



Speech

The Hon Ian Macfarlane, MP

18 May 2006

AiG Post Budget Boardroom Luncheon

Thank you for giving me a boardroom opportunity to discuss the budget. On this particular occasion I'm happy to leave the orange mining suit to the Treasurer on his budget sell. This budget has been a stunning reward for Australia – and Australians. Along with the increased financial support for Australian families, this Budget demonstrates the Howard government has been listening to business and specific issues it has raised. The lower bracket income tax cuts eliminate work disincentives and at the top make Australia more competitive in attracting and holding top level professionals. The 200% diminishing value rate for depreciation will help maintain and continue the high level of business investment. The venture capital initiatives include an Australia-first when it comes to establishing a tax-free investment vehicle for innovation and early stage commercialisation. \$650 million in savings for business including measures like halving the corporation fee to \$400. And a \$30 million package to make doing business online with government agencies much simpler.

Yet still we maintain a forecast budget surplus of 1% GDP – an insurance against upward interest rate movement. Invest Australia has been given additional resources to win strategic investment from the cashed up Indian, Middle East and Chinese economies. All these measures are investments in Australia's continuing strong business conditions and economic growth.

Manufacturing

At the moment that positive outlook is riding on the success of the mining and resources sector. But I can assure you the future of manufacturing remains a priority for this government. Heather wasn't the only one who sat up straight two weeks ago when the Prime Minister said – and I'll quote: 'manufacturing has always been at the heart of the Australian economic experience and it must remain at the heart of our economic experience'

This was not lip service as the PM announced a \$50 million investment in Ford Australia. It was the vocalising of a new resolve to ensure a viable manufacturing sector in Australia and make manufacturing an attractive career prospect for young Australians. The current pessimism about the Australian manufacturing industry is not only misplaced but plainly wrong. It's peddled by the commentators who don't see the innovation and drive of Australian companies which are quietly carving out their place in overseas markets.

But the tide is only starting to turn – there are significant policy and industry challenges ahead for both of us. The rise of China, India and the high Australian dollar are demanding a restructuring of the local sector – never before has an export plan been so crucial to long-term survival. The flip-side of this equation is that globalisation of manufacturing also creates opportunities for Australian industry. There is a role for Government in this process – apart from the obvious dollar support for the sector – and we are not shy about spruiking the advantages of Australian skills. Over the past 9 months I have led two automotive delegations to both Tokyo and Detroit and the response to this initiative has been significant.

Australian manufacturing has achieved some record highs under this Government in the areas of exports, real value added, profits and private new capital expenditure. On the last available figures, R&D in the manufacturing sector is also growing rapidly. Manufacturing is Australia's largest performer of R&D and a major generator of high paid jobs. With Australian manufacturing characterised by small to medium sized enterprises (SMEs), it is built for speed and agility. These characteristics are central to the changes now being demanded of the sector.

By 2015, for the first time since the Industrial Revolution, the centre of gravity of the world's middle classes will have shifted from Europe and North America, to Asia. India and China will have between 400 and 800 million consumers with middle-class spending capacity. This opens up tremendous opportunities for our clever, technologically proficient manufacturing industry sector. Ford Australia, for example, has won the design and engineering work for a vehicle which will be marketed in more than 80 countries.

AiG report - Manufacturing Futures: Achieving Global Fitness

The recent AiG report on Manufacturing Futures highlighted that a majority of manufacturers are restructuring to build their competitiveness. It's a credit to Heather's leadership that this report delivered such an accurate, cautionary yet outwardly optimistic portrait of the sector. It embraced globalisation, recognising that protectionism

was a policy of the past – and that's just the message the industry needs to also grasp. Like it or not, we are on the globalisation track and better that we are 'globally fit' than waiting for the wave of China and India impact to hit us.

To that end, the AiG report set out 3 very definite goals, with which the government certainly agrees:

- Facilitating further integration of Australian firms into global supply chains;
- Continuing to pursue trade liberalisation; and
- Investing in R&D to develop competitive advantages in high value-added production.

These guide posts emphasise how vital it is for Australian manufacturing to continue to develop through international engagement. The sector is becoming substantially more export oriented. Exports of ETMs grew by nearly 9% to be a record \$26 billion in 2005. Exports of motor vehicles and parts were also a record \$5.1 billion in 2005. Both manufacturing profits before income tax and private new capital expenditure by the manufacturing sector were also at record levels in 2005. In 04-05, R&D in the manufacturing sector represented 46% of Australia's total BERD – up 13% from the previous period. And that's all backed by an estimated \$1.9 billion of direct government budgetary assistance to manufacturing.

Red Tape

I'm strongly supportive of the emphasis in the report on getting rid of 'red tape' and letting business get on with doing business. My Department has been engaged in a number of practical initiatives to reduce the regulatory burden on business. There's another \$10 million in the budget to implement our software package that will be used to cost the introduction of new or changed legislation on business. The Industry Department has been central to the Banks Taskforce on Reducing the Regulatory Burden on Business. And we are determined to follow through with a range of initiatives, developed out of the Industry – not Treasury – experience. But that's a fight yet to be fought. The Government has also sought COAG support to address a number of the red tape recommendations.

The Manufacturing Futures report also emphasised multinational investment in R&D and innovation. More foreign firms are recognising Australia's attractiveness as a location for R&D and design. The Commerce Department has reported a jump of \$110 million in US business investment in R&D in Australia. Building that international competitiveness was highlighted in the budget with further support for packaged solutions of Australian manufacturing and service capabilities to local and overseas projects. The SAMP program was extended, as was support for the R&D Tax concession program and the National Measurement Institute has got a \$16 million boost for new capital.

Concluding remarks

In conclusion, all this government industry assistance amounts to nought – if it isn't accompanied by an industry willingness to work for its own future. I appreciate that AiG membership is about taking responsibility for your own future and working in a national sense to achieve that. It is a challenging and changing business environment for manufacturing but I – like the PM – see the sector evolving in Australia, not disappearing. You have my assurance that manufacturing has a strong presence in the cabinet room – be it trade, dumping or assistance issues.

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