

Urgent! A development bank to unleash manufacturing

Will the Economics References Committee of the Australian Senate, which has been running an inquiry into the Australian manufacturing industry since 12 August, recommend a national development bank to unleash manufacturing? It is common knowledge, including among senior members of the government and opposition, that this is the single most important intervention to unlock the enormous potential of Australian manufacturing. The committee was granted an extension in November and is due to report on 17 December.

While numerous of the 130 submissions, including from the Citizens Party and manufacturing veterans, demanded the complete transformation of the Australian industry by the application of government credit through a national development bank, the problem is so clear that even a government agency is insisting we approach the problem differently.



Dr Jens Goennemann (right) at the factory of South Australian electronics manufacturer REDARC.
Photo: AMGC

The inquiry's three days of hearings included the 11 November testimony of Dr Jens Goennemann, Managing Director of the Advanced Manufacturing Growth Centre (AMGC), who put a number of issues squarely on the table. AMGC was commissioned by the government in 2015 to boost collaboration, commercialisation, skills and capabilities within Australian manufacturing, but as the industry-led group's head made clear, the government's commitment to make this happen has fallen short.

Dr Goennemann, who was formerly Managing Director of Airbus Group Australia Pacific, referred to the Harvard-produced Atlas of Economic Complexity which compares the ability of complex industrial capacity of nations. It ranks Australia at number 86, just above Uzbekistan and just below Paraguay. Accepting that status, Goennemann remarked, would be akin to praising the Australian Olympic team for returning from the Tokyo games in 86th place.

One of the initial barriers to Australia adequately expanding manufacturing, stated Dr Goennemann, has been our abundance of resources, which we have relied upon exporting for income: "it is hard to add value to things rather than dig and ship."

"It is hard to put your mind to something and stick to it for 20 years, not 20 months, and see it through. It is hard to add value to commodities rather than put them on the boat. But this is exactly what we need to do. Manufacturing is the most important *capability*—not a *sector*—that any country can possess. In Australian terms, it is the most important capability to go from lucky to smart.

"That is the commodity thing. With complacency, it's hard. Other people have said the best times for when we were manufacturers were during the times of highest crisis—during the war. ... However, after that, 'we went back to the beach', because it's just easier to do what we always have done. This will not be good enough. Manufacturing is key to every nation. *Every successful economy in the world is a manufacturing powerhouse*—not a sector—but a capable country which can make complex things. We are number 86." (Emphasis added.)

Government vision required

Asked by Labor Senator Kimberley Kitching, an initiator of the inquiry, what government needs to change to turn Australia into a manufacturing powerhouse, Dr Goennemann identified government as one of four critical pillars. "The other pillars are research, the public service and industry. First of all, I believe that industry needs to lead the charge. Government needs to support. The first thing government needs to do in support is to be consistent: have a plan and stick to it for 20 years. The plan doesn't need to be perfect but needs to be good enough to be successful—and stick to it. That is No. 1."

Of those four factors—government, research, the public service and industry—it is perhaps only the industry itself that has not lost integrity. As Goennemann pointed out, our manufacturing capabilities are excellent, they just operate on far too small a scale. Although Goennemann didn't discuss it, governments, under the doctrines of neoliberal economic policy, are afraid to intervene with actual support; our superb research capabilities are being undermined by smothering cooperation with our

major research partner, China, under a bogus national security excuse; and the public service has been stripped of capability by outsourcing to consultants.

Goennemann rejected the idea of “rebuilding” Australian manufacturing, put by Senator Kitching, because our capabilities are already strong, albeit “small and not resilient enough”. Australian manufacturing consists of some 47,000 companies, 85 per cent of which employ fewer than 20 people.

The key for Australian manufacturing, he stressed, is focus, by making deliberate choices on what we choose to make. It is not about “picking winners”, he asserted, because “We are already winners” in our areas of expertise. “Manufacturing, by the way”, he clarified, “is not a sector; it’s a capability, and I would even say *it’s a mindset.*” (Emphasis added.) The group’s inquiry submission states: “AMGC strongly rejects the view of manufacturing being a sector (vertical) instead it is a capability, cutting horizontally across all sectors in which something is being made/manufactured.”

The AMGC submission makes another crucial point, bolstering the argument for long-term government policy support. Manufacturing is one of the country’s most volatile industries, which can swell or shrink by 20 per cent depending on economic conditions. Additionally, one in ten manufacturers are so reliant on a small customer base that they would be forced to close if they lost a single customer.

The AMGC initiative shows, in the small, just what is possible if the government were to devote effective assistance, at scale, to Australian manufacturing. It has facilitated 80 projects from its total co-investment capacity of \$19 million for advancement of manufacturing companies, creating some 3,000 new jobs and over \$1.5 billion in additional national income. With such a small input of money, Goennemann pointed out, “I am not aware of any other initiative in the last 14 years in Australia which so effectively creates jobs and growth.”

But the government is obsessed with grants, Goennemann pointed out, without follow up—“throwing money at something and hoping it sticks; usually it doesn’t.” The AMGC’s co-investment model follows “milestone by milestone with industry practitioners”, to ensure it is brought to fruition. Crucial to success is “to use government policies within the decision-making of government and the Public Service to work within industry”. Additionally, research funding is too heavily concentrated in the early concept and design stages and we are underutilising our ability to see products through to the commercialisation stage—abandoning them in the “so-called commercialisation valley of death”.

Industry-led government and public service support initiatives like the AMGC are vital to direct manufacturing focus in priority areas. Unfortunately, the Australian Public Service has been white-anted by employment caps and use of external consultants, as examined by a 2021 parliamentary inquiry conducted by the Finance and Public Administration References Committee.

The Morrison government’s announcement that it is fast-tracking its \$1.3 billion manufacturing scheme is overblown. For starters, the miserable package allocates just over one billion dollars across six priority areas of manufacturing; secondly the Modern Manufacturing Initiative, established in October 2020, is a grants program—with all the problems identified by Goennemann. Round two funding opened on 13 December after only 34 of 765 applications were approved in round one!

COVID-19 response

With supply chain hold-ups and shortages of vital equipment as the COVID-19 pandemic hit, the AMGC’s Manufacturer Response Register connected purchasers with manufacturers of hard-to-find products. The register received over 2,500 submissions from manufacturers which could help respond to the COVID-19 crisis, producing everything from ventilators, hospital beds and PPE, to local alternatives for unavailable components. The crisis reminded us of the “essential nature of collaboration”, Goennemann observed in an interview with *German-Australian Business-News* (Q3 2020 edition). Given the “broad capabilities that do already exist onshore”, Goennemann saw it as “a nice problem to have”, albeit he does believe there are things that we “cannot and should not make”.

AMGC was part of a consortium that urgently organised production of ventilators for COVID-19 treatment. “Within five months and with sufficient funding, and with manufacturers who had never made ventilators before, we were able to put 1,700 ventilators on the table ... ready to be deployed. We are capable because we possess these capabilities”, reported Goennemann in his testimony.

“It has also been rewarding for AMGC to see the years of research and effort around advanced manufacturing come to life during COVID-19”, he added in his interview. He believes Australia should continue to produce items such as face masks beyond the pandemic. “[T]here is a business case for making those masks here”, he said, as in pre-COVID times “the mining and construction industry used 10-20 million P2-masks per month”. Nevertheless, mid-year, the government announced it would recommence [sourcing cheaper face masks](#) overseas, winding back local production.

Goennemann advocates the world-leading German “Mittelstand” model which “promotes the collaboration between manufacturing and research partners”. While the Mittelstand, comprising small to medium size industrial companies, employs nearly 50 per cent of the workforce, Australian manufacturers employ just 7.4 per cent.¹ In the post-war period it was over 25 per cent.

Most crucial input: national credit

In its submission the AMGC pointed to a reality that is not exactly the best kept national secret: banks are unwilling to lend to small businesses such as manufacturers. Small businesses regularly report that “banks are unwilling to lend to companies to fund growth or new equipment purchases because banks lack an understanding of what manufacturing looks like today and perceive it to be high risk. Manufacturers report the ability to raise small amounts of funding to create prototypes and prove concepts but find there is a ‘valley of death’ when it comes to finding the larger amounts of money required to grow their enterprises to commercialisation and meaningful scale.”

As the Citizens Party has always maintained, you can’t leave it to market forces, or it won’t happen—whether it be funding, directing the focus of manufacturing expertise, or skills training.

A 2015 inquiry into establishment of an “Australia Fund”, to support rural and manufacturing industries, recommended that the government “*consider* extending concessional loan schemes to the manufacturing industry to support sustainable manufacturing businesses”, but bluntly concluded that it “does not recommend the establishment of an Australia Fund”.

In early 2020, at the start of the pandemic, the Citizens Party issued an urgent call to repurpose the Clean Energy Finance Corporation into a national investment bank, to direct credit immediately into infrastructure, agriculture and manufacturing, but government procedures prevented it.

The CEFC is a government bank established by the Gillard government to invest in renewable energy. In 2017, as the storm clouds that brought the banking royal commission were building, then-Opposition Leader Bill Shorten called for a government manufacturing bank, called the Manufacturing Future Fund; Small Business Ombudsman Kate Carnell, a Liberal former ACT Chief Minister, suggested a government bank for small business; and then-Treasurer Scott Morrison suggested an Affordable Housing Finance Corporation, a government bank to fund community housing—all based on the CEFC model. The Citizens Party intervened with a reminder that a national bank would address all these deficiencies in one fell swoop. (Media Release, 17 Oct. 2017, “[All economic problems lead to national bank solution](#)”.)

In February 2021 a government-chaired Joint Standing Committee on Diversifying Australia’s Trade and Investment Profile called on the Australian government to consider establishing a national development bank to gear up our national manufacturing capacity. In August, the government finally responded to the inquiry’s recommendation, merely saying the proposal was “noted”. Going on to reference the need for better access to capital for manufacturing, the committee stated it would be best to evaluate the government’s success in delivering its current 10-year Modern Manufacturing Strategy (!) “before considering a development bank to invest in Australia’s manufacturing capacity.” It’s time to stop beating around the bush and adopt the known solution—our future economic security depends upon it!

Footnote

1. According to Industry.gov.au; in its inquiry submission, AMGC puts it at over 10 per cent when all types of capabilities across various sectors are considered.

By Elisa Barwick, Australian Alert Service, 15 December 2021