

From Consensus to Action:

*Report from the First National
Manufacturing Summit*

By Dr. Tom Barnes
Australian Catholic University
For the Centre for Future Work at the Australia Institute

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www.futurework.org.au

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Forward

The first **National Manufacturing Summit** was held at Australian Parliament House, Canberra, in June 2017, organised by the Centre for Future Work and the Australia Institute. The event was attended by over 100 delegates from the full range of stakeholders concerned with the future of Australia’s manufacturing sector: including businesses, industry peak bodies, trade unions, government departments, academic institutions and vocational training providers, and other civic organisations. The Summit was generously co-sponsored by several partners, including: Australian Manufacturing Workers’ Union, Australian Steel Institute, Australian Super, Australian Workers’ Union, United Voice, University of Technology Sydney Business School, and the Welding Technology Institute of Australia. *Manufacturers’ Monthly* served as the Summit’s media partner.

The Summit featured 25 speakers and panelists, including provocative presentations from four key political leaders: including Minister for Industry Arthur Sinodinos, Shadow Minister Kim Carr, and Senators Nick Xenophon and Lee Rhiannon. The Summit generated extensive media coverage of the strategic importance of manufacturing in Australia. The day was notable for the shared determination of participants that Australia must indeed remain a country that can “make things” – for the sake of quality jobs, healthier engagement in international trade, and a more balanced and sustainable economy.

Simultaneous with the Summit, the Centre for Future Work launched a new report, ***Manufacturing: A Moment of Opportunity*** (authored by Jim Stanford and Tom Swann, available at www.futurework.org.au). The report contained new economic evidence of the encouraging rebound of manufacturing in Australia, along with public opinion results confirming strong public support for Australian manufacturing.

The Summit concluded with a rich report-back from Dr. Tom Barnes of Australian Catholic University, who served as rapporteur for the day. Dr. Barnes is one of Australia’s leading experts on the importance of manufacturing in regional and urban economies. We are pleased to present herewith Dr. Barnes’s full report on common themes that arose during the first Summit, his analysis of the potential for building consensus around key policy actions, and his suggested list of topics requiring additional research and dialogue.

Australian manufacturing continues to emerge from a very challenging decade, during which the sector suffered from both terrible economic conditions (including the effects

of overvaluation of the Australian currency, supply-side consequences from the mining boom, and the global financial crisis) and policy neglect. During calendar 2017, manufacturing demonstrated forward progress on a number of key indicators:

- Real gross value-added in manufacturing grew 3.4 percent in the year ending in the December quarter. That's the best performance in 15 years.
- Exports of manufactured products grew 4.9 percent in the year, reaching a total of \$105 billion.
- Business investment in new structures and machinery and equipment in manufacturing expanded by a robust 10.8 percent in the year ending in the December quarter – and ABS survey data indicate it is poised for further growth in 2018.
- The AiGroup's monthly Performance of Manufacturing Index also confirms the sector's positive trajectory, reaching the highest consistent levels in 15 years.¹

Of course, Australian manufacturing is not “out of the woods” yet. The sector continues to grapple with the aftershocks of the shutdown of mass motor vehicle assembly; while some assets from that industry (human, technological, and physical) are being reallocated to other activities (including growing defense-related manufacturing), the challenge of facilitating a fair and effective adjustment for autoworkers remains. Australia still incurs an enormous trade deficit in manufactured products, confirming that the current trade policy regime is inconsistent with a proportional, balanced footprint in global trade for Australian manufacturers; the dramatic actions of U.S. President Donald Trump in this sphere give rise for more concern. Employment gains in manufacturing have been subdued, despite the rebound in real output, suggesting that employers are waiting for more evidence of future viability before adding to their payrolls.

Nevertheless, after a decade in which manufacturing declined steadily and dramatically, and policy-makers seemed to accept that erosion as inevitable or even “natural,” the recent modest growth of this strategically important sector is highly encouraging. All stakeholders need to play an active role in reaffirming this nascent turnaround by addressing the sector's challenges, investing as much as possible in innovation, skills, and capital, and reinforcing the public's awareness of the strategic importance of manufacturing – and its potentially brighter future here.

To that end, the Centre for Future Work is once again joining with other stakeholders to co-sponsor the Second National Manufacturing Summit, which will be held at

¹ Data from ABS Catalogues 5206.0 Table 6; 5368.0 Table 32A; 5625.01 Table 1A; and AiGroup, http://cdn.aigroup.com.au/Economic_Indicators/PMI/2018/PMI_Jan_2018_29860k.pdf.

Australia Parliament House on Tuesday, June 26. This year's summit is hosted by the Welding Technology Institute of Australia; other co-sponsors (in addition to the Centre for Future Work) include the Australian Steel Institute, the Advanced Manufacturing Growth Centre, TAFE Directors Australia, and Australian Super. The second Summit will concentrate on two of the central challenges potentially constraining manufacturing's turnaround in Australia: concerns about supply of secure, affordable, sustainable energy; and continuing challenges in vocational training for the next generation of manufacturing workers. Further program and registration details about the second Summit will be posted at www.manufacturingsummit.com.au.

Dr. Tom Barnes' summary of the deliberations of the first National Manufacturing Summit, *From Consensus to Action*, provides an invaluable starting point for this year's Summit, and for the continuing policy dialogue that will be essential for making the most of Australia's manufacturing potential. We are grateful for his role in facilitating such a constructive discussion among such a diverse set of stakeholders.

Jim Stanford
Economist and Director
Centre for Future Work at the Australia Institute

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Introduction

The National Manufacturing Summit, held at Australian Parliament House, Canberra, in June 2017, was attended by over 100 delegates from a variety of businesses and industry associations, trade unions, government officials, political leaders and policy-makers, academic institutions and vocational training providers, and other civic organisations. The Summit was highly successful in identifying key challenges and opportunities for manufacturing and industry policy in Australia. Despite well-known and well-publicised problems—from unfavourable currency movements in recent times to high-profile plant closures and layoffs—the Summit struck a note of optimism.

Delegates re-affirmed the critical importance of manufacturing for Australia’s economy and society. With the stabilization of the Australian dollar post-mining boom and an increasingly positive and pragmatic view towards manufacturing in national politics and policymaking, there was widespread agreement among Summit participants that a new opportunity was emerging to promote a more comprehensive and coherent approach to industry and industry policy.

In summarizing key issues raised at the Summit, this Action Report argues that common cause between industry, unions, government and civil society organisations can be established to further this agenda – *if* key areas of consensus are clearly identified and acted upon in the short-to-medium term. This Report *also* finds that ongoing areas of concern or disagreement should be addressed and clarified in order to further this agenda and to help formulate effective strategies in the medium-to-long term.

If the appropriate balance can be established between consensus-based action and practical research to clarify divergent views, this Report argues that manufacturing advocates can help government continue to move towards more proactive policy settings. With the right settings in place, manufacturing’s fitting role as a core contributor to output, skills, technology and innovation—and to more prosperous urban, rural and regional communities—can be better realized into the future.

This Report echoes the ‘can do’ orientation of the National Manufacturing Summit, which was organized around three key themes: *collaborate*, *procure* and *export*. During the day-long Summit, two main areas of consensus emerged. First, on a bigger picture level, it was clear that delegates—like the vast majority of people across Australia—saw manufacturing as central to present and future growth, innovation and prosperity.

Second, on a more focused level, delegates echoed a need to work together to further coherence in government procurement policy at a national level.

On the other hand, two main areas emerged which indicate a need for greater clarification and research. First, delegates raised important questions about the relationship between manufacturing and employment, including the quantity and the quality of jobs. Second, questions emerged out of the concern of several delegates who frame manufacturing as a global value chain that goes beyond production and final assembly. The implications of these areas of consensus and concern are outlined below.

Areas of Consensus

CONSENSUS AREA 1: MANUFACTURING IS INDISPENSABLE TO FUTURE INNOVATION, GROWTH AND PROSPERITY IN AUSTRALIA

Research commissioned by the Centre for Future Work prior to the National Manufacturing Summit found that the vast majority of Australians regard manufacturing as central to Australia's future prosperity. Among those surveyed, 83 percent agreed that manufacturing was 'important' or 'very important' and 79 percent regarded manufacturing as a national priority. Among young people, support for manufacturing was also very strong (Stanford and Swann, 2017).

Again and again, delegates at the Summit echoed and reiterated this view. For example, the Australian National University's (ANU) Dr Jill Sheppard, who addressed the opening session on public perceptions about manufacturing, outlined research findings which show Australians believe we should import less and manufacture more.

Alongside this is the growing recognition from across the political spectrum that publicly-subsidised manufacturing is a reality of competition in the global economy. In her address to the Summit, then-*Australian Financial Review* Political Editor, Laura Tingle, pointed to the Business Council of Australia's recent appeal for a more positive government approach to industry policy and to the recent trend of government 'intervention' at an industry level—for example, in the gas market. Delegates agreed that this logic could be extended into a rational, well-targeted and carefully-planned approach to manufacturing.

As Louis Uchitelle, author of *Making It: Why Manufacturing Still Matters* and former *New York Times* columnist, explained to the Summit, manufacturing's strategic economic role might change, as one would expect from an innovation-intensive sector, but its role does not decline, even in countries like Australia where natural resources are abundant or where most people work in the services sector.

This positivity was echoed in the address by Australian Minister for Industry, Innovation and Science, Arthur Sinodinos, who argued that 'innovative and smart manufacturing' was an important part of Australia's economic future. Shadow Minister for Industry, Kim Carr, was similarly positive about the role of technology and the idea of the 'smart factory' in the development of Australian manufacturing.

Of course, policy differences remain about the appropriate role for government in industry policy development. Speakers such as Senator Carr and then-Senator Nick Xenophon, advocated a more targeted and expansive industry policy in the European tradition. Others emphasized the need for innovation strategy to be sector-based or for preferential tax treatment for manufacturing investment. Despite these differences, it was clear from the dialogue among speakers and delegates that a growing consensus was emerging in politics and policymaking for a more positive, pragmatic and rationally-planned approach to manufacturing in Australia.

CONSENSUS AREA 2: ENHANCED COHERENCE IN PROCUREMENT POLICY AT A NATIONAL LEVEL

The second consensus area involves the more specific question of government procurement policy. Delegates at the Summit largely agreed that there was a need to nurture and expand upon signs of increasing coherence in government procurement policy. These signs are occurring in several areas.

For example, Gary Dawson, Vice-President of Strategy at Thales Australia, a major contractor for the Australian Defence Force (ADF), pointed to a new alignment between government procurement, defence policy, local capabilities, including the role of Small and Medium-sized Enterprises (SMEs), and the imperative to support manufacturing in specific regional locations. In the case of Thales, strong support through procurement has been linked with export success and a high-skill workforce. Support for locally-based industry through the national Defence Industry Policy Statement was also emphasized as a cornerstone of industry policy by Minister Sinodinos.

Other important areas of procurement policy emphasized by speakers and delegates were Australian steel production and building products manufacturing. Greens Senator Lee Rhiannon made a case for Australian-manufactured steel as the bedrock of procurement policy. Senator Xenophon argued that that procurement rules could be used to improve quality, including enforcement of Australian standards in steel production and occupational health and safety.

This sentiment was echoed by delegates from the building products manufacturing industry, who emphasised that cheaper imported goods were not necessarily manufactured to the same safety standards as locally-manufactured goods. A related problem was the lack of protection for local manufacturers from lower-cost imports, the need for stronger anti-dumping rules and the problem of bilateral Free Trade

Agreements designed without sufficient safeguards or incentives for local manufacturers.

A final area of concern around procurement policy lay at a State Government level. Tim Ayres from the Australian Manufacturing Workers Union (AMWU) pointed to the problem of offshoring of contracts for railway equipment manufacturing and the consequent loss of opportunity for local investment, employment, skills and apprenticeships. He pointed to the need for a national procurement plan and national coordination authority for public transport rolling stock and infrastructure to overcome State-level or regional weaknesses.

Topics for Further Research

As well as the areas of emerging consensus outlined above, two areas were identified at the Summit which suggest areas of disagreement and which indicate the need for ongoing research and clarification.

FURTHER RESEARCH TOPIC 1: DOES MANUFACTURING LEAD TO ‘DECENT JOBS’?

The first topic which needs to be clarified with further research relates to the relationship between manufacturing, job creation and job quality.

There is a longstanding view, in Australia and globally, that manufacturing leads to ‘high road’ regional economic and social development ‘through economic gains that make wage gains and improvements in social conditions feasible, as well as safeguarding workers’ rights and providing adequate standards of social protection’ (Pyke and Sengenberger, 1992: 13). Much of this view stems from the historical role of automotive manufacturing in providing long-term, secure jobs for thousands of people in working class regions and neighbourhoods (MacDuffie, 1995).

Where auto manufacturing transplants have laid down roots in emerging economies overseas, the expectation has also been for ‘a broader process of economic upgrading’ (Jürgens and Krzywdzinski, 2016: 317). In Australia, research on the recently closed vehicle manufacturing industry suggests that, on average, workers had been with the same employer for 20 years and 96 percent of manufacturing workers were employed in a full-time permanent capacity. Eighty-five percent had been with their employer for 10 years or more, compared to just 25 percent for the Australian working age population as a whole (Barnes, 2016). Several speakers and delegates echoed these views.

However, some speakers and delegates from industry questioned this emphasis. Some argued that it was a mistake to promote the benefits of manufacturing by emphasizing job creation. While manufacturing investment was a net job creator, the quantity of jobs was smaller than in the past and could not necessarily resolve problems of regional inequality or social cohesion. Others argued that, while manufacturing was generally associated with ‘decent jobs’, manufacturing jobs were not necessarily ‘better’, in terms of pay or employment conditions, than jobs in the services sector where most employment occurs.

This is a relevant and important policy discussion. For instance, the Australian Government's \$90 million Next Generation Manufacturing Investment Program, which was designed to subsidise capital investment in the wake of the car industry closures, assessed investment on the basis of 'net economic benefit' and 'value' but not necessarily job creation or labour market supply and demand requirements in particular regions. This contrasts with the Innovation and Investment Funds rolled out for manufacturing-dependent regions in Victoria and South Australia in which future job creation was regarded as a direct criterion for capital co-investment. However, even these more job-focused policies were not necessarily oriented towards job quality.

The answers to these issues are largely empirical and, therefore, warrant further research. Answers are also likely to reflect the broad diversity of job types that emerge in modern manufacturing. Furthering this research agenda seems particularly relevant given ongoing problems meeting industry skill demands. For example, Geoff Crittenden, CEO of the Welding Technology Institute of Australia, told the Summit about the ongoing need for welding skills in Australia. Others raised the importance of entry-level opportunities into skilled trades for school-leavers. Clarifying the specifics of 'job quality' in different sectors of manufacturing would generate data that could be used to help to encourage younger people to pursue careers in skilled manufacturing trades.

FURTHER RESEARCH TOPIC 2: CAN AUSTRALIA STILL FIND A PLACE FOR PRODUCTION AND FINAL ASSEMBLY IN MANUFACTURING VALUE CHAINS?

Several speakers and delegates at the Summit argued that manufacturing in Australia retained an image problem through the equation of the industry with the 'final assembly' stage of production. Dr Jens Goennemann, Managing Director of the Advanced Manufacturing Growth Centre, pointed out that manufacturing is represented by global value chains which include Research and Development (R&D), design, logistics, distribution, sales and other services, as well as final product assembly. The structure of manufacturing through global value chains is also well-established in international research (Gereffi, Humphrey and Sturgeon, 2005; Coe and Yeung, 2015).

The important question then becomes how countries and regions should seek to intersect with these value chains and what parts of the chain they can and should specialize in. Like many others at the Summit, Dr Goennemann argued that Australia

had to compete at the high value end of manufacturing value chains. To an extent, these comments were echoed in Minister Sinodinos' views about the future for 'innovative and smart manufacturing' (see above).

On the other hand, some speakers and delegates emphasized concerns about the decline of assembly operations in some high value manufacturing activities, including the regional and community-level impacts of recent motor vehicle closures. Also raised in discussion was the view that, despite concerns about cost-oriented competition, Australian manufacturing costs were not expensive relative to similarly affluent countries once currency over-valuation is taken into account. With the boom in mineral resource prices behind us, Australia's manufacturing sector is more competitively priced in global terms if this phasing is taken into consideration.

Like the discussion of manufacturing and 'decent jobs', questions about the role of regions in value chain activities or whether product final assembly is necessarily a desirable part of local value chain operations can be addressed through empirical research. Such research should be sensitive to the wide variety of production processes, product types and value profiles that constitute modern manufacturing.

Conclusion: From Consensus to Action

In addition to these areas, delegates also raised a range of other valuable insights, lessons and arguments for strengthening manufacturing and industry policy. Speaking on Australia's innovation agenda, Sean Wong, Manager of Product Innovation and Technology at BlueScope Steel Limited, emphasized the need to compete in the 'premium' product and service space by building upon R&D as an investment priority and strengthening links between industry and research institutions.

Nixon Apple, from Australian Super's Investment Committee, emphasized the need for private and public initiatives to channel investment towards SMEs, including the need for a database of companies with the best ideas for potential investors. Collaboration between financial institutions and mid-sized firms, Mr Apple argued, could encourage seed funding and incubators, emphasizing medical research commercialization as a key example.

The need to encourage exports from SMEs was also emphasized by Grant Anderson, CEO of the ANCA Group, who pointed to the role of integrated supply chains in Australia which were successfully competing with German and Swiss firms to export to China's smartphone technology market. Even for larger firms utilizing Australia's technology, skill and workforce advantages, export orientation was important. This was evidenced by Anglo-Swedish pharmaceutical company, AstraZeneca, which has achieved success in targeting Australian-made respiratory pharmaceutical products in the Chinese export market. David Turvey from the Department of Industry, Innovation and Science, also pointed out that firm performance benefitted through a consistent orientation towards exports.

Other issues touched upon by speakers and delegates included questions about the ongoing efficacy of the free trade agenda in the pursuit of industry policy goals, as well as the need for industry policy to take social and environmental goals into account. An important final note is the widespread recognition of the role of Professor Roy Green who recently retired as Dean of the Business School at the University of Technology Sydney (UTS) and who played a key role in the Summit. Several speakers, including Minister Sinodinos, pointed to Professor Green's role as a seminal thinker and shaper of innovation policy in industry and government.

Overall, the Summit was highly effective in identifying areas for moving the national dialogue on industry policy forward. Notwithstanding other important issues raised by speakers and delegates at the Summit, this Action Report has emphasised two key consensus areas for immediate action and two key areas for further research. These are summarized below:

Action Point 1: Building upon the strong and growing national consensus around manufacturing's role in growth and economic prosperity, partners in industry, government, research, training institutions and unions should seek ways to intervene at key moments in the political cycle to collectively promote the social and economic value of strong manufacturing. Opportunities may include:

- a. The lead up to the next federal election which is likely to take place in 2018 or 2019; or
- b. Events and initiatives connected to the Commonwealth Government's innovation agenda.

Action Point 2: Nurturing and extending emerging coherence in government procurement policy by:

- a. Producing public information on improvements in defence procurement policy and the need and capacity to generalize and enhance these gains into other areas of procurement, such as Australian steel production, the building products industry and transport equipment; and
- b. Advocating for a truly national approach to procurement which can seek to:
 - i. Develop a coherent and holistic national policy agenda for procurement.
 - ii. Push for the establishment of a coordinating body for national procurement policy.
 - iii. Identify regional-based opportunities and competitive advantages for procurement.
 - iv. Identify gaps, areas for improvement and areas of unevenness in procurement policy at a State, Territory or regional level.
 - v. Outline a constructive plan for dialogue between industry policymakers at a Federal and State level.

Research Agenda 1: To collect, collate and document findings from quantitative, qualitative and documentary research about employment creation and job quality that enables manufacturing advocates to:

- a. Take advantage of cutting-edge management and social science scholarship on 'job quality', including remuneration systems, human resource practices and best-practice models of employee development;

- b. Provide a clear and concise means to compare job quality indicators in manufacturing with services and other related sectors; and
- c. Develop a profile of job quality in different sectors of manufacturing as means of encouraging jobseekers and training opportunities, including school-leavers and entry-level applicants and job-matching between occupational and skill areas with high demand and jobseekers with matching profiles.

Research Agenda 2: To undertake spatial/geographical analysis of value chain specialisations in Australia, including

- a. Industry tiers/levels and product/service markets which are expanding;
- b. Industry tiers/levels and product/service markets which are declining or relocating;
- c. Regions and communities which are best placed to benefit from expanding specialisms in value chain productions; and
- d. Regions and communities which would benefit from intervention from industry, government, research/training or civic organisations to address areas of risk for future value chain production.

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