



SPEECH

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COMMITTEES

Economics, Finance and Public Administration Committee Report

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[Dr EMERSON](#) (Rankin) (5.21 p.m.)—The genesis of this report, *Australian manufacturing: today and tomorrow*, was a discussion among committee members more than a year ago when I suggested that we should have a look at the future of Australian industry—manufacturing and service industries—beyond the resources boom. We did not believe that adopting a purely laissez faire approach would be satisfactory because the adjustment that implied could be very painful. By that I mean that, if we stood back and allowed the mining boom to take its course, the very high value of the Australian dollar that would create, and indeed has created, would damage quite severely the competitiveness of manufacturing and service industries and, as the mining boom tapered off, the dollar would fall somewhat, thereby boosting the competitiveness of those same industries; meanwhile, a great deal of damage could be done to them.

As someone who comes from the market side of the debate in relation to economic and industry policy, I do not for a moment suggest that government should seek to insulate manufacturing and service industries from those market forces, but governments themselves can play a sensible role in ensuring that, for example, Australia does not lose valuable skills during this period of a high dollar associated with the mining boom such that we do not have a skills base that is suitable for manufacturing beyond the mining boom. It may be that market forces after several years would lead us to reacquiring that skills base, but why lose it in the first place?

The philosophical view that a number of us took was that we supported neither a totally laissez faire approach to industry nor the old protectionist approach which was repudiated very effectively by the policies of the previous Labor Hawke and Keating governments, which did the necessary heavy lifting to reduce Australia's trade barriers and open our manufacturing industry to international competition. We had faith in the capacity of our industries to adapt, and adapt they did. It is pleasing that even now, despite the very high dollar and other limitations that are faced by the manufacturing sector, in many respects it remains strong. That, I think, is a credit to the productivity-raising reform agenda initiated by the previous Labor government and continued in some places by the coalition. We formed the view, based on evidence and our own predispositions, that the age of protectionism is gone but that a new philosophical approach should apply to manufacturing beyond the mining boom. That is an approach of capacity building and removing unnecessary impediments to the growth of manufacturing.

We want to ensure that framework included correcting for genuine market failure. By 'market failure', I mean, for example, the creation of positive spillovers from

particular activities, the most common examples of which are education and training and research and development. In both of those areas of endeavour, a private business cannot capture the full benefits of the activities that are associated with education and training and research and development, and therefore a legitimate role exists for governments to correct for that market failure and to support both education and training and research and development. That was the philosophical approach: building capacity and removing unnecessary impediments such as overbearing government regulations.

I turn now to a small number of recommendations that I consider especially important. The committee recommends at recommendation 2 that the government review the ongoing need for an industry action agenda approach. Whatever the merits of this approach, it appears that, at least in some industries, it might have run its course. That was the bipartisan view of the members of the committee.

We remain very concerned about overbearing regulation applied not only at the Commonwealth level but also at the state and local government levels. The committee recommended that there be greater harmonisation of state regulations without, for example, reducing or compromising in any way the safety standards of industry and the safety of workers employed in manufacturing. If we can get those compliance costs down, that will boost the competitiveness of the manufacturing sector and that will be very important as we move over time beyond the mining boom.

We recommended that the government increase the amount budgeted for the Export Market Development Grant scheme—and thank you to the coalition MPs for acknowledging and recognising that perhaps that is an area where the government could do better. We want to be able to allow the ‘carry forward’ of any unspent budgeted funding to be used in future years. We need to continue the reorientation of Australian manufacturing towards the export markets because that is where opportunities abound and where much of the job creation will occur in the future.

In the vexed area of support for research and development, as I had indicated, the committee believe that the government has a role in supporting research and development in manufacturing as well as in other sectors of the economy. We received a lot of evidence that, as an instrument in supporting research and development, the current R&D tax concession was not as effective as it could be. Our concern as a committee was that perhaps decisions are being made by industry as to the level of research and development that they want to do, and then the R&D tax concession is a little bonus or, if you like, an afterthought. What we need is R&D policies that actually drive research and development rather than the other way round where R&D decisions are made independently of the tax concession and then this bonus turns up towards the end of the year.

We want to have a look at the eligibility rules, particularly the extent to which foreign owned companies that are conducting research and development in Australia are able to benefit from it. The reason that we consider that important is that there is very restricted eligibility for foreign owned companies where the intellectual property resides overseas. We want to have a look at the benefits of R&D activity coming to Australia and then creating further spin-offs for Australian industry, for Australian knowledge and for Australian researchers. All of that seems to offer great benefits. The R&D tax concession, except I think in relation to the premium R&D tax concession—is not available for companies where the intellectual property does not reside in Australia. That it is a controversial recommendation is acknowledged. But perhaps we need to think outside the square when we are dealing with the R&D tax concession, because we received a lot of evidence as to the ineffectiveness of that in bringing forward further research and development in Australia.

I would like to thank you, Deputy Speaker Secker, as chair of that committee, the member for Cook, my colleagues on the Labor side of that committee and the other

coalition members of the committee. As you well know, the entire inquiry was conducted in a spirit of bipartisanship and a shared concern for the future of manufacturing in Australia. We know that it faces very high challenges from skill shortages, from the high Australian dollar and from very tough export markets. Everyone on that committee concluded that manufacturing does have a bright future in Australia, but there is a role for government. We should support neither the return of protectionism nor a completely laissez faire approach to industry policy in Australia. We can do better, and this report, if adopted, would allow an Australian government to do more to provide responsible support for the future manufacturing activities in this country. I, along with other members, commend the recommendations to the parliament.

Debate (on motion by **Mr Neville**) adjourned.