

AUSTRALIAN MANUFACTURING FUTURE FUND

Labor's plan for advanced manufacturing

A Shorten Labor Government will establish a new \$1 billion Australian Manufacturing Future Fund (AMFF) to drive innovation and help Australian manufacturers grow their businesses and create new jobs.

Modelled on Labor's successful Clean Energy Finance Corporation (CEFC), the AMFF will leverage finance in order to help Australian enterprises make the successful transition into high value production. This in turn will create high-skill jobs, support firms linking in to global supply chains and diversify the Australian economy.

Labor wants Australia to be a successful advanced manufacturing nation.

Whether it is auto component manufacturers re-tooling or diversifying into other industries, food manufacturers investing in new equipment to package new products for Asian export markets, or metals fabricators making the move into pre-fabricated housing, Labor's AMFF will help our local manufacturers innovate, diversify, and develop opportunities in new export markets.

Building on the success of the CEFC, the AMFF will continue Labor's work in developing an innovative nation for the future, and backing our comparative advantages in design, engineering, research and development.

What's the problem?

The Australian economy is changing in response to a number of challenges and economic forces, with sectors and workforces affected differently. While the mining investment boom underpinned economic growth over the last decade, the next decade will require a targeted growth strategy from governments to ensure living standards are maintained.

In order to do this, governments need to ensure they retain and grow skills in advanced manufacturing. Employing nearly a million Australians, jobs in manufacturing have been under pressure due to a number of headwinds including a lack of investment, rising energy prices and policy uncertainty.

These pressures follow a concerted effort by the Turnbull Liberal Government to push manufacturing investment and jobs offshore – the loss of Holden and Toyota illustrate this point.

One way governments can assist manufacturers is by directly tackling what has been identified as a major impediment to their ability to grow and innovate – access to finance.

It's been widely acknowledged that access to finance is a key impediment to Australian small and medium enterprises' (SMEs) ability to grow and access new technologies.

The NSW Business Chamber, for example, has made this point by noting that *“ABS data suggest access to finance is also the most common barrier to innovation for all business (affecting around 400,000 businesses) and the third largest barrier to general activity (affecting around 300,000 businesses).”*¹

For manufacturers, this problem is especially acute.

Recent ABS data states that 52 per cent of manufacturers faced barriers to the introduction of new goods, services, processes or methods, and that of these 25 per cent reported a “lack of access to additional funds” as a barrier.²

In a world where capital is otherwise readily available, there is evidence that manufacturers face significant barriers to accessing finance.

The Australian Industry Group (Ai Group) has argued that *“banks impose especially stringent lending criteria on the manufacturing sector.”* The Ai Group went on to argue that financial institutions, *“responding to perceptions of higher risks facing the industrial sector, were downgrading manufacturing industries and making access to finance more difficult and expensive for businesses across the entire sector, regardless of individual circumstances or risk.”*³

Innovation is strongly related to better firm performance across a range of indicators, including profits and employment growth. Access to finance, however, is one of the biggest barriers to innovation.

ABS data on the barriers to innovation show that more than 1 in 4 innovative businesses cite access to finance as their major barrier to investment and growth.⁴

Labor’s AMFF will aim to remove this barrier to innovation in the manufacturing sector, which will benefit SMEs and promote jobs growth in advanced manufacturing.

Building on Labor’s success with the CEFC

The last Labor government identified a similar finance gap in clean energy technologies and established the Clean Energy Finance Corporation (CEFC) to boost renewable energy in Australia.

After several attempts to abolish the CEFC, the Turnbull Liberal Government now supports the program. The CEFC facilitates investment in new clean energy businesses and projects, which the private sector has been reluctant to fund due to the risk profile. The CEFC does so in partnership with private finance, using its investment to attract other capital and reduce the risk profile of new investments.

¹ NSW Business Chamber, “Small Business Access to Finance”, accessed at <https://www.nswbusinesschamber.com.au/NSWBCWebsite/media/Policy/Thinking%20Business%20Reports/Small-Business-Access-to-Finance.pdf>

² <http://www.abs.gov.au/ausstats/abs@.nsf/mf/8167.0>

³ AIG, Submission to Financial System Inquiry, p.11, accessed at http://fsi.gov.au/files/2014/04/Australian_Industry_Group.pdf

⁴ ABS, Catalogue 81580. Innovation in Australian Business, see: <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/8158.0Main%20Features42014-15?opendocument&tabname=Summary&prodno=8158.0&issue=2014-15&num=&view=> .

A Shorten Labor Government will establish the AMFF and model it on the CEFC.

In its first four years of operation, the CEFC had committed \$4.3 billion across 79 transactions with a total project value of \$11 billion.

Importantly, each dollar of CEFC investment 2016-2017 was matched by more than \$2 from the private sector. In addition, unlike grant programs that negatively impact the budget the CEFC generates a rate of return for the Australian taxpayer.

How the AMFF will work

The AMFF will not seek to displace the private sector; it will look to address instances where high barriers to finance exist for manufacturers. Investment by the AMFF will lower the risk profile of projects, which in turn attracts private capital.

The AMFF will not issue direct cash grants to manufacturers. Rather, it will offer financing arrangements including, but not limited to, equity, concessional loans and loan guarantees.

Consistent with the CEFC, the AMFF's investment decisions will be guided by a public policy objective, and constrained by a clear investment mandate.

In Government, Labor will undergo a consultation process to finalise the investment mandate.

Upon establishment, a Labor Government would, via the Board, request that the AMFF prioritise consideration of transformative investments in both the automotive manufacturing and food manufacturing sectors.

There may also be scope for the Fund to partner with the CEFC to invest in energy efficient projects and equipment to reduce a firm's energy bills, or the Export Finance and Insurance Corporation (EFIC) to access new export markets with new products.

The AMFF will be expected to actively work with Australian manufacturers to identify potential opportunities for growth, and apply commercial rigor when making its investment decisions, including focusing on projects at the later stages of development.

By adopting a commercial approach, it is expected that the Corporation will invest responsibly and manage risk so it is financially self-sufficient and achieves a benchmark rate of return. This benchmark rate of return will be expected to be met across the whole portfolio of the Corporation's assets, not by any specific asset.

Other advanced economies support their SMEs and manufacturers in a similar way.

- The UK has a suite of schemes and funds dedicated to providing finance for their private companies.
- Canada has a Business Development Bank The European Union has the European Fund for Strategic Investments which, among other things, seeks to overcome market failures by mobilising private investment as well as providing risk finance for small businesses

The Liberals' alternative

The Turnbull Government has no plan for Australian manufacturing. While the Liberals have a plan to close industries, Labor is developing a plan to grow jobs.

The Abbott-Turnbull Liberals gutted Australia's industry and innovation programs upon coming to office, which included abolishing the Industry Innovation Precincts, Commercialisation Australia and Enterprise Connect.

The Liberals goaded Holden and Toyota into leaving Australia, effectively ending the historic Australian automotive production industry and dozens of supporting industries which were part of its supply chain. This was coupled with a refusal to implement adequate transition policies for the workers in both the production plants and supply chain firms.

In the most recent Budget, the Government provided a small top up to an already oversubscribed and underfunded advanced manufacturing growth fund, but had no real plan to support the broader Australian advanced manufacturing sector.

Financial Implications

Under budget accounting standards, investments in financial assets for policy purposes are not included in the fiscal or underlying cash balances.

The budget impact reflects the operating costs of the AMFF.

Issue/Measure	2017-18	2018-19	2019-20	2020-21	Total
Advanced Manufacturing Future Fund	0.0	0.0	17.0	17.0	34.0