



The Hon. Scott Morrison MP
Prime Minister

SPEECH
A MODERN MANUFACTURING STRATEGY FOR AUSTRALIA
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EO&E...

PRIME MINISTER: Thank you very much, Sabra. It's good to be back here again at the Press Club and this all-important week leading up to next year's- next week's I should say, Budget.

And it's great to be joined by so many of my colleagues here today. The Deputy Prime Minister, of course, Michael McCormack, and I commend him on his tremendous speech he gave yesterday. The new Richard Mercer of Australian politics with his calls for Australians to go to bush and support with the harvest, I strongly endorse his comments yesterday. It's good to have the Leader of the Government in the Senate, Mathias Cormann, and Mathias will be leaving us at the end of this year. They'll be very big shoes to fill in our Government, and this will be his last Budget and I want to thank you, Mathias for the tremendous work you've done. Not just on this Budget, but the six prior to it. It has been a herculean effort. Today the Treasurer is still back there with a sharpened pencil as he works through the time touches of the Budget for next week. I also want to thank the Treasurer for the tremendous job he's been doing together with Mathias Cormann to bring forward what will be a very important Budget next week. To Karen Andrews who joins us here today - what I'm presenting to you today is absolutely the product of her labours over not just many weeks, but over many, many months, and I'm looking forward to presenting that today. Karen, and I thank you for your leadership in this area in particular. We're joined by other ministers, of course, as well. We have Keith Pitt in resources and energy and Angus Taylor - sorry, resources and Northern Australia, I haven't made any changes, Angus, don't worry, or Keith. You'll be pleased to know, nor do I intend to. They're both doing a tremendous job in all of those portfolios. They share a department together and they've got it absolutely cranking on all cylinders. And tomorrow you'll hear in Sydney from the assistant minister Ben Morton who'll be speaking more about the Government's deregulation agenda.

Can I begin - can I also acknowledge Nev Power, I've just seen him here, as the chair of the National COVID Commission. And Nev, thank you for the great work you have been doing with the Commission. As you know, together with Andrew Liveris, what we have been speaking about today has been importantly informed by the great work that you and your team have been doing in its previous and now its new form.

Can I begin today by acknowledging the Ngunnawal people of course, their elders - past, present and emerging for the future.

Can I also, as is my custom, to acknowledge and pay my respects to any veterans or serving members of the Australian defence forces who are here with us today or joining us from outside this place and simply say on behalf of a grateful nation, thank you for your service to our country.

The 2020-2021 Budget, to be delivered by the Treasurer next [Tuesday], will be arguably one of the most important, if not the most important since the end of the Second World War.

This year, the global economy is forecast to contract by around four and a half per cent. The world economy during the GFC declined by 0.1 per cent. So in simple terms, the economic contraction we're expecting this year in the global economy is 45 times greater than the GFC.

The scale of what is occurring today is incredibly sobering.

Never before have we experienced a global recession of this magnitude in a truly modern, interconnected world and global economy, no longer insulated by geography and old technology. Global recessions now occur in real time.

So this Budget will be necessarily different in scale to those we have seen in many generations. It will respond responsibly to the challenge of our time and consistent with the principles that we laid down at the outset of the pandemic back in March.

The Budget will confirm the strong plan we have to recover from the COVID-19 recession and to build our economy for the future.

To cushion the blow of the pandemic recession.

To recover what's been lost - the jobs, the livelihoods, the hours, the incomes, the customers, the clients.

But importantly to take new ground by rebuilding our economy for the future.

And we'll do this, importantly, while honouring our guarantee to the essential services that Australians rely on - the schools, hospitals, Medicare, aged care, disability services.

And we'll do it while keeping Australians safe. And we'll do it without increasing taxes.

That's what the 2020-21 Budget is all about.

The work though, is already underway. Unemployment was falling. More Australians were in jobs than ever before, the female participation rate at an all time high. More working age people were off welfare and into jobs. Our AAA Credit Rating had been secured. And our Budget was back in balance.

This meant that, as the pandemic hit, we could act quickly and confidently to cushion the blow.

Treasury advises that some 700,000 additional jobs would have been lost in measured unemployment were it not for the measures the government undertook - JobKeeper, JobSeeker, cashflow support and many, many more.

We are also working to recover what has been lost. 760,000 jobs that were either lost or reduced to zero hours as the COVID crisis hit, have already come back into our economy. This is a great tribute to the

resilience of Australians and the Australian economy, its fighting spirit, the Australians who make our economy work each and every day.

Our effective unemployment rate has fallen from 14.9 per cent, as the crisis hit, back to 9.3 per cent. But that's not good enough. There are further risks, there are further challenges ahead, there are further unknowns.

We are not through this yet not by a long shot. And there is still much more to be done.

We are rebuilding our economy for the future through our JobMaker economic plan that I first spoke of right here at this platform.

Our plan for affordable and reliable energy will secure our liquid fuel reserves and lower emissions. It will get the gas we need for manufacturing to succeed, for households to have more money in their pockets, to firm up the reliability of renewables, like solar and wind, and to transition our energy economy into the future.

This transition will be guided by our comprehensive technology investment roadmap, released by Angus Taylor recently. To deliver reliable, scalable, lower cost, lower emissions technologies to underwrite our economy over the next 30 years and beyond. A plan not driven by taxes but by technology.

We're delivering lower taxes for businesses and individuals. Australians are already benefiting from the tax cuts made in the last two budgets. Just this year alone, in the billions. The small and medium-sized businesses tax rate has been cut to 26 per cent and the instant asset write off extended and expanded to investments of up to \$150,000.

Australians are keeping more of what they earn, as we promised they would. But there is still more to be done and there will be more next week.

Major changes have been introduced to how we do skills training. Our \$1 billion JobTrainer program with the states and territories is boosting the number of training places in this year alone by 340,000 places, that's good news for school leavers and those who are looking for those training places, coming out of jobs.

We have secured a new heads of agreement on skills reform, as I said we would do, with the States and Territories through the National Cabinet to ensure Australians acquire the skills they need for the jobs that businesses need them to be able to do. The National Skills Commission and Commissioner has been established to guide these investments, not just by the Commonwealth but by the States and Territories also.

The Government has committed \$2.8 billion to keep up to 180,000 apprentices in this country on the tools at some 90,000 small and medium-sized businesses through to the end of March next year. And yesterday, the Education Minister Dan Tehan announced an extra 12,000 places for students going to university next year to help them upskill and get job ready.

We are working to fix the problems in our industrial relations system so we can employ more people.

The Attorney-General Christian Porter has brought unions and employer groups together in search of common ground to boost employment, to grow our economy. One thing is very clear from this process,

and particularly recent events out at Port Botany, that we cannot afford “business as usual” in industrial relations. It keeps people out of jobs.

We continue to bring forward record investments in infrastructure in our three key infrastructure grids, as the Deputy Prime Minister well knows and leads that work - our transport grid, our water grid and of course our energy grid.

Major projects like Inland Rail, Western Sydney Airport, the North South Connector in Adelaide, Stage 3A of Gold Coast Light Rail in Queensland, the Bunbury Outer Ring Road in Western Australia.

The \$484 million Dungowan Dam project, where we’re committing half those funds. In NSW that will increase storage capacity from 6.3 gigalitres to 22.5 gigalitres. Design, geotech and environmental assessments that are underway at the site. Then there’s the Emu Swamp Dam, a 12 megalitre irrigation dam and water supply scheme on the Severn River in Queensland. It is under construction, boots and utes on the ground.

We are working with the states to accelerate the critical energy infrastructure identified in the AEMO Integrated System Plan. We are bringing forward projects like Marinus Link, VNI West and Project Energy Connect by at least 12 months, it’s creating over 4,000 jobs and helping ensure reliable, affordable energy for families and for businesses to create jobs.

We’re making it easier for business to do business, cutting red tape, streamlining approvals, particularly for major projects, including our new single touch approvals reform under the EPBC Act.

Our Digital Plan I announced with the Treasurer earlier this week will upgrade the circuit boards of our economy, making it safer and easier to get paid, to make payments, to connect with customers and deal with government. It will drive uptake of digital technologies across businesses, that will in turn boost productivity and innovation, especially vital for our manufacturing sector which is our topic today.

That plan brings together some \$7 billion of investments in cyber-security, NBN, 5G applications, digital skills capability, RegTech, FinTech, open banking, consumer data right, many things I suspect people looking on today would not be familiar with, but they’re going to make a big difference to how businesses operates in this country in this new age.

Assistant Minister Morton, as I said, will be outlining more changes tomorrow, a further update on the work of our Deregulation TaskForce he leads on my behalf.

We are continuing to prise open new markets for Australian business overseas, that work hasn’t stopped. More than 70 per cent of all our two way trade is now covered by export agreements, that compares to just 26 per cent when we came to government, giving Australian companies preferential access to more overseas markets. And we are not just stopping there.

Second round market access discussions as part of the UK FTA negotiations are underway this week. Our EU FTA negotiations are continuing. Our landmark deal with Indonesia has come into force in July and we’ve set a new benchmark for digital economy agreements with our high-quality deal with Singapore.

More affordable and reliable energy. More effective and better resourced skills training and development. Lower taxes. Boosting infrastructure investment in our water, energy and transport grids. Cutting red tape and making it easier to do business. Fixing problems in our industrial relations system to get more people into jobs. Opening up access to more overseas markets for Australian exporters.

That's our plan.

Our economic response has meant that, despite the hardships that Australians have suffered, Australia is still one of just a handful of economies, along with South Korea, Taiwan and Norway, leading the world in both the economic and the health response to the pandemic.

Our June quarter contraction of 7 per cent, which hit hard, we must remember compares to falls of more than 20 per cent in the UK, falls of more than 10 per cent in Canada, New Zealand, Italy and France, and falls of almost 10 per cent in Japan, the US, Germany and the OECD on average as a whole.

Today, I want to talk about our JobMaker plan for the future of manufacturing in Australia.

We make things in Australia. We make them well, we do it well. We need to keep making things in Australia. And under our plan we will.

Manufacturing employs some 860,000 Australians, and prior to the pandemic it generated more than \$100 billion in value for our economy each year and over \$50 billion in exports.

It is also a large driver of research and development. Manufacturing contributes around a quarter of total R&D investment in Australia, roughly four times its share of the economy.

Manufacturing is particularly important to regional economies, in places like the Hunter, north and central Queensland, Tasmania, regional Victoria.

Over recent decades, in time, our manufacturers have largely moved on from the mass production of standardised goods. Long gone are the days of trying to compete with labour-intensive, low-cost manufacturing economies.

Gone too are any pretensions of protectionism as a viable strategy for domestic manufacturing.

That's not where our future is. Manufacturing in Australia has been transformed and will continue to transform, today it is more agile, more dynamic and less monolithic.

Today's advanced manufacturing enterprise stretches from the labs doing the research and development, the skilled workers doing the design and engineering, through to sales, marketing and after-sale services.

Increasingly, this is where most of the value is created - around half of the jobs in manufacturing are actually in these parts of the manufacturing process.

Even the assembly line is changing through the increased use of intelligent robotics and 3D printing.

We need a deeper appreciation that advanced manufacturing is not just about what we make – it's about how we make it, how we sell our products domestically and internationally. So what is to be done?

Now an accomplished engineer before she entered Parliament, Karen Andrews, our Minister for Industry, Science and Technology, has taken up this question with gusto, providing the leadership for the strategy I am outlining today. And I thank her for her work. I also thank and recognise the role of the National COVID Coordination Commission's Manufacturing Taskforce led by Andrew Liveris. Under Andrew's

guidance, the taskforce has consulted widely and provided practical advice to inform our work, including valuable insights from best-practice overseas where he has had great involvement.

So to our modern manufacturing strategy. The objective is to build scale and capture income in high-value areas of manufacturing where Australia either has established competitive strength or emerging priorities.

This will require our manufacturing sector to be even more productive and highly-skilled. To be more collaborative, at the leading edge of R&D, commercialisation and technology adoption. To be more outward-looking in searching relentlessly for footholds in global markets.

At a government level, we must first understand that a successful manufacturing sector will depend on broader economic policies that support greater productivity.

Again, affordable and reliable energy. Lower taxes. Industrial relations changes. Training and skills development. Cutting red tape. Infrastructure investment. All of this supports manufacturing and there is more.

Too often in the past industry policy has ignored these foundational elements in the vain hope that isolated programs, subsidies and work-arounds could make up for the broader deficiencies in economic settings.

We also need to get more targeted and apply greater discipline to how we invest in these sectors as a government. It must be part of a longer term planning.

Our Government is determined to set a ten-year time horizon under this strategy where all parties - industry, workforce including unions, governments at all levels, capital including superannuation funds and our scientific and research community - are pulling together in the one direction.

Our practical strategy has three components.

Firstly, create a business environment where our manufacturers can be more competitive. Secondly to align resources to build scale in areas of competitive strength. And thirdly to secure sovereign capability in areas of national interest.

That's our plan. And we will be investing an additional \$1.5 billion in specific industry measures, over and above what we'll be doing in tax, energy, infrastructure and the like, to back our plan in next week's Budget.

Now, firstly, creating a business environment in Australia where our manufacturers can be more competitive. That is foundational, as I have said.

You can invest all the resources you like in industry programmes, but if taxes are too high, if industrial relations systems are too complicated, the adoption of digital technology is patchy, if energy is too expensive, if approvals take too long and are too costly, if the roads are clogged, and employees do not have the right skills, and you are shut out of overseas markets, then you are wasting your time. That's why all those things - correcting all those things is important.

For manufacturing to be successful in Australia, all manufacturers, we must become a more competitive place for manufacturers to do business. Whether it be aluminium smelting in Gladstone, steel processing

in Port Kembla and Whyalla, ethanol production at Shoalhaven Heads down on the south coast, fertiliser production in Mount Isa, aerospace at Fishermans Bend for Boeing or ships at Port Adelaide and Henderson in Western Australia. And that is what our JobMaker plan is all about - creating the right incentives and enablers for businesses to compete so they can create more jobs and keep more Australians employed.

Our broader JobMaker plan is the foundation of our manufacturing strategy, benefitting all manufacturers, especially when it comes to tax incentives for investment, energy, skills, R&D and technology.

Now the Treasurer will have more to say about those particular issues next week, especially when it comes to investment and R&D incentives, so I will not touch on those issues today.

In a manufacturing context, it is especially important to highlight the necessity of our efforts to create a competitive domestic gas market.

The NCCC advised us that gas is up to 40 per cent of many industries' cost structures in manufacturing. Combined with higher electricity costs, the NCCC said that has moved many firms into a 'doom loop' where they are living 'turnaround to turnaround', making existential decisions about their operations at each point of the next major maintenance decision, rather than decisions, that they'd prefer to be making, in technology and much-needed productivity improvements to remain competitive in the future. This needs to change.

That is why, as part of our gas-fired recovery plan, we have committed to resetting our east coast gas markets, unlocking gas supplies, establishing a new gas hub and improving our gas grid distribution systems. If you're not for gas, you're not for manufacturing and heavy industries and the jobs that they support. For many manufacturers, gas is half the problem that they confront and that is why reforming that sector is so foundational to that achievements we hope for in the manufacturing sector.

Now the second component is to align resources to build scale in areas of competitive strength. The reality is we cannot and should not seek to reach global scale in a large number of sectors, we can't be all things to all. This is an important lesson from other small and I'd say medium-sized high income economies like ours, which have leveraged home-grown manufacturing into global success, this has happened in Singapore, the UK, Germany and Canada. all circumstances and areas that we have looked at.

A lesson is don't try to do everything. It's all about alignment, across different levels of government, with industry and with the research and education sectors and siloed programs don't work.

Against that backdrop, the Government has identified six National Manufacturing Priorities in areas of established strength and emerging priority. They are:

- The resources technology and critical minerals processing
- Food and beverage manufacturing
- Medical products
- Clean energy and recycling
- Defence industry, and
- The space industry.

As the world's leading mining economy, Australia can capture min-tech and critical minerals processing based on our natural resource endowment. Our high-skilled workforce and world-class technological

capability. And I particularly welcome the announcements made today by BHP to that end. They have set, I think, a leading standard.

Australia's Mining Equipment, Technology and Services sector, the METS sector, already plays a key role in adding value beyond resource extraction in the mining supply chain. At the same time, we know demand is increasing for critical minerals that are inputs to batteries, and renewable technologies and other manufactured materials - from partners like Japan, the US and Europe providing us with opportunities to just move up that value chain.

Food and beverage manufacturing, like Bickford's down there in South Australia, one of the fastest growing parts of our manufacturing sector in recent years and the largest employer in our manufacturing sector. It is the second area of focus as part of this strategy. Australia's status as a leading agricultural producer with a premium reputation for safe, clean produce gives us a real edge here, a vital edge.

Thirdly, the COVID-19 pandemic has highlighted our gold standard health and medical research and manufacturing capability. This provides a key platform for commercialising new medicine and medical product breakthroughs right here in Australia. Firms such as Cochlear, CSL, ResMed have shown what can be achieved when you combine high-quality manufacturing, major investment in commercialising great ideas and a global outlook, supported critically by world-class primary research and a stringent regulatory framework to support it. All of those things, particularly CSL playing such a critical role as we respond to COVID.

Then there is clean energy and recycling, an important part of the government's broader challenge. Something we believe we can make a major contribution to.

As Energy and Emissions Reduction Minister Angus Taylor highlighted last week, Australia has a great opportunity to make a global contribution in areas like battery storage and hydrogen technology in particular.

So too the fast growing waste and recycling sector offers Australian firms great potential and global scale underpinned by research strengths in the circular economy in places like the University of Sydney's Waste Transformation Research Hub and the UNSW's Centre for Sustainable Materials Research and Technology. When I was in New York about this time last year, Sims metal does all the recycling for New York. An Australian company, doing a big job on a global scale. We know how to do this stuff.

Our defence sector provides Australian manufacturers with the opportunity to provide sophisticated defence equipment and supplies to the Australian Defence Force, but not just them, but also as well as for export markets and part of global supply chains as we've seen with the Joint Strike Fighter project.

The Defence Sovereign Industrial Capability Priorities are about targeting investment to build national capability and capacity through manufacturing, and it's backed by the National Naval Shipbuilding Plan, the Defence Export Strategy, and the \$1 billion Defence Innovation Hub and the \$1.3 billion Next Generation Technologies Fund.

Space opens up a further area of emerging sovereign capability where Australia is in a position to leverage close alignment between governments, the research community and industry - all under the umbrella of the Australian Space Agency, which Minister Andrews has already established down in South Australia.

The space sector is estimated to reach some \$1 trillion globally by 2040. And we want to be a part of that.

Achieving scale in these areas and all of these areas I have spoken about will be a multi-year project which is why we are taking a ten-year perspective. Immediate action will be taken though, with additional investment, a refocusing of existing programs and deeper alignment across all parts of the manufacturing innovation system.

Firstly, we will commit \$52.8 million in additional funding to a second round of the successful Manufacturing Modernisation Fund, focusing on larger projects. The Fund will provide grants of between \$100,000 and \$1 million on a three-to-one funding basis to support transformational investment in technologies and processes. This new round is expected to support around 150 businesses in our priority areas.

The centrepiece of our strategy though, is a \$1.3 billion Modern Manufacturing Initiative (MMI) it will provide a new investment vehicle geared to overcoming barriers to scale. We've got to get the scale. The MMI will leverage co-investment with states and territories, industry and research institutions across three streams of activity.

- Firstly, collaboration – investment of around \$80 million each on average to foster long-term, large-scale production or R&D facilities involving consortia of businesses and other organisations, including physical clusters – like at the Western Sydney aerotropolis
- Secondly, translation – investments of around \$4 million on average for industry-led projects translating research and bringing new products to the market.
- And thirdly, integration – investments also of around \$4 million connecting local firms with global value chains, giving businesses the tools they need to access export markets and create economies of scale.

Now through this initiative we will both target priority areas and invest in the cross-cutting technologies and processes that enhance production efficiency - such as automation, digitisation, data analytics, artificial intelligence and other enabling technologies, which make everything else work.

Additional investment will occur in tandem with a comprehensive review of existing programs in the Industry, Science and Technology portfolio to better align them with the strategy. As part of this, we're providing an additional \$50 million to the Industry Growth Centres initiative to support projects in the priority areas out until the end of June of 2022.

Now having established those six priority areas, the next phase will involve partnering with industry to co-design roadmaps geared to build scale in each area.

These industry-led roadmaps will identify growth opportunities, barriers to scale and required actions along the entire value chain in each of our priority sectors. They will guide future investment and action from both government and industry, getting that alignment.

Now these will be finalised by April next year before the Budget. The roadmaps will set clear goals and performance indicators - so how many more jobs, what level of R&D and how much more investment - so we can track it over the next two, five and 10 years. Where appropriate, they will draw on the previous Industry Growth Centre Sector Competitiveness Plans and the lessons learnt from those efforts.

To aid this effort, Minister Andrews will enlist a refocused and refreshed Industry, Innovation and Science Australia Board in a key advisory role.

That will occur under the continued leadership of Andrew Stevens, the former head of the Advanced Manufacturing Growth Centre, and the new IISA Board will provide expert advice to the Minister. And Minister Andrews will have more to say on the governance arrangements and new appointments to that board over the coming weeks.

Now, the third imperative of our Modern Manufacturing Strategy is to build national resilience by securing sovereign capability in areas of national interest.

We cannot ignore the obvious. The efficiency benefits of hyper-globalisation and highly fragmented supply chains can evaporate very quickly in the event of a major global shock like the COVID-19 pandemic as we have seen.

Armed with this experience, it is only sensible that Australia consider, as so many other countries are, more options to guard against supply chain vulnerability for critical necessities and to secure us against future shocks.

To this end, a whole-of-government review of Australia's supply chain vulnerabilities in the wake of the COVID-19 pandemic is underway. And for the most part, Australia has performed very well, with limited disruptions to critical supplies of manufactured products through this pandemic.

This achievement can be attributed in no small measure to the agility and adaptability of our domestic manufacturing industry. But equally it would be irresponsible for any Australian Government to not consider new mechanisms to support local capability for critical materials, equipment and services in the wake of this shock.

So that is what we are doing.

The Government will invest \$107 million in a new Supply Chain Resilience Initiative. This will support Australian manufacturers investing in capabilities to address areas of identified acute vulnerability domestically, and to ensure they are in a position to contribute to the supply chains of trusted partners and like-minded countries.

Sovereign Manufacturing Capability Plans will be developed in key areas and a range of policy options will be considered, including procurement and long-term contracting arrangements, as well as actions to promote better information sharing and collaboration between government and industry.

It is not to overcome each and every source of vulnerability based on domestic production alone. The current crisis is not an excuse for protectionist policies that subsidise inefficient firms and industries.

Hence we are complementing our actions to boost domestic sovereign capability through greater collaboration with like-minded countries. Already, this has been an area of fruitful discussion with other world leaders as part of the Smart COVID-19 Management Group convened by the Austrian Chancellor.

So in conclusion, Australian manufacturing will play a key role in our economic recovery from COVID-19, creating and supporting jobs in cities, in towns and regional communities and rural areas right across Australia. It's a plan for all of Australia and all Australians.

Our efforts to grow Australia's manufacturing sector begin by creating a stable and competitive business environment, through our JobMaker plan, but it does not end there. Our Modern Manufacturing Strategy will open a new chapter based on:

- Building scale in areas of competitive strength
- In driving collaboration and better aligning resources across governments, industry and the research community
- Enlisting expertise to set clear goals for global success
- Making science and technology work for industry and for Australians
- And finally, strengthening sovereign resilience in areas of strategic importance.

That is how you create jobs. That is how you recover from the COVID 19 recession. That is how you build your economy back for the future, which is what our Budget will be all about. That's our plan.

Thank you very much for your attention.

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