



**Speech by John Ingram
National President
Australian Industry Group**

**Annual National Dinner
Great Hall, Parliament House
Monday 15 August 2005**

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Welcome to the Australian Industry Group's Annual National Dinner.

Prime Minister, it is a great pleasure to have you with us once again and thank you for agreeing to speak to us tonight.

Welcome also to Ministers, MPs, Senators, Ambassadors and departmental and agency heads. We thank you for the constructive working relationship we have enjoyed with you in the past year.

We also have here tonight our speakers from today's forum. Your contribution to the success of our event is greatly appreciated.

Our forum today has been truly global and I would particularly like to thank our overseas speakers who came from Singapore, India, the UK and the US.

Finally, I would like to thank all the Ai Group member companies represented here tonight who took part in our conference. Ai Group exists for its members and we've been delighted with your support today.

We meet on a day when our history reminds us of how much we value our democracy and way of life.

As we mark the great victory in the Pacific - achieved with the sacrifice of so many - we are also reminded of the fragility of what we take for granted.

National security concerns continue to dominate today.

We acknowledge the leadership the Government has given to national security and the fact that it is so important to the future of this country.

Before introducing the Prime Minister, I would like to make a few comments on today's business environment.

When we met last year I raised several red flag issues on our agenda.

And when I say our agenda I note that Ai Group's membership today covers a broad range of industries including companies involved in manufacturing, food, construction, engineering, I.T., telecommunications, logistics, defence, labour hire and call centres.

Last year we spoke of the accelerating restructuring of industry in response to the extraordinary competitive pressures in local and export markets.

We highlighted the ongoing pressures on the performance of industry. In particular we pointed to the chronic shortages of skilled labour and the need to reform Workplace Relations.

And we underlined the issues and opportunities presented by Free Trade Agreements and highlighted our support for the government's efforts in this area.

A year on, these matters are still front-of-mind issues.

Over the past 12 months much has been achieved.

The 3% tax on imported inputs to manufacturing was finally removed.

I can't overstate how pleased industry was to see the end of this tax on our competitiveness and that our representations on this matter were heard.

It was costing hundreds of millions of dollars for companies in all of our globally engaged sectors including the auto, consumer appliances, defence and wine industries to name just a few.

Ai Group also called for personal tax changes and the removal of the superannuation surcharge.

We were pleased to see substantial progress in this year's budget.

Government action to address our concerns over a potential weakening of our anti-dumping regime associated with the China Australia FTA was also very important to Australian industry.

To begin an FTA negotiation by disadvantaging industry would have been bad policy.

The Government should feel proud of its trade policy achievements and initiatives over the past year and particularly the progress on the implementation of the FTAs with the US and with Thailand.

Our member companies that have a working relationship with these countries are already making gains from the FTAs.

I hope to be able to report next year that the FTAs are also translating into gains for new entrants to those markets.

The government has set a very ambitious trade agenda including new FTA negotiations with China, Malaysia, ASEAN and the UAE.

Ai Group is working closely with government on all of them.

These bilateral initiatives go hand in hand with efforts to achieve multilateral gains.

I will turn now to the critical issue of skill shortages.

This is an area where we have enjoyed very positive and productive working relationships with Ministers and their departments contributing to significant progress.

Ai Group pioneered the introduction this year of the Technology Cadetship. This is a new qualification for school leavers which fills a major gap in Australia's vocational education and training system.

It focuses above the trade level and on developing the middle level skills needed by modern industry.

It covers areas such as biotechnology; computer aided manufacturing and design; Production planning; and Quality control.

However, in our view the whole traditional apprenticeship system needs to be rethought and refreshed to reflect the circumstances of contemporary industry.

We have today announced a detailed plan to put to government to that effect.

The 4 year time-served approach of the past needs to give way to a smarter, more relevant and adaptable qualification; one that can deliver higher skill outcomes and better meet the circumstances of the apprentice and the workplace.

Outdated and overlapping industrial and regulatory arrangements should be replaced by a genuinely national qualification and licensing.

Funding and incentives should be biased towards the needs of skill rich industries and higher qualification levels. This necessarily involves a review of Commonwealth incentives for companies and individuals.

On other initiatives in this area, the extension of the Youth Allowance to apprentices, as proposed by Ai Group, is contributing to making careers in skilled trades more attractive.

As to the Federal Government's new Technical Colleges, Ai Group has partnered with the colleges in the Illawarra, Bendigo, Eastern Melbourne, Geelong and Adelaide. We look forward to helping to shape these important institutions.

Bringing industry closer to schools - Ai Group's groundbreaking *Adopt a School* program is directly linking local businesses with schools in their neighborhoods. The program is currently being rolled out most successfully across the country.

Industry is enormously enthusiastic about this project and its effectiveness in engaging young people in careers in industry.

We are also doing our bit within Ai Group.

We have ramped up our apprentice intake significantly, and between Ai Group and our affiliate in South Australia, EEASA, we are currently training close to 700 apprentices.

The need for industry to increase its investment in skills is clearly getting across.

Last year we saw an increase of 23 per cent in the uptake of apprentices in traditional trades.

This is encouraging.

Even with all of this effort, however, industry is still finding it hard to source skilled labour.

In a stark illustration of this one member company told us that it has a desperate and immediate need for 150 electricians but has no prospects in sight.

This is despite the fact they are paying at a regional site under a workplace agreement between \$180,000 and \$220,000 a year for suitably qualified staff.

Immigration is part of the short-term solution and we strongly support the Government's lift in skilled migration numbers. We are actively helping member companies to access that program.

An area very much linked to Australia's skilling challenge is our defence sector.

In this context, a high point of the past year was the Government's decision to construct the Air Warfare Destroyers in Australia.

This was an endorsement of how we need to retain in Australia a high level defence industry capability.

Additionally, Ai Group has called on the Federal government to give a similar commitment to the Australian construction of the two new Amphibious Ships for the Australian Navy.

There would need to be a very compelling argument not to build the ships here.

Cabinet's ultimate decision on the successful bid for what will be the two largest ships in our Navy must include a realistic appraisal of the whole-of-life benefits of having them built in Australia.

Turning to the performance and outlook for our industries, undoubtedly the sector facing the most intense competition in the current global environment is manufacturing. This is a sector that employs more than one million Australians.

It is also a sector that contributes some 46% of Australia's exports. These exports are under extreme pressure.

Ai Group has estimated that Six Billion Dollars has been wiped off the value of Australian manufactured exports over the last two and a half years.

And our export propensity is back where it was at the start of the nineties.

While in the current year there are pockets of solid growth, overall the performance remains lackluster and disappointing.

Our high dollar value and the rise of China are major contributors to this, but government policy could give better support.

This goes to such matters as:

- Increased funding for the Export Market Development Grants Scheme to broaden eligibility and give greater access to the scheme to companies of all sizes;
- Building on the success of Austrade's expanded offshore network to more closely match the export needs of specific Australian industry sectors; and
- Increased collaboration between government agencies and industry to better access opportunities in export markets.

The pressure on the industry is not just confined to export activity.

A yet to be released Ai Group study found that 86% of Australian manufacturers were faced with higher raw material costs over the past year, with an average increase of almost 12%.

The cost of iron and steel, for example rose by more than 18 per cent in the past year.

As a sign of the intensely competitive marketplace, the study found Australian manufacturers have been forced to absorb more than half of these cost increases. Over one third of companies did not move prices at all or in fact reduced them.

This shows just how much cost and margin pressure there is on industry today.

And when there is a conjunction of lack of pricing power and rising input costs, a company's options narrow and restructuring becomes inevitable.

Ai Group warned a number of years ago that government policies and the strategies of Australian based industries needed to be aligned if jobs and investment growth were to continue.

With this in mind, Ai Group has commenced wide ranging consultations with members in all states.

We are talking to member companies about how they see their industry developing, and to explore the future of their operations in Australia and determine what might enhance their options and performance.

This is an important study and Ai Group will be looking to work closely with the government on new policies and strategies to underpin the further development of globally competitive Australian industries.

This leads me to some comments I would like to make on the case for further economic reform.

Some suggest that after 14 years of continuous economic growth, low unemployment, and low interest rates there is no need for further demanding changes to our economy.

In Ai Group's view, however, the case for further reform is undeniable.

Over the past few years our competitiveness has been under pressure.

As I mentioned earlier, we are losing market share in our value added exports while imports are taking a bigger share of our domestic spending. Our competitors are not standing still.

Moreover, we are seeing a stalling in Australia's productivity growth. Trend productivity growth has at least halved in the past three years.

This is at a time when we face the prospect of demographic pressures detracting from labour force growth. This productivity slowdown is a recipe for weak economic growth and unmet aspirations.

In our view, to not embrace reform is therefore not an option.

British Prime Minister Tony Blair captured the argument well in his address to the European Parliament earlier this year when he said:

"If European nations faced with this immense challenge, decide to huddle together, hoping we can avoid globalisation, shrink away from confronting the changes around us.... then we risk failure. Failure on a grand strategic scale."

We share this sentiment.

A range of areas for reform need to be addressed.

These include:

- Enhanced focus of government policy to improve the global competitiveness of industry;
- Further investment in skills development;

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- A renewed focus on innovation;
 - Reductions in the burden of business regulation;
 - A rethinking of our approach to infrastructure which includes a focus on regulation, pricing and better coordination;
 - Further taxation reform including paying additional attention to the interactions between wages, taxes and income support; and
 - The overarching issue of federal-state responsibilities and relationships.

The other critical area of course, is workplace relations.

I would like to comment on the Government's reform agenda.

In a workforce of ten million, working in an economy that is enduring enormous global and domestic pressures, it is hard to argue that we should never again change the regulation of our workplaces.

The fact that we have six plus jurisdictions; 4,000 plus Federal and State awards and hundreds of pieces of legislation impacting on our workplaces is entirely unreasonable.

Among what we need is:

- Less of the complexity and cost that stems from overlapping Federal and State regulation of workplaces;
- Less of the complexity and cost associated with the excessive number of industrial awards;
- Less of the complexity and cost attached to the unquestionable failure of the existing approach to unfair dismissals.
- Measures to reinvigorate the enterprise bargaining process and restore its role as a significant driver of productivity improvements; and
- Measures to improve compliance.

These steps are central to the Government's workplace reform plans both for industry generally and for the building industry.

Consistent with this, Ai Group has expressed strong support for the Government's plans.

There are important questions, however, still to be resolved.

Some of these are associated with moving the workplace relations system from being under the industrial relations power of the Constitution to a total reliance on the corporations power.

It is important to ensure that the implementation of any new system:

- Does not diminish our redress to effective compliance and enforcement processes;
- Gives all enterprises access to the national system;
- Does not lead to unnecessary regulation; and
- Enables registered organisations to continue to effectively represent their members without instability.

Other important issues revolve around the Government's decision to legislate a set of minimum conditions.

It is vital that this approach not be implemented in a way that leads to a "one size fits all" outcome. In seeking to achieve more flexibility we cannot end up with less flexibility.

Some people have advocated that we need across the board rules even though we have been able to achieve important flexibilities through enterprise bargaining and award reform.

For example, most awards don't provide for smoko breaks and thousands of businesses reached agreement with their employees during the second tier exercise nearly 20 years ago to abolish them.

To legislate to impose them across the board would be a most retrograde step.

Similarly, there are calls for the Government to include public holiday provisions within the legislated minimum conditions to prevent people being required to work on public holidays.

Again, any one size fits all approach will cause far more problems than it solves. In many industries, public holiday work is essential and in some cases public holidays are peak times.

Questions about the details of workplace relations reform have opened the way for a great deal of public debate and this is not necessarily a bad thing.

We have encouraged members to discuss the proposed reforms with their employees and we have prepared material to assist them to do so.

Indeed the debate for reform will be won or lost in individual workplaces.

With this in mind, Ai Group's view is that fairness and balance are central to the workplace relations system. Our members do not want unfair, unsettled workplaces.

In conclusion, Australia has made a lot of changes over the years, and there is nothing easy about change.

However, since reform to Australia's workplace relations system began in earnest in 1993, we have seen:

- Faster wages growth;
- Better productivity outcomes; and,
- As recent ABS data confirm, we have done this without adding to income inequality.

We should therefore be confident that we can make change and occupy new spaces in a way that reconciles our values of fairness and our aspirations for higher living standards.

Unless we lift our performance to address the profound new global challenges that we face, then we risk going backwards.

As it is for business so it is for the nation.

The world is not standing still and nor can we.

Thank You.