Submission to Economic Development and Infrastructure Committee

INQUIRY INTO MANUFACTURING IN VICTORIA

Geelong Manufacturing Council

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1. Background to Submission by Geelong Manufacturing Council

The Geelong Manufacturing Council welcomes the opportunity to present a response to this Inquiry in relation to manufacturing in Victoria.

Manufacturing in Victoria (and Geelong) is currently dealing with a number of complex and far reaching challenges, which have tested the resilience of manufacturing. These challenges include those presented by the global financial crisis, on top of the existing challenges such as the emergence of global supply chains with its impact on prices and margins, and the implementation of Carbon Pollution Reduction Scheme.

When the multiplier effect is taken into account, the manufacturing industry in Geelong accounts for up to half of the regions’ economy and employment. It follows that any negative impacts on manufacturing are felt across a large section of the economy.

Geelong is a major regional population and business centre. With a population of over 240,000, it is Victoria’s largest regional centre. The City’s existing competitive strengths include a diverse range of manufacturing sectors, research and development, education and training, biotechnology, tourism and health.

The key manufacturing sectors in the region are automotive and components, textiles, metals, food, cement, timber, engineering and chemicals and petroleum. Currently, by our estimates the region has around 12,500 – 13,500 people employed in the manufacturing sector across some 450 companies.

Manufacturing is also a major generator of research and development activity and a number of organisations are working to grow this important work in the Geelong region. This includes the Geelong Technology Precinct at Deakin University and the Gordon Institute of Tafe.

The Geelong region has seen the recent loss of industries via closures and downsizing and this has had a significant adverse impact on the regional community when the impacts of the flow on effects are taken into account.

The key driver for moving offshore has historically been the cost of labour compared to other lower cost countries, however for the main; this is only one of the set of factors which are considered. Issues such as market access are increasingly relevant as the Australian market becomes more accessible to a wider range of competitive countries. Unfortunately, trade opportunities do not flow the other way, so lack of market access would be one factor which could influence industry to consider locating offshore to secure better market access.

Costs such as infrastructure provision, services, and taxation of all forms are also relevant. An up to date analysis of these costs compared with trading partners and other low cost locations would assist identify areas of uncompetitiveness and indicate possible reasons for locating offshore. This benchmarking information may already be available to identify these issues.

The current economic climate is proving difficult to attract new investment. Evidence indicates that some companies are currently delaying new investment in plant and machinery. This situation could have negative consequences when investment is so
internationally mobile. For this reason we are urging the Victorian Government to do what it can to assist and help address any areas of concern with respect to any new investment proposals.

Key areas considered include;
- Cost of labour
- Cost of infrastructure services and taxation
- Lack of access to export markets
- Uncertainty/difficulty – new or existing investment.

2. The Geelong Manufacturing Council

The Geelong Manufacturing Council was established in 1998 by the Australian Industry Group and the Geelong Development Board to assist and promote the region’s manufacturing industry.

The Geelong Manufacturing Council has the vision of Geelong as an internationally competitive manufacturing centre in the 21st century. We will achieve this through facilitation and support for manufacturing by developing and sharing sustainable best practice, encouraging the growth of technologically advanced manufacturing and promoting a favourable environment for manufacturing in Geelong.

The Geelong Manufacturing Council facilitates a number of networks and industry groups with similar objectives as the Council and is a non-political, not for profit group, largely funded by industry.

3. Regional Importance of Manufacturing

Geelong has traditionally been a manufacturing region. In the 1970’s over 30% of the workforce were employed in this sector, while increased levels of international competition as a result of reduced tariffs has led this to drop to below 20%. Firms have pursued technology and increases in capital intensity, in an effort to compete.

Research by NIEIR has found that 51% of the region’s GDP and 41% of regional employment is derived from the manufacturing sector. It follows from these figures that the health of the manufacturing sector is vital for ongoing stability of the region’s economic and social foundations.

With recent closures, we estimate that the region now has around 12,500 - 13,500 people employed in the manufacturing sector across some 450 companies.

Geelong is an area where things are made, where its people and industries contribute to Australia’s GDP more so than any other region of its size in the country. Geelong industry produces a range of very important products including: motor vehicles, engines and other components, automotive and technical textiles; carpet; carpet wool fibre processing; chickens, aluminium, petroleum, polypropylene and a myriad of timber, engineered products, food and consumer goods.
Geelong is also pursuing an agenda to build its automotive capabilities and develop a centre of excellence in aspects of automotive design, education, research and manufacturing. Recent new investments have included Ford Motor Company of Australia, Research and Development Centre ($27m), which now employs over 400 people and ACART (a joint venture between Ford Motor Co and The University of Melbourne) which has seen major investments ($29m) in emissions and testing laboratories at the Ford You Yangs Proving Ground.

The Gordon Institute of Tafe has invested heavily in training facilities to support manufacturing in the Geelong region while Deakin University has been successful in developing major industry partnerships across a number of areas of manufacturing research and product development.

During the period 2002-08, the (77%) appreciation of the Australian dollar led to a severe deterioration in the competitiveness of Australian manufacturing and a number of companies exited manufacturing during this period. However, with the recent easing of the AUD due to other factors and the emergence of the global financial crisis the environment has again dramatically changed.

A number of component and other automotive company closures have occurred in recent years. These include: Coghlan Russell Engineering, Melba Textiles, Paratus Industries and Henderson Automotive. The closure of these companies and general industry downturn has had a significant negative impact.

4. Geelong Manufacturing Council programs in partnership with State and Federal Government to support and assist manufacturing

Over the past eighteen months, the Geelong Manufacturing Council has been successful in partnering with a range of government programs to assist regional industry. Foremost among these has been Enterprise Connect, a $251 million Australian Government initiative designed to boost productivity, improve innovation and increase the competitiveness of Australian small and medium sized enterprises (SMEs). The success of this program and the willingness of industry to undertake the program has been a strong indicator of a renewed desire to improve productivity and sustainability from industry.

A major program being currently established with the support of the Local, State and Federal Government include the Geelong Engineering Cluster. The Cluster has the objective of bringing further work to Geelong through collaboration and networking activities.

A Manufacturing Innovation Cluster is also being pursued with funding support through Enterprise Connect.

Programs with Sustainability Victoria, aimed at improving productivity and efficiency, reducing waste and energy use have also been implemented.

Programs to encourage lean manufacturing delivered in partnership with the Victorian Government have also had a positive impact on regional industry. We are committed to keep assisting with these programs and where possible seeking to extend the availability of these programs for regional industry.

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Recent programs announced include a commercialisation support program.

Overall, there are currently a range of positive program responses by State and Federal Government to encouraging innovation, particularly among the small to medium sized sector and several targeted sectors such as automotive to innovation. Other key manufacturing sectors not covered above could also benefit from assistance to innovate.

5. Response to the Terms of Reference

GMC members were asked to respond to the terms of reference. Comments were directed at item 2 of the terms of reference, and the response below also focuses on item 2 of the terms of reference.

The Geelong region has seen the recent loss of industries via closures and downsizing and this has had a significant adverse impact on the regional community when the impacts of the flow on effects are taken into account.

The key driver for moving offshore has historically been the cost of labour compared to other lower cost countries, however for the main; this is only one of the set of factors which are considered. Issues such as market access are increasingly relevant as the Australian market becomes more accessible to a wider range of competitive countries. Unfortunately, trade opportunities do not flow the other way, so lack of market access would be one factor which could influence industry to consider locating offshore to secure better market access.

Costs such as infrastructure provision, services, and taxation of all forms are also relevant. An up to date analysis of these costs compared with trading partners and other low cost locations would assist identify areas of uncompetitiveness and indicate possible reasons for locating offshore. This information may already be available to the Victorian Government to identify these issues.

As industry can be mobile, information with respect to incentives and assistance provided by government can be common knowledge within the industry. This information is taken into account by industry when considering locating offshore.

The current economic climate is proving difficult to attract new investment. Evidence indicates that some companies are currently delaying new investment in plant and machinery. This situation could have negative consequences when investment is so internationally mobile. For this reason we are urging the Victorian Government to do what it can to assist and help address any areas of concern with respect to any new investment proposals.

These areas are summarised as:

- Cost of labour
- Cost of infrastructure, services and taxation
- Lack of access to export markets
- Government incentives/assistance on other locations
- Uncertainty/difficulty – new or existing investment.
Industry employment projections for the remainder of 2009 are generally described as neutral at best, however there are some companies which may have dramatic reductions in employment numbers with some potential closures. Most responses indicate that industry is doing whatever it can to retain its workforce. The projections for the next 6 months indicate that while most businesses are not expecting to be hiring additional workers, they are aiming to retain existing staff. This will be more difficult if the economy further deteriorates, so it is vital that all is done to inject confidence into the economy.

In some cases, however, the impact of the global financial crisis has been extreme and companies have closed or shed large numbers of staff, including Melba Textiles who recently closed in Geelong. Melba Textiles is a case in point where a niche product range and processing capability were lost to the Geelong region. This has now resulted in the loss of 120 direct jobs and many hundreds of indirect jobs in the Geelong region.

During the past year, we estimate that some 1000 jobs have been lost from manufacturing in Geelong, resulting in a direct impact of between $50m and $100m lost from the economy, largely made up of wages and contractor payments.

Across the region, contractors and sub-contractors have been shed in large numbers as a response to the global financial crisis, resulting in significant adverse impacts among contractors. With the current market setting, we believe that it will be a struggle for many companies to hold existing employment numbers, despite the best efforts of management.

6. Suggestions to assist and strengthen industry

The lack of confidence which currently exists is a major concern and the general level of business confidence needs to rise before other indicators will improve.

Areas identified by members were:

1. Infrastructure investment (roads, rail, ports, and water) to assist manufacturing
2. Policies to reduce the credit squeeze on manufacturing
3. The establishment of an ongoing investment fund for Geelong

These are further detailed below:

6.1 Infrastructure investment (roads, rail port etc) to assist manufacturing

Infrastructure projects such as improvements to the ability of the Port of Geelong to handle imports and exports via rail and road are welcomed. This has been the subject of a submission to government.

To cater for future investment much investment in services infrastructure is vital and this specifically relates to the Heales Rd Industrial Area on Geelong northern edge, this has also been the subject of a submission to government.
6.2 Policies to reduce the credit squeeze on manufacturing

To date there has been a significant impact on regional manufacturers from the global financial crisis. We are aware of the reduced availability of credit causing significant business difficulties. In future, it is vital that credit availability for manufacturing enterprises is improved. This includes further reducing interest rates for commercial lending.

We believe that the government has the ability to have an impact on the availability and attractiveness of credit for manufacturing.

Based on current conditions we believe that this requires immediate attention.

6.3 The establishment of an ongoing Investment Fund for Geelong

In 2007, the Geelong Investment and Innovation Fund was established by the Australian and Victorian Governments, together with Ford Australia following Ford's restructure of its manufacturing operations in Geelong.

The Fund will assist industry development in the Geelong region by providing grants to support new investment that will create sustainable jobs. These projects have the potential to significantly stimulate the regional economy and create employment.

The experience to date is that while restructuring of manufacturing will continue, it will be necessary to provide assistance to promote new investment in manufacturing and encourage advanced manufacturing.

An ongoing investment fund focusing on attracting new investment into manufacturing and advanced manufacturing would on a regional basis assist to support jobs and investment. Other measures will be required to assist existing companies which do not qualify for investment fund assistance.

Please advise if you require clarification or elaboration of any of the issues raised above.

Yours Sincerely

David Sykes
Chairman
Geelong Manufacturing Council
1 August 2009