

An economy in transition

The election agenda for Victorian industry



The 2006 Victorian election provides a critical opportunity for the next Government to set policies and strategies to ensure that Victorian industry and the economy can respond to the challenges and opportunities ahead.

Victorian industry is in transition and being confronted by a widening array of challenges, including rapid globalisation, the economic emergence of China and other low-cost producers, and the earlier sharp appreciation of the Australian dollar.

The next Government will be setting the directions of the Victorian industry that will shape the fortunes of the state economy for the next 20 years.

This is the challenge for the next Victorian Government.

The Main Priorities

Victorian industry makes a significant contribution to the Victorian and national economy. With a total annual income of over \$466 billion, Victorian industry accounts for around 26% of the nation's industry turnover.

Ai Group believes the next Government must respond to the new global environment by committing to a renewed program to build world class industries and competitiveness.

To achieve this objective, we recommend that the next Victorian Government should commit to the following seven priorities:

- Maintenance of sound fiscal management;
- Making Victoria a global leader in innovation;
- Strengthening industry and investment opportunities;

- Developing global trade and investment links for industry;
- Building world class skills and capabilities;
- Reducing government regulations and business costs; and
- Protecting our water, energy and other natural resources.

Specific proposals to support each priority are set out below. Ai Group believes they are prudent and affordable, and necessary to ensure the state remains a globally competitive economy.

Sound Fiscal Management

Maintaining Victoria's economic fundamentals must be a priority for the next Victorian Government.

While protecting the state's strong fiscal position, Ai Group believes the next Victorian Government should strive to:

- Ensure that taxes and charges remain below the national average; and
- Provide for the continued development of the state's economic and social infrastructure, incorporating a prudent level of state borrowings.

Payroll Tax: At 5.15%, Victoria's payroll tax rate is the lowest of all the six states other than Queensland (4.75%). Payroll tax is budgeted to fall to 5.05% in July 2007, and to 5.0% in July 2008. Given the prospect of upward revisions to projected budget surpluses, Ai Group recommends the next Victorian Government lower the rate further to 4.75% over the same period.

WorkCover Premiums: The Government lowered premiums in three 10% steps over the past three years. Such a reduction brings the average premium closer to the rate of 1.2% currently levied in Queensland. Given that WorkCover recorded a net profit in excess of \$470 million last year, a large proportion of this must be returned to business through lower premiums. Ai Group therefore calls on the next Government to commit to further lowering WorkCover premiums.



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Developing world class infrastructure

Ai Group strongly endorses recent and budgeted increases in state government infrastructure spending, with a particular focus on projects to alleviate urban transport bottlenecks and improve the operation of freight transport and logistics operations.

The next Government must commit to completing the remaining gaps in the Melbourne freeway network, including linking the Eastern Freeway and CityLink, as well as examining means of alleviating congestion on the West Gate Bridge and creating better efficiencies around the Port of Melbourne. It must also quickly approve the channel deepening project upon satisfactory completion of the trial dredging phase. This includes the funding of the relocation of essential infrastructure.

A global leader in innovation

A globally competitive industry sector must also be an innovative one, where companies are focusing their efforts on new products, processes and organisational capabilities.

Victoria has the best state record on business expenditure on research and development (BERD), based on BERD as a proportion of gross state product. The next Victorian Government must aim to build on this success by strengthening its efforts in such areas as stem cell research, nanotechnology, and the development of the synchrotron.

In addition to maintaining the *Science, Technology and Industry (STI) Infrastructure Program*, Ai Group also proposes the establishment of an *Innovation Accelerator Program* and a *Business Innovation Adviser Network*.

The *Innovation Accelerator Program* would be aimed primarily at those firms that have no prior experience in R&D, and are having difficulty attracting industry partners or collaboration, but nevertheless are interested in starting an R&D project. Under such a program, grants could be provided to companies (on a competitive basis) on a matching dollar for dollar basis, and be used for a broad range of innovation purposes.

Under the *Business Innovation Adviser Network*, it is proposed that a network of Advisers be created to work closely with individual companies to support companies in developing innovation strategies and approaches, and assess the suitability of the company for various state government assistance schemes (specifically in relation to innovation, product and process development).

Strengthening industry and investment opportunities

Strong economic growth necessitates the next Victorian Government continuing to support the development of industry and economic development across regions.

A Renewed Manufacturing Strategy

Ai Group calls upon the next Government to re-appoint a manufacturing minister, renew the manufacturing strategy, and strengthen funding under the four major streams of support:

- Fostering global engagement;
- Enhancing innovation and the adoption of advanced technologies;
- Building skills and business capabilities; and
- Adopting environmentally sustainable production processes.

A New Competitive Boost Program

Many existing state government assistance schemes are targeted at SMEs. However, many larger companies would also benefit from additional assistance in one or more of the following areas:

- Supply chain improvements;
- New technology acquisitions;
- Skills upgrading;
- New product development; and
- Business transformation.

Applicants would need to demonstrate not only how the grant will lead to significantly higher productivity, but also contribute to further advancing the companies activities in export growth, import replacement, innovation and/or skills enhancements.

Developing global industry links

Australian industry, whether operating within Victoria, nationally or overseas, now trades in a global marketplace.

Victoria's solid record as an exporter has slipped relative to other states in recent years, partly due to the growth in the value of resources exports. The next Government must give priority to rebuilding Victorian exports, as well as expand industry's engagement in offshore markets, including developing global supply chains.

Network of overseas major project advisers: Ai Group believes the next Government could support companies in developing



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offshore markets by establishing representatives in major offshore markets, who would work closely with industry to identifying new development projects. These positions could be funded under a model of engagement directly to industry associations.

Target export markets: A new program should be established to target market opportunities offered as a result of bilateral treaty arrangements, in addition to the existing funding for trade fairs and missions. This program should be executed in close collaboration with work being done with Austrade. Free Trade Agreements (FTA) have been ratified with Singapore, Thailand and the United States. Bilateral agreements are also being sought with China, Malaysia, ASEAN, and the Gulf States.

A New Post-Market Support Initiative: This initiative, similar to that run in NSW, would provide exporters with the resources to adequately follow up on market visits and successfully convert potential business into sustainable business.

Continuing the Next Step Export Program (NSEP): Ai Group recommends the next Victorian Government commit to funding the program for the next five years. The program provides support for the employment of an Export Adviser who works with companies to further develop their export strategies and implement market development initiatives.

Trade fairs and missions: Ai Group believes that the next Government should adjust the missions concept, from mainly sector specific to also incorporate multi-sector missions under a common theme, such as security or design, and support missions that are dedicated to accessing global supply chains. As well, Ai Group would support the program, including product showcases, as a means of promoting niche products among micro-sized companies.

Building world class skills and capabilities

Ai Group welcomes the recent \$240 million Maintaining the Advantage commitment to developing the Victorian skill base. This commitment, focussing on three Skill Statement Initiatives - higher skills, mature-age priority training and expanding opportunities for young people - is an important first-step in line with the directions advocated by industry.

Ai Group has advocated for the urgent need to re-orient both the training system and funding mechanisms to meet the needs of business and industry to up-skill and re-skill existing workers.

The \$837m Skills for the Future packaged released by the Prime Minister (12 October, 2006) is a well-targeted and necessary set of strategies designed to lift the skills of Australia's working age population; both those in and out of work.

Ai Group urges the Victorian Government to embrace the Skills for the Future package and to match it with complementary efforts. The Victorian training system must respond in innovative and flexible ways to achieve the necessary outcomes desired by industry. This will involve:

- Reviewing training models, and where required, developing new training models designed for existing workers utilising workforce development principles;
- Increased access to RPL, accompanied with provision of advice re: upskilling options;
- Development and trialling of more appropriate funding mechanisms;
- Strengthening partnerships between industry and the training system;
- Removing remaining regulatory barriers;
- Providing the necessary infrastructure to underpin the required changes, including plant & equipment; and
- Enhancing the capability and capacity of the VET workforce.

Developing Business Capabilities

Ai Group has proposed a national Business Capability Adviser program. Advisers would help companies to build capabilities and expertise in:

- Identifying opportunities for growth;
- Exploiting relevant new technologies;
- Encouraging collaboration with potential supply chain partners; and
- Developing the appropriate business capabilities and strategic management skills.

Reducing Government regulation

Government regulations impose a significant cost on industry. In Victoria this is estimated to constitute an administrative burden of \$3.3 billion (or 0.7% of total industry income).

Ai Group has welcomed the initiative of the Victorian Government to set targets for the reduction of regulatory burden; a 15% reduction of existing regulation over three years and 25% over five years. This is estimated to accrue an annual output benefit of 0.2% of gross state product (or \$500 million).



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Grant processes: Ai Group believes there may be scope to streamline the application process for all government grants, through a two-stage approval process with a greater focus on performance outcomes. Ai Group favours an approach which provides for a short initial application and assessment, followed by a more detailed application if it is considered that the initial application has merit.

Harmonise WorkCover arrangements: Each state operates a separate WorkCover system, with differing rules and regulations. This complexity can be frustrating for businesses that operate across state jurisdictions. It is vital that the Government continues working towards harmonisation across state boundaries.

Government Purchasing: Ai Group believes local industry participation in Victorian Government projects could be further encouraged by extending 'whole-of-life' costing criteria across all state government agencies and projects. We call upon the next Government to move in this direction. As well, Ai Group advocates halving the threshold on projects requiring local industry participation plans to \$25 million in metropolitan Melbourne and \$2.5 million in regional Victoria.

Protecting water, energy and the environment

The demands on Victoria's finite energy, land and water resources will continue to grow, reflecting a rising population and expanding industry sector. Finding new ways to reduce energy consumption and waste is therefore essential.

Industry recognises that minimising waste, recycling, reducing inefficient energy use, and adopting more environmentally sustainable production techniques are positives for Victoria's environment, while also offering opportunities to grow new markets and boost competitiveness.

Water Pricing: The next Government should ensure that the Essential Services Commission takes into consideration the full impact on end-customers of the purchase price of input water as well as the related trade waste costs of treatment and discharge in determining the price of water.

Water Infrastructure: The next Government must ensure that the cost of the Eastern Water Recycling Proposal (EWRP) is properly recognised and compared to other alternatives, to ensure it is the best use of public funds.

Waste management: Existing facilities for management of Prescribed Industrial Waste must be properly utilised in order to reduce costs to the community. The next Government must ensure that all avenues have been explored before adopting a high-cost procedure.

Energy Infrastructure: Victoria needs to retain a healthy increase in electricity generation capacity to meet annual load growth, particularly during peak-demand periods.

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