerous models internationally, as well as state and federal level that could be followed, but any

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<sup>23</sup> <https://archive.budget.gov.au/2018-19/factsheets/reforming-the-rnd-tax-incentive.pdf>



sustainable solution requires an equal voice for workers enshrined in the enabling legislation.

- The Commission would be tasked with setting a direction for research, taking a hands-on role in developing partnerships and encouraging innovation, and assisting the industry to grow. The Commission would bring together existing manufacturing-focused research, innovation, partnership, commercialisation and scaling-up programs to develop a “National Mission” for Australian Manufacturing. The Commission would be a one-stop-shop for businesses in the manufacturing sector seeking support to help their businesses of any size grow or change.
- A subset of this Commission would include a ‘Skills Analysis, Workforce Planning & Development’ capability designed to provide an evidence base to guide occupational skills and workforce development at the industry level.
- **A research and development ecosystem**
  - The Commission would be responsible for overseeing all new and existing research and development partnerships across the federal government. It would be responsible for overseeing existing manufacturing-focused CRCs, CRC-Ps and other manufacturing focused programs, and be resourced to make funding decisions for future ones. This approach will allow a complete support ecosystem for ideas as they move from basic research to prototyping, commercialisation, production and scaling up, so that great ideas are not forced offshore.
  - We support the establishment of a complete support ecosystem for new ideas as they move from basic research to prototyping, commercialisation, production and scaling up, so that great ideas are not forced offshore. Further, we want to ensure that these great Australian ideas turn into high skill, high wage jobs here in Australia and not overseas.
  - We want to see government increase the support it provides at all stages of the R&D process, as the current system is fractured and ineffective. A more holistic and “joined up” approach to R&D will deliver more support to the businesses that need it.
- **Focus on our strengths**
  - The Commission would be tasked with ensuring that Australian ideas result in growing Australian businesses. Given the current economic circumstances, funding priorities would need to be rearranged so that scaling up of small to medium businesses is the priority in the short term. Driving growth in existing,

highly knowledge intensive firms to push them into key global supply chains is critical to delivering jobs and attracting investment. To achieve this, existing programs that address these critical phases of the product lifecycle would need to have their purview widened and their resources increased.

- **Modernising our industry**

- The Commission would also be tasked with developing our existing manufacturing sector to assist it to modernise and diversify its capital and processes. The Commission would build on decisive interventions (like the Department of Defence New Aircraft Industry Support program) which would be created to assist local firms to help them grow their businesses and assist them to attract the capital to make those changes.
- These interventions could range from skills and training packages, connection with local supply chain opportunities through Industry Capability Networks (ICN), expert advice on Industry 4.0 capabilities, investment in new machine tools including robotics and many others. The aim of these interventions will be to improve productivity, upgrade existing capital and invest in new production methods to create knowledge intensive businesses, producing high value goods with a highly skilled, productive workforce.

- **Manufacturing Investment Fund**

- Establish a Manufacturing Investment Fund (MIF), to be managed by the Commission, with a focus on growing the Australian manufacturing industry. It would be tasked with facilitating and encouraging investment in manufacturing firms seeking to establish, expand or modernise their operations, while receiving a benchmarked rate of return.
- One option to differentiate MIF the CEFC or the Australian Business Growth Fund (ABGF), would be to limit its role so that it is not directly involved in selecting companies to support. It could invest its capital through other investment vehicles (such as private funds (like Blackbird or AirTree) or government operated funds (like ABGF or the CFEC) with the requirement that those funds are invested in manufacturing firms and that the MIF receive an agreed rate of return on that investment. This approach means that there will be no duplication or competition between government and private sector investment, while ensuring that manufacturing receives its fair share of attention from investors.

- The MIF will be seeking to invest in businesses at all stages of the business lifecycle. It is intended that the MIF could be used to assist Australian businesses to source capital whether they need it for prototyping, commercialisation, scaling up or because they need the latest industry 4.0 technology to break into global supply chains. It would be nearly impossible for the MIF to source the skills required to assess appropriate businesses in all these varied parts of the market, which is why we recommend a different approach. The new approach would allow the MIF to offer different types of assistance, including venture capital, equity, mezzanine debt, extension capital and loan guarantees to a wider range of firms. In our view, if an Australian manufacturing firm needs capital and can provide the expected rate of return, they should be able to secure assistance from the providers that are working with the MIF, no matter their size.
- The Commission would also seek to do more than just provide assistance in sourcing capital through the MIF. As a one-stop-shop for all manufacturing businesses looking to grow or change, the Commission would seek to provide access to training, skills development, coaching, links with ICN, connection to researchers and experts to assist businesses as they that are go through these important transitions.
- **Leveraging investment guarantees**
  - As the government seeks to support businesses recovering from COVID, it must target large and medium businesses in a way that deliver key reforms to improve sustainability and productivity in the manufacturing industry. Firms that seek to access whichever incentives the government seeks to offer should be first encouraged to undertake all efforts to onshore their supply chains (delivering sovereign industry capability) and reduce their carbon emissions. Further, additional incentives should be provided to firms that have purchased Australian made products with that support, to ensure that taxpayers get the most benefit from government spending. For example, a business grant might be provided at \$10,000 for SMEs to purchased new equipment, or \$12,000 if the goods purchased are made in Australia.
  - To ensure that this is possible, the government needs to invest in developing the existing ICNs now so that they are equipped to assist businesses to meet the above criteria and are not a drag on investment when these policies are announced.

- **Reforming R&D tax credit**
  - The R&D tax credit needs to be bigger and better targeted if it is to achieve its desired outcomes. A new system should include incentives to commercialise ideas onshore and reward firms that use their R&D to achieve government objectives like improving productivity, reducing carbon emissions, improving industrial sovereignty (through supply chain onshoring or diversification) and further support should be given to firms with operations in regional areas.
- **Reform industrial relations laws to allow for industry bargaining to foster a culture of cooperation within and between workplaces.**
  - Workers and businesses should be partners in this process of change and as such workers should be given a real voice in their workplaces.
  - We need a system which recognises and values the fundamental rights of workers and unions as a necessary precondition to the success of the businesses that rely on them. Overseas experience (e.g. Germany and Singapore) has shown that taking an industry wide framework approach to the determination of pay and conditions allows for more productive relationships to be fostered in individual workplaces around more important issues such as improving productivity, work organisation and skills development.

## Skills

Access to a robust and effective VET system is a critical requirement for the manufacturing sector of the future. The government has thus far failed to take any meaningful step towards addressing the issues of quality and quantity of VET graduates or the lack of industry leadership of the training package development system. Significant reforms of both the VET sector and the training package development system are needed to ensure that the manufacturing sector has access to the skilled workers it will need in future.

### Skills in Manufacturing

Manufacturing is one of the more skills-rich industries in Australia. While manufacturing may no longer have the primacy in industry it once occupied in terms of numbers of workers, companies, and contribution to GDP, the skills of manufacturing workers are key to renewed prosperity. These skills are readily transferrable; construction, logistics, creative arts, and engineering all benefit from the skills created and nurtured in the manufacturing sector. Because of this, workers in the manufacturing sector can spread to other industries with ease and workers from those industries already have many of the skills they need for a career in manufacturing. On this basis, skills development for the manufacturing industry cannot be considered in isolation, a

problem for one industry – effective skills development for manufacturing requires an entire VET system operating at peak effectiveness. As pointed out in *A Fair Share for Manufacturing*, even without significant revitalisation, the National Council for Vocational Education Research (NCVER) projects that the manufacturing sector will need to recruit almost 300,000 workers in the coming eight years.<sup>24</sup>

The basis of many manufacturing-related skills is a trade-based apprenticeship. Whether in mechanical, electrical, fabrication or other fields, apprenticeship is the basic building block of skill formation. This has been recognised in practice through the continued renewal and modification of apprenticeship via the various competency standards and training packages created specifically for manufacturing under the industry award, MA 10 Manufacturing Industry Award. MA10 provides the 14-level structure from entry-level unskilled workers at C14 up to C1(b) which describes the skills of a senior qualified engineer or scientist. The key classification is C10, which describes the trade level, achieved after a nominal 4-year apprenticeship or equivalent. The skill levels which flow from C10 include (at C7) the Higher Engineering Tradesperson, who has successfully completed the Cert IV; C5 Advanced Engineering Tradesperson or Technical Officer, Diploma; C3 Senior technical officer or Engineering Associate, Advanced Diploma; and C1, Engineer or Scientist, Degree. Supervisory roles within the award follow similar cognate pathways. The building block approach inherent in these classifications show the importance of the trade as the backbone of the skills required in manufacturing industry. Apprenticeships<sup>25</sup> therefore remain a critical pathway into the manufacturing sector and the health of the sector is itself intrinsically linked to the integrity of the Australian apprenticeship system.

The current health of the VET sector is therefore critical to consider when evaluating the status of manufacturing skills development. Unfortunately, there is little good news. The decision to leave the provision of quality VET to the market has resulted in a system where many students do not receive the training they are paying for and where graduates are often not sufficiently skilled. Due to steady declines in funding, and the loss of students to private providers, TAFE is no longer the centerpiece of VET in many areas. TAFE campuses have been closed and much TAFE infrastructure has degraded. Thousands of qualified VET educators leave the sector each year – representing a significant loss of expertise. Australia’s total investment in the VET sector is now

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[https://d3n8a8pro7vhmx.cloudfront.net/theausinstitute/pages/3332/attachments/original/1595693276/A\\_Fair\\_Share\\_for\\_Australian\\_Manufacturing.pdf?1595693276](https://d3n8a8pro7vhmx.cloudfront.net/theausinstitute/pages/3332/attachments/original/1595693276/A_Fair_Share_for_Australian_Manufacturing.pdf?1595693276)

<sup>25</sup> It is important to note that for purposes of brevity ‘apprenticeships’ is used throughout to refer to training contract and work-based training models and includes apprentices, trainees and cadets.

at its lowest level in real terms since at least 2008 and more than \$3 billion in federal funding has been cut since 2013.<sup>26</sup> Unions have been steadily shut out of VET bodies while bureaucrats and the states have significantly expanded their influence. As a result, training is now unable to respond effectively to industry need. The subordination of industry input to state and bureaucratic interests has prevented training from adapting to industry need. Since 2013, over 140,000 apprentice and traineeships have disappeared from the Australian economy, resulting in tens of thousands fewer skilled workers entering the workforce each year and worsening the skills shortages faced in some industries. These apprenticeship losses are particularly concerning in the context of low completion rates for both apprenticeships and VET courses in general, with apprentices sitting at just over 50% completion<sup>27</sup> and VET courses still languishing below 50%.<sup>28</sup>

The VET sector, like all sectors of the economy, was significantly impacted by the Covid-19 pandemic of 2020/2021. In addition to the loss of students and revenue necessitated by Covid-19, NCVER research shows that, following the introduction of health restrictions to combat the pandemic, training contract suspensions increased more than 650% in the months of March and April of 2020, followed by a further rise of 300% in May.<sup>29</sup> There was also a marked decline in new apprentice and trainee contract commencements in April and May, which continued to fluctuate between June and September of that year. Covid-19 then not only had a devastating acute impact on the VET sector, but also manifested as the worsening of the pre-existing issues the sector faced long before the advent of Coronavirus.

Securing a strong skills future for the manufacturing sector requires the government to commit to rebuilding the VET sector, commit to protecting and enhancing the apprenticeship/trainee/cadet system and take concrete action to improve training product development. The sad reality is however that past behaviour from the government gives us no hope that this will occur.

### **A legacy of neglect and policy failure – government actions in VET and apprenticeships**

The current VET system is a market that is profiting from the delivery of training while often failing to produce the skilled workers the economy needs. There is a disconnect between the industry need for skills and what is being delivered by the training system. The key disconnect arises from the absence of proper alignment between the national industry standard and the fragmented approach to learning and assessment methodologies that are left to the market. As outlined

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<sup>26</sup> [https://www.rebuildwithtafe.org.au/tafe\\_investment](https://www.rebuildwithtafe.org.au/tafe_investment)

<sup>27</sup> <https://www.ncver.edu.au/news-and-events/media-releases/apprentice-and-trainee-completion-rates-hold-steady>

<sup>28</sup> <https://www.ncver.edu.au/news-and-events/media-releases/vet-qualification-completion-rates-improve>

<sup>29</sup> <https://www.ncver.edu.au/research-and-statistics/publications/all-publications/apprentices-and-trainees-2020-impacts-of-covid-19-on-training-activity>

above, this 'leave it to the market' approach has been combined with significant cuts in funding for the VET system. This has resulted in a VET system where the purpose of that system – the creation of skilled workers – has been made subordinate to the pursuit of profit. Many parts of the VET system are no longer performing their intended function effectively, either by design or due to a decade of funding cuts. Students are no longer achieving work outcomes through the system - 85.1% of people engage with the VET system 'for employment related reasons' yet only 17.8% are employed at a higher skill level after training.<sup>30</sup> Employer satisfaction with the system continues to fall, with only 77% of employers satisfied with apprentices in 2019 and 78% of employers satisfied with national recognised training in that same year.<sup>31</sup> The TAFE and vocational education and training sector is the worst funded of all education sectors, lagging behind schools and universities. The National Centre for Vocational Education Research's 2019 Financial Information report confirms that vocational education remains underfunded. Commonwealth financing of the VET sector fell 4.5% to \$2.6 billion while the number of students enrolled in VET increased by 3.2% to 4.2 million. Overall commonwealth government funding for the sector has plunged from over \$3 billion in 2017 to \$2.6 billion in 2019 – a 15% reduction.<sup>32</sup> The latest figures indicate that while the Government has succeeded in raising the recurrent expenditure per annual hour rate, from its rock-bottom rate of 11.40 in 2014, this has been done through reductions in funding alongside reductions in hours. While this has meant that in 2018 the recurrent funding per annual hour was \$17,90, this has been achieved at the expense of the delivery of training. To address this, the Commonwealth is proposing a single unified payment structure for all training units. In the absence of a guarantee of improved funding, such a program will become a race to the bottom.

Australia has despite everything maintained a strong apprenticeship system, notwithstanding the near halving of the federal funds made available for apprenticeships since the advent of the Coalition Government in 2013. But apprenticeship completions are still lower than is acceptable and apprentice surveys run by our affiliated union the AMWU have consistently shown the apprentices are struggling financially due to increased costs.<sup>33</sup>

The government's response to these issues has been underwhelming – in that it has been difficult to detect. Despite nearly a decade in power, this government has made no attempt to address the steady decay of the VET system, nor to address the issues of the drop in numbers and completions for apprentices. Government also failed to act fast enough during the pandemic

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<sup>30</sup> [Productivity Commission Report on Government Services 2020 page 5.1 & 5.22](#)

<sup>31</sup> <https://www.ncver.edu.au/research-and-statistics/infographics/employers-use-and-views-of-the-vet-system-2019>

<sup>32</sup> NCVER

<sup>33</sup> [https://www.amwu.org.au/apprentices\\_worry\\_debt\\_betrays\\_their\\_future](https://www.amwu.org.au/apprentices_worry_debt_betrays_their_future)

to arrest contract suspension rates, which skyrocketed for months with no government intervention until late in 2020. Instead, we have the reported comments of the federal Skills Minister at the launch of National Skills Week in August 2021, where he stated, 'Why does it take four years to do an apprenticeship? Why is it only 2% of people doing apprentices actually have recognition of prior learning, even though vast percentages of them are mature age students?'. These comments display an astonishing lack of knowledge about the system in its failure to acknowledge the above facts and given his role as Minister does not augur well for the future of manufacturing skills in this country.

In addition to their failure to take meaningful action to address the issues in the VET system the Government has undermined the bipartisan system to design training packages upon which manufacturing skills rely. A feature of the 14-level skill structure in manufacturing is the importance of bipartisan discussion and agreement between employers and unions about the skills and competencies to be allocated to each level of the structure. Originally oversights by Industry Training Advisory Boards (ITABs), this has morphed over years to the point where the fundamental aspect of bipartisan agreement through ITABs was destroyed from 2013. Instead, the government has built a system in which 67 Industry Reference Committees, on which union representatives are often far outnumbered, operate through SSOs (Skills Service Organisations), report to the AISC (Australian Industry and Skills Committee), and all final decisions are made by the Skills Ministers. If the government had been attempting to create a system in which bipartisan control of the system was effectively stifled, they could hardly have done better than the current system. While experiences with the system vary, in terms of manufacturing qualifications the current system has proven to deliver primarily bureaucratic inaction and regularly sees the legitimate leadership of industry stymied by the interests of the states. While government has made some moves towards reforming this system in the latter half of 2021, this reform has taken far too long to occur and has failed to involve industry stakeholders in reform design.

Simply put, the government has failed to take action that was clearly needed ten years ago to ensure that the manufacturing sector has a strong base of skilled workers from which to build. When, in 2012, a Manufacturing Taskforce was formed under the auspices of the then-Prime Minister, the non-government members – unions and employers – made the following statement of aims:

- To develop a broader and deeper knowledge of what firms and workers need to significantly transform the productive performance of their business and workplaces, and how the change process at the level of the firm and workplace can be better managed
- To transfer that knowledge into new content and approaches in delivering education and training material for members through internal union and employer association



programs, and through new alliances with external providers with expertise to add value to the training/education effort.

- To develop high level capabilities internally and through new alliances with specialist external providers to assist members in workforce development initiatives and to improve the productive performance of firms through an agenda for developing high-performance workplaces.
- To embed a new culture in employer and union organisations that prioritises these activities regardless of the changing political landscape

The reality is that effectively nothing has been done under the current government to ensure that these ambitions were met. Unions believe that urgent action is needed to reform the VET system to ensure the pipeline of skilled, productive workers that our future manufacturing industry will need.

### **Building a VET system for the future of manufacturing**

The lack of a clearly defined policy underpinning for skills and VET is a significant weakness and continues to constrain our ambition to create a vibrant and productive modern manufacturing capability. There is a lack of certainty in what the VET system is producing, increasing calls for flexibility and specialisation designed to meet the narrow interests of individual employers and training providers, rather than the broader interests of the 'industry', are blurring the scope of key production, traditional trade and technical vocations and students and employers have little chance of developing into the informed and demanding consumers our VET system desperately needs while the current levels of fragmentation and incoherence prevail. The current approach to skills and VET is on the one hand a lazy, ideological approach based on 'leaving it to the market', and on the other hand, pandering to the frailties of Federation and encouraging the respective states and territories to continually interfere and micromanage the system in their own fragmented interests. If we are to face the future with confidence, we need absolute certainty about what problem we are trying to solve and what role we expect of the VET system and TAFE as the public provider. We must establish a clear and unambiguous purpose statement to guide our approach to reforming the skills and vocational education & training systems. In the context of an approach to Manufacturing more specifically, we need an appreciation that significant numbers of workers in manufacturing still do not possess post-school qualifications. Those workers clearly have significant skills that they have learnt, not through formal training in the system, but through experiences in the world of work.

The crisis in Australia's VET system affects all industries, not only manufacturing. However, manufacturing is among the industries most dependent on a flow of qualified, certified vocational graduates. Without urgent measures to rebuild VET and restore the capacities of the TAFE

institutions, the inadequacy of vocational education in Australia will inevitably limit the future expansion of manufacturing.<sup>34</sup>

We need a truly national approach that rebuilds coherence, certainty, and confidence in the VET system. That starts with a foundation based on commitment to the following observations:

- Vocational skills are central to our ambition to create a well-educated, socially capable and resilient Australia with the skills to face the future;
- Vocational education and training is essential to creating manufacturing industries and enterprises that are responsive to changes in technology and in the national and world economy, and which can compete globally and provide secure employment and career path opportunities for workers;
- All manufacturing industries and sectors require access to industry specific training and skills development that reflect the tasks being undertaken by its workforce, irrespective of industry size;
- A skilled and adaptable workforce, productively deploying its skills in the economy, represents a high value public good that is worthy of public investment through TAFE and the public system of vocational training;
- For-profit VET providers are failing to produce a skilled and adaptable workforce. The current return on public investment is unsatisfactory, if not illusory;
- There is a role for industry-owned not-for-profit Registered Training Organisations – but quality is imperative and funding should be linked to the conditions of at least equal trade union representation on RTO boards as a key check and balance.
- We need a well-resourced, high-performing VET sector in which industry and the broader community has absolute confidence; and,
- TAFE, as a well-resourced, high-quality public provider, must be at the centre of the VET system.

In order to operationalise these principles, Australian unions recommend the following long-term reforms to the VET system which will restore and reinforce the ability of the system to deliver skilled manufacturing workers:

- Increased government investment in vocational education and training to be focused on full, nationally recognised qualifications, aligned to realistic job prospects that give

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<sup>34</sup> A Fair Share for Australian Manufacturing, Australia Institute

workers the best opportunity to use and transfer their skills across an industry or occupation.

- Addressing the market failure caused by thin markets in VET delivery, particularly for manufacturing sectors concentrated in rural, regional and remote communities with high attrition rates.
- An overhaul of the Certificate IV Training and Assessment as the minimum qualification for VET teachers. A high-quality education can only be achieved if VET teachers have expertise in the subject matter being taught, including industry practise, as well as a strong foundation in teaching and learning practice, not just compliance.
- Measures to ensure that employers assume responsibility, including financial responsibility, for developing the skills that their business then benefits from. Co-contribution mechanisms and industry training levies associated with nationally recognised training are among the options that should be utilised, as well as measures to improve business capability in identifying their skill needs.
- A national inquiry into funding for the TAFE and vocational education and training sector to establish an adequate funding rate to ensure high quality delivery. Public funding for vocational education and training should be commensurate with funding directed to other sectors of education and be informed by rigorous analysis and forecasting of current and future skill needs and priorities endorsed by industry.
- A national discussion between unions, employers and TAFE about the need to develop model National Industry Framework Curriculum, aligned to industry standards.
- A guarantee of funding and resources to TAFE institutions, strengthened regulation of private providers, and guarantee a minimum seventy per cent public funding for the TAFE system. Public funding should not be available to for-profit training providers at all - as is the case with respect to school funding.
- Registered Training Organisations must have, as a condition of their registration, the provision of high-quality vocational education as their primary purpose, and the best interests of students as their key focus, not profit.
- Stronger regulatory and compliance measures which mandate a minimum duration of learning, consistent with requirements in the Australian Qualification Framework (AQF) to ensure that Registered Training Organisations deliver the amount of training they have been paid for, either through government subsidy or directly by students, and prohibit providers from sub-contracting training delivery to unregistered providers.
- Unions must be part of all decisions that affect the vocational education and training and skills development options available to workers, whether at a national level, industry level

or in the workplace. These are matters that affect the cost, accessibility and quality of vocational education and training and ultimately impact on workers' livelihoods, quality of work and quality of life.

- The TAFE and vocational education and training system needs to work closely with industry and government around workforce development strategies across a broad range of industry areas, including manufacturing. This would re-establish its role as an innovative and forward-looking sector which can work in partnership with employers and unions to develop and support the existing workforce and the workforce of the future.
- A TAFE and vocational education and training sector workforce development plan. This strategy must be underpinned with decent employment practices and standards, including a commitment to secure and dignified work for all those who work in the TAFE and vocational education and training sector. It must also include:
  - examining the skills, capabilities and expertise of the teaching and administrative workforce, and
  - supporting the development of industry and pedagogically sound qualifications to ensure that the workforce has the skills, capabilities, knowledge and expertise to support the broader workforce and to participate effectively in society.
  - Addressing increasing job insecurity and casualisation amongst trainers and assessors and the VET workforce.
  - Addressing barriers to having a stable pool of industry workplace trainer and assessors by reform of the onerous and punitive requirements of the Training and Assessment qualifications.

In the short term, the VET sector and TAFE need urgent supports to recover from the pandemic and to position the system to benefit from the long-term reforms outlined above. The ACTU, as outlined in our paper "*Australia's Economic Reconstruction after COVID-19: A National Jobs Plan, And Five Ways to Get Started*" believes that a number of immediate actions are necessary:

- A Training for Reconstruction (TFR) program, to fundamentally strengthen the ability of Australia's deeply troubled VET sector to respond to the urgent needs for training and retraining that will ensue because of the pandemic. The TFR program would include several components:
  - The Commonwealth government would sponsor a new nation-wide Free TAFE program, similar to initiatives already in place in Victoria and Queensland, to provide free TAFE courses directly aligned to priority occupations for any students who wish to take them. (The program would include Commonwealth support for the existing programs in those two states.) The program would cost \$1 billion per

year and would support an estimated 150,000 free TAFE spots per year. It would also underpin the maintenance or creation of 10,000 ongoing jobs in the TAFE system.

- The TFR program would also include a \$3 billion fund, to be allocated over three years, to support capital improvements in the TAFE system, including updating and modernising existing facilities, and expanding TAFE facilities (with a particular focus in regional areas). This work would support 7,500 person-years of construction work over the 3 years and facilitate more hiring by TAFEs once those facilities are complete.
- To support the uptake of cadets, apprentices, cadets and trainees in employment, the Commonwealth government would offer a 50% subsidy of the ordinary time wages of apprentices and trainees in either direct employment or engaged through group training programs, paid for the life of the apprenticeship/traineeship. This program would support up to 100,000 subsidised apprenticeships at a cost of about \$2.5 billion per year. Subsidies would be paid through a combination of an initial grant, rolling monthly payments and a completion grant. The completion grant would be paid to an employer that engages a completed apprentice / trainee for at least 12 months continuous employment post training in the occupation associated with their training contract. The program would operate under transparent implementation rules with clear employer obligations. This component of the TFR program would help to address the catastrophic decline in apprenticeship positions which has only been accelerated by the pandemic.
- The Commonwealth government would also leverage its investments in public infrastructure and expanded public services to support more apprentices, establishing minimum apprentice/trainee/cadet ratios in construction, operation, and public service functions (and remove any instruments which restrict ratios such as the building Code). Complementary requirements will be established (backed by necessary changes to industrial laws) to hire apprentices and trainees from targeted sectors of the workforce (including targets for women, workers from Indigenous and immigrant communities, and workers with disability).

The recommendations above represent a comprehensive plan to restore and rebuild our VET system, reinvigorate the role of industry in training package development and to revitalise our apprenticeship system. To attempt to undertake any strategy to build a new Australian

manufacturing sector without these reforms, and the reinvigorated VET system they are designed to create, would be doomed to failure.

## Trade Policy for Manufacturing

Australia's approach to trade is broken and needs to change. The single most important objective of trade policy should be to deliver benefits to the Australian economy, communities and working people by increasing opportunities for local businesses and creating local jobs. This should not be at the expense of workers in developing countries.

Politicians seem to have lost sight of this. Instead, trade policy has become ideologically driven, with a focus on pursuing and signing 'trophy' trade agreements which provide little, if any, benefits to Australian communities and in many cases, decimate local industries and local jobs. The current agreement-making process undermines our democracy, and our politicians are not listening to the concerns of unions and the broader public.

Average Australians are not benefiting from our Free Trade Agreements (FTAs). Australia, like many other countries, is finding that large sections of our society are losing out. Even in sectors where we were supposed to be reaping the benefits, such as agriculture, profits are going to large businesses which minimise their taxes by shifting profits off-shore, while agricultural workers and farmers are left in some of the most exploited and least safe conditions in the country.

### Trade deals must not restrict industry development

Trade deals must not restrict industry development – one such agreement where this could occur is the RCEP trade agreement. The RCEP was negotiated before the COVID-19 pandemic, which revealed overdependence on imports for essential products. The Australian government acted during the pandemic to assist manufacturing of medical equipment, vaccines and other essential products to save lives.

There is now bipartisan support for longer term policies to develop local industry capacity for essential products. But the RCEP text on trade in goods contradicts these intentions through strict rules on national treatment and market access rules which discourage government assistance for local industries at a time when many argue that more active industry policies are needed to rebuild the economy in the wake of the pandemic.

### **The RCEP entrenches pre-pandemic supply chains and restricts local industry policy**

The RCEP text was completed in November 2019, before the COVID-19 pandemic, and has not been revised since. The pandemic revealed Australia's over dependence on imports for many essential products. The Australian government acted during the pandemic to assist manufacturing of medical equipment, vaccines and other essential products to save lives. These actions contradict the rules embodied in the RCEP, which forbid assistance to local industries, but could be justified as emergency measures during the pandemic.

The Prime Minister has since announced some longer-term local industry support as part of plans for economic recovery. The former Trade Minister has said that the challenge for future trade policy is "to get the balance right for Australia by having domestic capacity in key certain areas" (Birmingham 2020).

But the RCEP text on trade in goods contradicts these intentions through strict rules on national treatment and market access for both imported goods and investment. These discourage government assistance for local industries at a time when many argue that even more active industry policies are needed to rebuild the economy in the wake of the pandemic.

We recommend that the RCEP rules on national treatment and market access be reviewed and re-negotiated to ensure that they do not prevent the active government industry policies needed to ensure local industry capability and rebuilding the economy in the wake of the pandemic.

### **Australian must better utilise its rights in the international trading framework to provide a leveller playing field for Australian Manufacturing Industry.**

Australian manufacturers' ability to address and remedy predatory imports through anti-dumping and countervailing measures has improved in the last decade. Despite this, the pace of reform has slowed dramatically with the last significant tranche of anti-dumping reforms occurring in 2015. Vigilance and continual refinement form is required to avoid circumvention of duties and to pre-empt or at least react to overseas exporters and unscrupulous importers' adaptive behaviour in response to the levying of duties.

The ACTU support further reforms to the Anti-Dumping system which promote transparency of import data, the combatting of circumvention and the avoidance of Anti-Dumping duties, the use of benchmark labour costs in cost construction methodology when considering a "fair price" of exports" and adequate funding of the Anti-Dumping Commission.

The Productivity Commission is responsible for investigating potential claims for emergency safeguard duties due to a surge of imports which cause serious injury. However, this function would better sit with the Anti-Dumping Commission.

There is nothing in Australia's trade agreements which prevents taking measures necessary to ensure the protection of human, animal or plant life or health, of the environment, or for the prevention of deceptive practices. Despite this Australia is flooded with substandard and non-conforming products from building products to consumer goods which not only are dangerous but undercut Australian manufacturing industry which ensures that their products are fit for purpose which comes with a cost to production usually.

The ACTU wants to see the Building Minister's Forum revitalise their work agenda in addressing this issue and for regulators like Australian Border Force, ACCC and state and territory regulators to state taking their responsibilities around dangerous and mis-labelled imports seriously.

Australia's agreements need enforceable labour and environmental chapters and a role in monitoring and enforcement and capacity building for unions. Anti-Slavery laws need to be strengthened, as do now decade long illegal logging (import prohibition) laws including to include breaches of labour laws in its remit. The recent cross-party recommendation for an Act of parliament prohibiting imports produced with slave labour is welcome and needs to be passed and operationalised. Finally, Australia's modern slavery laws need to be greatly strengthened, moving from effectively a voluntary company reporting scheme to a mandatory system with independent oversight and penalties for non-compliance.

Australia's trade agreements are also eroding its national cabotage laws, which are already exceptionally liberal by global standards, providing near zero protection for Australian registered ships, and very limited cabotage coverage. Trade in services aspects of trade agreements can also risk impeding Australian content objectives designed to support and nurture local industry, including Australian maritime services companies that create maritime employment for Australian nationals.



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