

Inquiry into Manufacturing in Victoria
Economic Development and Infrastructure Committee
Parliament of Victoria

Submission by The Australian Workers' Union
Victorian Branch
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Parliamentary Inquiry into Manufacturing in Victoria

Economic Development and Infrastructure Committee

The Australian Workers' Union (AWU) welcomes this opportunity to appear before the Economic Development and Infrastructure Committee. In respect of the Committee's terms of reference for this inquiry, the AWU would like to make the following points:

There are two challenges facing Victorian manufacturing:

- 1) The short to medium term impact of the global financial crisis (GFC) on manufacturing jobs and what needs to be done to address this; and
- 2) The medium to longer term policy response to competitiveness challenges in order to position Victorian manufacturing as an attractive sector in which to invest.

First, a few facts:

- a. Australia's manufacturing industry employs nearly one million Australians directly. Only the retail sector employs more workers.
- b. Manufacturing accounts for 9.3 per cent of all jobs in Australia, 11.2 per cent of all full time jobs and more than 13 per cent of all private sector jobs.
- c. Manufacturing employs more than 20 per cent of all the blue collar workers employed in Australia.
- d. In many regional centres manufacturing remains the largest employer and the main provider of apprenticeships for young Australians.
- e. 31 per cent of all manufacturing jobs are in Victoria; 7.4 per cent of those in regional Victoria.

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- f. Along with NSW, Victoria retains around a third of the nation's manufacturing gross value added and manufacturing contributes around 12.5 per cent of Victoria's gross state product and around 12 per cent share of all employees.

Short to medium impacts of the GFC

The AWU considers that the Government has a key role to play in assisting manufacturing weather the storm from falling demand in particular for exports and declining investment aimed at retaining jobs, skills and capacity to respond to recovery in demand, when it comes.

While aggregate unemployment has been less severe to date than many expected, we have witnessed 77, 000 manufacturing jobs disappear in the last 12 months. And with this loss, go the multiplier benefits of additional jobs that are created through the supply chain, in value added, tax revenues and unemployment benefits required.

And although the most recent PMI report indicates that the downward trends in employment etc are slowing, they are below levels which indicate growth. That means that the sector will continue to suffer the brunt of the economic downturn in the wake of the GFC.

In response to this jobs emergency stemming from the GFC, the AWU in an historic alliance has joined forces with the Australian Manufacturing Workers Union to form a Manufacturing Alliance aimed at expanding Australian manufacturing at best practice.

The Alliance is a formal expression of our combined Unions' - representing over 250,000 Australian workers - commitment to manufacturing in this country and our determination to see it prosper and thrive. The Alliance is

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aiming to ensure that governments at all levels are clear on the seriousness being taken on this issue.¹

The manufacturing alliance will soon be undertaking a leadership dialogue with manufacturing workers, company leaders and government to formulate strategies for building a stronger and more prosperous manufacturing industry in Australia. In the interim:

The AWU-AMWU Manufacturing Alliance has recommended the following measures aimed at addressing the immediate impacts of the GFC which build on government stimulus packages:

The stimulus package could create many thousands more jobs and protect thousands more existing jobs if we put in place three important supporting mechanisms:

- 1) A 'buy Australian' campaign and buy Australian policy consistent with our international treaty obligations that applies to both the public and private sectors;
- 2) Sectoral support arrangements for industries like the Australian steel industry to secure its future beyond this downturn;
- 3) With so many manufacturing workers and firms forced to work a 4 day week because of the global recession we need a training grants scheme. Such a scheme should help firms train rather than retrench workers so they can keep their workforce for the recovery, provide income support to workers during training, and help firms use skill formation as a strategic competitive advantage to build better, stronger and more prosperous manufacturing businesses.

And it is pleasing to report to the Committee that the Rudd Government has in recent days listened to our concerns and offered important policy responses

¹ <http://manufacturingalliance.org.au/>

in particular in the policy package around a) promoting Australian Industry participation and b) the development of a new steel strategy. To quote the Minister for Industry, Innovation, Science and Research, Senator Kim Carr:

“If Australian steel is good enough to be used on projects around the world, it should be good enough for major infrastructure projects in this country,”

But as noted by the Minister that has not been happening with entire plants imported from overseas, right down to the last nut and bolt.² And as the South East Melbourne Manufacturers Alliance (SEMMA)³ has said,

“We have constantly witnessed ‘the lack of a level playing field’ when local manufacturers quote against overseas competitors. In some cases access to quote for Government requirements is actually refused and in other instances, specifications, red tape, prejudices and the like have simply made it too hard.”⁴

In 2009 steel production fell 50 per cent, which shows just how much the sector has been struggling with the economic crisis. 85 good steel and related jobs are lost for every 1,000 tonnes of steel production lost. Labor’s steel strategy and more rigorous Australian Industry Participation requirements are designed to restore the balance.

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<http://minister.innovation.gov.au/Carr/Pages/ResolutionontheFutureofAustralianManufacturingSteel.aspx>

³ SEMMA is an independent association that represents a diverse range of manufacturers located in Melbourne’s south east who provide both local and international customers with world leading products and services.

⁴ <http://www.manmonthly.com.au/article/Focus-on-local-procurement-welcome-but-more-commitment-needed/492622.aspx>

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Again to quote the Minister, “I support Australian manufacturing, and I support the core industries that allow us to go on making things... One of those core industries is steel.”⁵

It underpins manufacturing – it underpins construction – it underpins transport and more.

Australian business deserves fairer access to opportunities arising from the substantial Government investments in transport, energy, communications, housing, education and research infrastructure.”⁶

Steel strategy

A Steel Industry Innovation Council will be established to ensure the industry has the best possible access to billions of dollars of public and private sector projects.⁷ The Council will develop practical ideas for building an innovation culture that embraces everyone from producers to fabricators to end-users.

The Steel Council will play a key part in making sure Australia has a sustainable and innovative steel industry and recognise the immense challenges to the industry posed by the global economic recession. The Council is about ensuring that the Australian steel industry remains world-class and able to respond to the challenges and opportunities of the 21st century.

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<http://minister.innovation.gov.au/Carr/Pages/ResolutionontheFutureofAustralianManufacturingSteel.aspx>

⁶ <http://minister.innovation.gov.au/Carr/Pages/STRENGTHENINGAUSTRALIASSTEELINDUSTRY.aspx>

⁷ <http://minister.innovation.gov.au/Carr/Pages/STRENGTHENINGAUSTRALIASSTEELINDUSTRY.aspx>

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The Steel Industry Innovation Council will:

- provide advice to Government on suitably qualified individuals for consideration as the Supplier Advocate for steel who will champion Australian industry participation in major projects and improve competitiveness and procurement support, particularly for small and medium sized enterprises;
- identify priority opportunities for the Steel Supplier Advocate to work with Enterprise Connect and the Industry Capability Network including providing coordinated business support to the steel fabricators through Enterprise Connect manufacturing centres.
- identify mechanisms to improve connections between project proponents and suppliers, including ensuring that project specifications do not discriminate against Australian suppliers;
- advise on the creation of industry teams to pursue opportunities; and
- identify and advise on actions industry and unions can cooperatively take to support the activity of the Steel Supplier Advocate.

The Council membership will include senior representatives from OneSteel and BlueScope, the Australian Workers' Union and Australian Manufacturing Workers' Union, the Australian Steel Institute, CSIRO, the higher education and research community and the Department of Innovation, Industry, Science and Research.⁸

⁸ <http://www.manmonthly.com.au/article/Steel-council-to-be-established/492839.aspx>

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Victorian Industry Manufacturing Council

The Victorian Industry Manufacturing Council⁹ should now take the lead in supporting the Steel Industry Innovation Council and new national AIP Initiatives.

Australian Industry Participation

The Steel Council announcement coincides with other initiatives designed to strengthen the Australian Industry Participation (AIP) framework accompanied by a \$19.1 million funding boost.¹⁰ They include:

- expanded support for the Industry Capability Network and for Australian industry to compete for contracts at home and abroad;
- applying the AIP framework to government procurement and infrastructure projects by requiring AIP plans; clarifying the intent of the Tariff Concession System and Enhanced Project Bylaw Scheme (EPBS) and strengthening AIP requirements in private-sector investment projects that access the EPBS;
- seeking a reconfirmed commitment to the AIP National Framework through the Council of Australian Governments to link government procurement more effectively with industry development, innovation, and training initiatives.

Overall this is a positive result for the local procurement policy that the Manufacturing Alliance has been calling for. Australian industry and workers are looking forward to getting a fairer go at winning government and private sector contracts under a stronger industry participation framework.

And the Victorian Government has the chance to lead the way on making the right procurement decisions to benefit Victoria, particularly in the area of

⁹ https://www.business.vic.gov.au/BUSVIC/STANDARD/PC_60452.html

¹⁰ <http://minister.innovation.gov.au/Carr/Pages/AFAIRERGOFORAUSSIEBUSINESSATHOMEANDABROAD.aspx>

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public transport and infrastructure provision in our roads, rail and ports, which maximizes local opportunities, investment and jobs.

Securing manufacturing over the medium to long term

And this is where the medium to longer term policy challenges are relevant.

But we need to look beyond the recession to the recovery and what is required to succeed in global manufacturing in the second decade of the 21st century.

The AWU-AMWU Manufacturing Alliance is developing a *national manufacturing action plan*. That plan will identify the key challenges that must be met and the initiatives and strategic directions that industry and government need to take if we are to secure a decade of prosperity for Australian manufacturing.

Our industry faces a huge competitive challenge in the decade ahead as Australian based firms are being squeezed by the competitive pressures from:

- A. Firms headquartered in the advanced economies of Europe, Japan and North America who rely on proprietary intellectual property, advanced management systems and technology leadership to win business
- B. Firms in nations such as India and China where low wages and emerging management and technology capabilities provide the basis for winning business.

Australia has to meet this challenge if our manufacturing industry is to prosper. Ultimately the development of better manufacturing businesses is the key to Australia succeeding in the second decade of the 21st Century.

Finally, the AWU-AMWU Manufacturing Alliance has identified *five priorities* for discussion between government, business and union leaders in the next

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six months. From these discussions a national action plan should be formulated including:

1. How best to add value to Australia's natural resources with more investment in downstream processing with world class environmentally sustainable technologies and facilities.
2. How best to develop the capability and proprietary intellectual property to grow a new generation of global firms anchored here in Australia including in the \$6 trillion low carbon and environmental goods and services industry.
3. How best to develop firm and industry level capability to forge work organisation change and skill formation into a major competitive advantage to win international business opportunities at home and abroad.
4. How best for manufacturing firms and unions to work with schools, young Australians their parents teachers and communities to improve the image of our industry and attract the best and brightest to careers in manufacturing.
5. How best to manage the impact of the next boom, its impact through Australia's terms of trade on the exchange rate and the nation's capacity to respond to a downturn should it happen again.

How to respond in Victoria

The challenge is to take maximum advantage of the policy reforms federally in ICN, through the industry advocates and through the AIP process including access to the Building Australia Fund and link them with state based initiatives and funding.

The AWU has a number of ideas in this regard which all centre on 'joining up' policies under the theme of industry policy in areas such as transport,

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infrastructure provision and clean energy including energy efficiency and recycling:

There is ample scope in the Victorian Transport Plan to encourage more local procurement.

In particular the Industry Capability Network (ICN) – which uses procurement experts to link Australian companies to public and private sector project opportunities in Australia and overseas - will have its work supported considerably with **an extra \$8.5 million over four years** through the Supplier Access to Major Projects (SAMP) program to give companies a better chance of securing work.

In fact, Victoria has opportunities to drive competitive advantages if it wishes to in the construction of trains, trams and buses in addition to the provision of the transport network infrastructure and in other major infrastructure projects, including the \$3.1 billion Wonthaggi Desalination Project.

The AWU along with the AMWU is participating in the Transport Infrastructure Manufacturing Scheme (TIMS) chaired by DIIRD with the active participation of AIG and ICN Victoria. It is through consultation like this that stakeholders are able to identify opportunities for Victoria and how best to maximise them to benefit local investment and jobs.

Victorian Industry Participation Policy (VIPP)

In 2008, the AWU undertook an informal review of the VIPP which was concurrently also being reviewed by DIIRD (VIPP Review 2008). The results of the review undertaken by Eureka Economics (Brad Crofts and Robyn Coote) are as follows:

Based on new VIPP requirements for government purchases above \$1 million to adopt VIPP guidelines, the AWU established that even if Victoria

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imposed a local content rule of 50 per cent and at a price premium of 20 per cent versus overseas suppliers, the State would benefit from this investment in economic activity, investment and jobs, while remaining revenue neutral to the State Budget's bottom line. (Refer to Attachment A for details).

Clarification therefore is required on the application of the revised Victorian Industry Participation Policy (VIPP) applicable from 1 July 2009. There are two aspects which are relevant to the application of VIPP to major infrastructure projects:

- 1) The application of a minimum content rule of at least 40 per cent over whole of life, including maintenance. As the policy stands currently this policy risks ruling local suppliers out from successfully bidding for most major projects because if measured in this way, over several years, the local content requirement could be met entirely by maintenance costs. This would tend to favour overseas suppliers instead of local manufacturers; and
- 2) The treatment of projects declared to be of 'strategic significance', and the criteria governing such projects which have been 'called in' by the minister.

Requirements for bidders to submit local content plans is supported, but there is scope to apply the VIPP in a manner which is much more supportive of local content particularly in projects of \$250 million or more of strategic significance.

This pertains currently to rail and tram investments in Victoria where the capacity to provide local manufacturing content to meet the State's requirements still exists. There is however the real risk of losing this capacity unless the benefits of local supply are fully considered and our local industries are assured that when they take on the competition there efforts will be recognised by the Government by winning bids.

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Regarding the current upgrade of train rolling stock, the attention of the Committee is drawn to comments contained in The Victorian Transport Plan,¹¹ that

The scale of the procurement program will create significant opportunities for Australian manufacturing which Victoria will strongly pursue; and

Victoria has also called on the Commonwealth Government for a national approach to support local train manufacturing.

The AWU would welcome clarification of how the VIPP will contribute to these goals.

Infrastructure Australia has acknowledged the good work which Victoria has put into the planning for future infrastructure needs by recommending funding of important projects announced in the May Federal Budget, including the regional rail express project valued at \$3.225 billion and East West Rail Tunnel – preconstruction work.

Victoria's \$38 billion Victorian Transport Plan is integrating these. We have the opportunity to maximise local content and the opportunities that this provides to manufacturing in this state over the life cycle of the project if a full economic benefit –cost analysis is undertaken.

Victoria has also many opportunities in the clean energy sector to drive employment and jobs. Again, matching federal government initiatives, including for example flagship programs under the \$4.5 billion Clean Energy Initiative in carbon capture and storage and solar energy.

And this is in addition to a range of wind energy and water related projects including desalination facilities and wind farms, including local blade and tower manufacture. The RET itself will promote more investment in renewables as the target of a 20 per cent of electricity from renewables by

¹¹ Page 71

2020 will drive an estimated \$20 billion in investment in renewable energy infrastructure. Natural gas will also get a big boost too as it will smooth the renewables intermittent supply.

Under the RET, it is expected that much of the new renewable energy will come for wind in the early years because it is more mature and can be quickly rolled out. BlueScope Steel estimates that just supplying 4 of the current wind energy projects with steel for towers alone would generate demand for around 75,000 tonnes of steel. That is equivalent to creating / maintaining 6,000 direct and indirect jobs.

Improved energy efficiency in smarter designed and constructed buildings and other components of the National Energy Efficiency Initiative and in bio-manufacturing (such as manufacturing plastics from starches) and recycling of compost, waste and organics are other growth areas.

All these projects have the potential to attract investment to Victoria, require manufactured inputs, and create thousands of jobs.

But what is missing is the 'joined up' element of policy which this Committee could help with in a bipartisan way which focuses on strategies for identifying the opportunities and putting these together in an integrated way focused on deriving maximum benefit to the State.

South East Melbourne Manufacturers Alliance (SEMMA¹²) note existing guidance in this regard:

"Both the Federal and State Governments need to urgently adopt and embrace the explicit fundamentals of the Australian Industry Participation National Framework document to which they were co-signatories in

¹² <http://www.semma.com.au/>

2001.¹³

“This document clearly articulates that project proponents are encouraged to consider Australian industry in terms of the value for money it offers over the life cycle of the project, including supply-chain partnership and access to a technologically literate, skilled and talented workforce supporting superior business infrastructure.”

SEMMA believes that the fair and sensible application of these principles would immediately provide a substantial volume of additional ongoing business for many thousands of Australian SME manufacturers which in turn would create sustainable jobs and employment within the industry”.

The Federal Government in announcing last week’s reforms to the AIP and steel strategies has reinvigorated this debate on the development of meaningful industry policy at a vital time.

Stakeholders in Australia’s manufacturing industry must form a united approach to create sustainable employment opportunities by working with Government to identify the key manufacturing capability within Australia’s major manufacturing regions, and coordinate that capability to supply procurement needs on a commercial basis.

Progress is being made in this regard, nationally. The opportunity is now there for Victoria to seize upon new initiatives to hardwire a sustainable manufacturing future.

¹³ <http://www.manmonthly.com.au/article/Focus-on-local-procurement-welcome-but-more-commitment-needed/492622.aspx>

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Attachment A

Every Victorian government purchase over \$1 million has at least 50% domestic content and a 20% price premium is applied to overseas procurement.

The total annual cost of implementation of this policy to the Victorian government procurement budget is estimated to be \$272 million. This estimate is based on the assumption that 30% of Victorian government goods purchases are in the trade exposed sector¹⁴. The implementation of the policy will ensure that half of this procurement, 15% is sourced domestically and the price of this procurement is 20% higher than it would be if it was imported.

The estimates presented below include direct and broader economic effects on the budget from the initial injection of \$272 million into Victoria's manufacturing sector. Under the relatively conservative assumptions made below the VIPP could be revenue neutral.

| COST TO GOVERNMENT | (\$ million) |
|--|--------------|
| <u>Increase in cost of procurement (a)</u> | 272 |
| BENEFIT TO GOVERNMENT | |
| <u>Increase tax revenue</u> | |
| Increase in payroll tax (b) | 5 |
| GST, income and transactions based revenue (c) | 105 |
| <u>Saving in government welfare payments (d)</u> | |

¹⁴ Victorian Industry Participation Policy - Report to Parliament – 2006/07 states procurement in trade exposed areas is 20%. Total traded goods sector in the economy is more than 30%.

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| | |
|---|------------|
| Unemployment benefit | 34 |
| Health costs | 6 |
| Justice savings associated with employment | 1 |
| Volunteer contributions | 1 |
| Age pension (e) | 6 |
| <u>Manufacturing plant & equipment R&D intensive (f)</u> | |
| R&D Expenditure | 2 |
| Innovation Expenditure | 10 |
| Skills and Training (g) | 7 |
| <u>Reduced operating costs (increased supply of domestic skills and replacement parts)</u> | |
| Public transport decrease maintenance, reliability and punctuality costs 2% (h) | 36 |
| <u>Victorian Budget sensitivity analysis</u> | |
| Government demand is stable reduce business uncertainty support sector add 0.2 per cent to GSP (i) | 39 |
| Government procurement can better integrate with existing SME policies - efficiency dividend 1% (j) | 22 |
| TOTAL BENEFIT | 272 |

(a) This is the most expensive scenario for government procurement because it assumes that all trade exposed domestic procurement will become 20%

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more expensive than imports. Cost calculation based on most recent 2006-07 price levels and \$9.1 billion Victorian government procurement (Victorian Government Purchasing Board Annual Report 2006-07). Data unavailable by value and \$1 million threshold so assume all expenditure comes under VIPP.

(b) Increase in payroll tax revenue is calculated assuming an increase in employment of 3,268 persons per year (based on AEC Economics and ABS, Cat. No. 5209.0 & 5506.0 Type II Employment Multiplier 2004-05 Input Output Tables); employment data (6202.0 - Labour Force, Australia, Jul 2008; and Victorian Budget Paper 2008-09 Chapter 4 – State Revenue).

(c) Tax revenue increases in line with the tax multiplier, \$384,000 tax revenue per million invested in manufacturing (AEC Economics and ABS, Cat. No. 5209.0 & 5506.0 Type II Multiplier 2004-05 Input Output Tables). Most of this extra revenue will be collected by the Commonwealth as income tax however it could be returned to Victoria as Special Purpose Grants. Other major state taxes; gambling and land transfer taxes are assumed to increase in line with income taxes and GST.

(d) Savings in government outlays are based on AWU commissioned research (Per Capita Review of the Aluminium Industry 2008). Estimates are based on 3268 people moving from unemployment benefits to paid work. Employed persons have lower health and legal costs and donate more to the community.

(e) The savings in the age pension are calculated as one third of the 9% employer superannuation contribution.

(f) Recent government procurement is dominated by acquisition of imported machinery and equipment specifically purchased to develop, introduce or implement new goods. In this context when government imports a new engine it is buying research and development. Partial production assembly and training associated with these goods is innovation and raises productivity. Some of this spending will replace government spending Calculations assume

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conservatively that R&D and innovation expenditure is 0.6% and 3.7% of total expenditure by domestic firms (ABS 8158.0 - Innovation in Australian Business, 2005).

(g) Government expenditure on skills training is replaced by extra business spending on skills training includes \$22,000 per apprenticeship and \$1000 OH&S training per new job.

(h) A small domestic industry and reliance on overseas suppliers will decrease cost effectiveness of service delivery. Estimates use expenditures on maintenance and the values of penalties reported in the Department of Transport's publication Track Record year ended March 2008.

(i) Government expenditure can reduce the swings in economic activity. As the current global economic slowdown negatively impacts business investment, government spending can be used to maintain demand reducing business investment risk and increasing potential gross state product (GSP). The likely impact of an increase in GSP is calculated using Treasury multipliers presented in Budget Paper No. 2 - Appendix B: Sensitivity Analysis Table.

(j) Resources devoted to supporting local industries, SMEs and the VIPP (including the ICN) could be used more cost effectively with the proposed policy, Estimates based on DIIRD budget 2008-09.

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