

Thank you for inviting me here tonight.

Let me set the scene for what we are facing in the next 15 months, and why your sector is more important than ever.

There is no way to sugar coat this – Australia is facing a tsunami of job losses in manufacturing when auto-making finally leaves our shores by the end of next year.

General Motors Holden and Toyota shut up shop after a combined 120 years in this country as car makers.

And of course, the early shockwaves will be felt on October 7 when Ford closes its Broadmeadows plant and with it the careers of 1068 employees.

It's not just the 45,000 direct jobs in car making and first tier component makers that will be lost when the auto making sector shuts down – it's that complex economic eco-system of a supply and logistics chain, of second and third tier suppliers as well. It's also about that broader multiplier effect. The snack bar next to the factory. The supermarket down the road; the local butcher, baker, hairdresser – all of whom rely on as their lifeblood, members of their community having decent well-paying jobs.

An Adelaide University Study by John Spoehr in October 2014 mirrored the finding of the Bracks Review in July 2008 that the nations GDP will be hit by \$29billion and upwards of 200,000 jobs are at risk, could be lost, especially in Victoria and South Australia.

And that is part of a bigger picture, of the decline and fall in Australian manufacturing.

In the 1960s some 30 per cent of our GDP was based on manufacturing that was, I concede, built on unsustainable protectionism. That figure steadily dropped to 12 per cent a decade ago, but plunged to 6.2 per cent now – bumping just above Botswana's 6 per cent and Rwanda's 5 per cent.

I have nothing against those two developing nations in Africa – but Botswana and Rwanda – unlike Australia, never had a manufacturing base as we have had.

The decline of Australian manufacturing was highlighted in a recent Australia Institute report – from its Centre for Future Work.

Our share of manufacturing in total employment of the 30 OECD nations surveyed at 8 per cent puts us at 30<sup>th</sup>.

We won the wooden spoon, that no doubt was made from Australian timber, that was sent overseas for processing and manufacturing and imported back here.

And the change of manufacturing as a percentage of real GDP is also telling.

Even though Australia was practically the only country in the world to dodge the GFC, the percentage shrink in manufacturing in terms of real GDP since 2008 at minus 5.1 per cent puts us at the fourth worst performing nation in the OECD.

Only Greece, Spain and Finland performed worse, and in contrast the UK has grown at 6.5 per cent, the US at 9.6 per cent, and Sweden at 17.7 per cent. Yet the Australia Institute that this dismal decline of Australian manufacturing is not inevitable, and that government does have a role to not only arrest that decline, but implement policies that will see a renaissance of manufacturing.

And that's where your industry, your sector, can play a critical role to make that renaissance happen.

With 120,000 direct jobs in the forestry/timber value and supply chain, and a multiplier of 2.5 on top of that, you're already a major employer and contributor to the nation's wealth – but with the looming collapse of the auto sector you can become bigger and better to absorb those job losses and the multi-billion dollar hit to our economy.

It will require leadership on your part – and that involves building a narrative, telling a story that will grab the attention of the public – both in the cities and the bush, and in turn the decision makers in Canberra.

When it comes to reviving our manufacturing jobs, jobs in regional communities, there is a vacuum of leadership that reminds me of what Donald Horne wrote in his iconic 1964 book *The Lucky Country*.

He coined the phrase 'The Lucky Country' with a deep and pointed sense of irony – something that many of us have forgotten over the years. '*Australia*' said Horne '*is a lucky country run by second rate people who share its luck*'.

And he directed this barb towards Australia's politicians. '*Many of the nation's affairs are conducted by racketeers of the mediocre*', he said, '*who have risen to authority in a non-competitive community where they are protected in their adaptations of other people's ideas*'.

Some of you may think that what Horne wrote 52 years ago is even truer today than it was then.

So what ideas can we give to our leaders to implement in the hope that they'll adapt them, to bring about a renaissance in manufacturing, that your sector can be a leader in:

Firstly, let's change our procurement laws so that the \$59 billion a year the Commonwealth spends on goods and services must be spent in a way that recognises the economic and social benefits of buying locally, including the multiplier effects. I'm currently preparing amendments to the Public Governance, Performance and Accountability Act, to require that.

It's consistent with the approach I took in a senate inquiry into procurement I co-sponsored with then Senator Madigan in 2012.

However, and this is where I'll need your help and that of other industry sectors, the federal government seems hell bent on signing up to the WTO agreement on Government

Procurement which could put 40 other countries on the same footing as local Australian companies for government contracts.

It will mean any new legislation to reform procurement could be struck down under this WTO agreement – so much for sovereignty.

Secondly, products must comply with Australian standards – non-conforming and non-complying building products such as sub-standard particle board, should not be allowed into this country.

I need your support to make sure the Senate Inquiry I instigated in the previous parliament on this very issue to be reinstated in the senate next week.

Thirdly, our dumping laws, despite some improvements have a long way to go before they are as effective as the anti-dumping and anti-countervailing measures adopted by the US, Canada and Europe.

I became interested in dumping because of a dispute involving a major and good employer in the South East of SA, in 2008.

It involved toilet paper products imported from Indonesia and China at up to 45 per cent and 22 per cent below cost respectively of its domestic value. The convoluted and technical approach to how ‘material injury’ was defined showed how ineffective and weak our antidumping regime was then; and it’s nowhere near strong enough now. Fast-tracking cases, clearer definitions of material injury, adverse findings against importers for failing to open their books are urgently needed, and again I hope to have draft legislation in by the end of the year on this – in consultation with manufacturing Australia and of course with AFPA.

Fourthly, energy prices. If we want to see a renaissance of manufacturing in Australia, we cannot credibly do so unless we improve the reliability of power supplies, particularly in SA and reduce prices on a sustainable bases.

The problem is especially acute in SA which has the highest spot price volatility in the national electricity market, and with it the highest prices.

Energy prices across the nation are too high, particularly in my home state, with rises far outstripping inflation.

The Australian Energy Regulator’s own reports and forecasts show that in the September quarter 2015 prices for South Australian 2016 based futures rose by 42 per cent, compared with rises of 19 per cent for Queensland, 12 per cent for Victoria and 9 per cent for NSW. The rises in futures mirrored volatility in SA spot prices, which in the September quarter, averaged \$69 per MWh – at least 50 per cent higher than in any other region.

The reasons why this has happened, and I say this dispassionately, include the influence of wind generation. South Australia has the highest wind penetration of any major power system in the world. At times wind generation is so great in South Australia it exceeds demand.

While there are undeniably great benefits from cleaner energy there are costs that need to be considered, and these costs can be minimised with better planning.

The Northern base load power station at Port Augusta closed in May this year simply because it could no longer compete to stay on the system with so much subsidised wind power generating at base load times.

If we don't have cheaper base load generation then we need more expensive gas generators to operate when the State's wind turbines are, more or less, becalmed, which occurs more often than not. With Victoria's push for more wind turbines this problem will loom larger there too.

The problem any thermal generator faces is that they face start-up costs they must recover from the spot price. Moreover, a lot of these generators, when started cannot immediately switch off if the wind starts blowing.

It is now a very risky proposition starting a thermal generator in South Australia. The moment they start, the wind may blow again, making it very unlikely that the thermal generators will recover their costs.

What makes this problem particularly acute is that if a generator can't turn off immediately and wind comes back on, which often happens, the spot price turns negative, which means that the thermal generators have to pay to provide power to consumers.

So to manage these risks, thermal generators are now waiting until they are sure the price is high enough or the wind will not blow long enough, for their start to be economic.

This variability of plant operation and risk management by thermal generators has led to high variability in spot prices which then leads to big risk premiums in hedging contracts, the very contracts that underpin retail tariffs for all customers.

So what is the solution? Back in 2009, when Malcolm Turnbull was opposition leader, we – as in Malcolm and me, jointly commissioned Frontier Economics to come up with an alternative emissions trading scheme to the Carbon Pollution Reduction Scheme. The scheme we presented was a trading scheme based on an energy intensive model, something quite different from what the then Rudd Government was proposing.

Instead of placing a tax on every tonne of carbon generated by power producers, a price for pollution would only kick in if a power plant was above a certain level of intensity and below that level, a credit is provided. That is, dirty generators would have to pay cleaner generators to run more.

The consequences of that approach, based on the economic modelling, would be to dramatically lessen the economic impact of carbon reduction. These gains would come about because the intensity based approach would see much smaller electricity price rises and, because of this, would also require lower compensation, and not have the distorting effects in the economy by the revenue churn that entails.

At the time, Senator Penny Wong attacked the Frontier scheme as being a “mongrel” of a scheme.

A few months ago, in the lead up to the Federal Election, Federal Labor announced its proposal for a new type of emissions trading scheme for electricity generators.

It is as Lenore Taylor from The Guardian Australia described it, “an emissions intensity trading scheme for the electricity sector in which generators with higher emissions than an industry wide base-line would have to buy credits from those with lower emissions”.

Labor's scheme is as Danny Price from Frontier Economics told The Guardian, basically identical to what Malcolm Turnbull and I proposed in 2009.

It seems that the 'mongrel' has now become top dog. I have gone into a lot of detail about this viable alternative, because the modelling suggests the implementation of such a scheme could see a reduction for big users of power in the order of 15-20 per cent, and you could receive that relief by Christmas if there is the political will to change the rules.

Fifthly, innovation. There is no question Australia is laggard when we should be a leader with innovation in the forestry sector.

I find it embarrassing that even Malaysia puts more effort, and spends more money on R&D than we do.

This is not a criticism of industry in Australia at all. On the contrary, it's an acknowledgement of the frustration you feel, the needless obstacles you face in what you need to turbo-charge your sector.

Just because the government says the words 'jobs' 'growth' and 'innovation' again and again, doesn't mean it is going to happen on its own. It needs tangible commitments such as a national centre for R&D for forestry products located in Mt Gambier. A centre for excellence and innovation, where we can value-add to our world-class forestry products here, rather than it taking place overseas.

For instance, nano-crystalline cellulose needs to be a growth industry not just a pipe dream.

And to make that happen it would involve freeing the funds from the underspent \$750million in the Automotive Transformation Scheme to be used in a new fund – I think it needs to be called the Manufacturing Transformation Scheme, to finance the R&D, the advanced manufacturing that your sector is itching to get on with.

And finally, as part of this wish list, we need to deal with the disgrace that is our dysfunctional vocational and training sector that has been rorted, cost taxpayers billions, and is part of a systemic failure that has led to either skill shortages, businesses not expanding, or having to rely on 457 Visa holders.

During the election campaign I was told by forestry consultants in the south east that there were over 550 jobs ready to be filled if only the infrastructure and workforce were available. We cannot let that opportunity be lost.

So, I am here tonight to say with my new senate colleagues Stirling Griff and Skye Kakoschke-Moore and the Member for Mayo Rebekha Sharkie, that we want to work with you to bring about the renaissance that this nation so desperately needs. A renaissance that your sector can, and must be, a key part of.

I am here because I want this dinner to turn into a dialogue, and in turn, decisions that lead to action and change. I hope you will take up my challenge, and in turn, challenge me to do all I can, all we can, for your sector to grow strongly and sustainably and in the process employ many thousands more Australians.

Thank you.