



CCIQ SUBMISSION

**Queensland Productivity Commission
Inquiry into Manufacturing in Queensland
Draft Report Response**

CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND

6 September 2017

Introduction

1. The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to provide feedback to the Queensland Productivity Commission (the Commission) on the *Inquiry into the Manufacturing Queensland Draft Report* (the Report).
2. CCIQ is Queensland's peak industry representative organisation for small and medium businesses. We represent over 414,000 Queensland businesses on local, state, and federal issues that matter to them. Our guiding focus is to develop and advocate policies that are in the best interests of Queensland businesses, the Queensland economy, and the Queensland community.
3. The following submission is to be read in respect to our previous submission to the Commission, which can be found https://qpc.blob.core.windows.net/wordpress/gravity_forms/22-308f60ae8240b65aa73af377f5bed8c5/2017/01/CCIQ-Manufacturing-Report-final-screen.pdf.

Red Tape

4. Small to medium enterprises (SME's) dominate the manufacturing industry, accounting for 93.3 per cent of businesses operating across the sector. Consequently, any discussion on strategies to overcome the barriers to employment for displaced manufacturing workers must consider the interests of these small business employers.
5. There is great potential for displaced manufacturing workers to use their skills and experience to contribute to small businesses looking to expand their manufacturing operations. However, hindering this potential is the continuing burden of red tape.
6. The results of CCIQ's 2017 Red Tape Survey revealed that 48 per cent of respondents believed that complying with regulatory requirements affected their growth potential, with three out of every four of these respondents identifying as small business owners.
7. Obtaining and renewing business and occupational licenses can be particularly burdensome for employers and their workers in the manufacturing sector. In addition to the cost of obtaining a licence for trade or business operations, employers must invest valuable time away from their businesses to liaise with any number of government departments and submit multiple forms and documents; all the while fearful of an oversight and the risk of a financial penalty.
8. Manufacturing businesses faced with these time consuming administrative activities become, in effect, the "unpaid bookkeepers" for government. Accordingly, they become

poorly placed to take on the task of engaging more employees, particularly those that may require re-skilling for advanced manufacturing.

9. A firm commitment by government to reduce the cumulative effect of red tape, particularly that which is felt by SMEs, could encourage more manufacturing businesses to expand their operations and take advantage of the skills and knowledge of displaced manufacturing workers across Queensland.
10. The CCIQ Red Tape [Report](#) 2017 recommended eleven actions the government could take to reduce red tape burden across all industries. Recommendation 3¹ of the CCIQ report called for governments to identify red tap 'hotspots'. As per the inquiry, manufacturing is an industry burdened by red tape, stifling future growth. CCIQ highlights recommendation 6² of the Red Tape Report, to implement a one on, two off policy moving forward to encourage government to critically look at existing red tape and reduce the issue.

Procurement

11. The recently announced [Queensland Procurement Policy](#) (QPP) appears to be in line with recommendation four. It is a policy developed around the primary principle of value for money. As a part of the QPP all tenders will receive a local benefits test (undefined in the policy) and may be awarded a weighting of up to 30 per cent. Additionally, projects with a value of over \$100 million, where possible, are encouraged to use local manufacturers.
12. CCIQ has openly supported the QPP contingent on it continuing to comply with Australia's international agreements and treaties. Under principle 3 of the QPP agencies will observe applicable legislation, policies and agreements. Such legislation and policies include the [Queensland Industry Participation Policy Act 2011](#) and [Queensland Charter for Local Content](#). Both acknowledge Queensland's commitment to Commonwealth international agreements and treaties.³
13. As outlined in our previous submission, CCIQ continues to advocate for local manufacturer 'hub' tenders, to allow for smaller manufacturers to overcome barriers of scale. This will benefit multiple local regions and stimulate the Queensland economy.

¹ Identify the red tape 'hotspots' where regulatory reform efforts are prioritised to effectively reduce compliance burden and unlock greater economic activity.

² Implement a 'one on, two off' policy (repeal two principle legislative instruments with the introduction of a new one in the same portfolio) that will force a review of existing legislation, drive cultural change across government and reduce the overall stock of legislation.

³ *Queensland Industry Participation Policy Act 2011* (Qld) s9, Queensland Charter for Local Content, principle 5.

Trade

14. CCIQ agrees with the sentiment of the draft report that reshoring and foreign direct investment (FDI) decisions require compelling financial benefits for businesses to establish operations in Queensland.
15. To create attractive conditions for investment, there are a number of initiatives discussed in this submission and the original submission to the draft report which governments could pursue. These initiatives cover areas such as regulatory reform, procurement, energy, taxes and workforce skilling.
16. CCIQ supports recommendation 2 and would like to see efforts made to break down information asymmetries in order to improve international linkages.

Energy

17. Since CCIQ's last submission to this enquiry, electricity prices have risen to be the number one issue facing all industries, with almost 55 per cent of Queensland manufacturers citing it as a major to critical concern. Almost a third of manufacturing businesses will reduce profits, while 25 per cent will pass their increasing costs on to consumers and a further 12 per cent will reduce staff numbers and 2 per cent will close their doors. The impacts electricity prices have on the manufacturing industry is devastating and has wider economic impact across Queensland.⁴ 23,800 Queensland jobs are at risk in the manufacturing sector if prices continue to increase.⁵
18. As outlined in the draft report, the pricing pressure manufacturers in Queensland are facing is due to the developments and policy frameworks surrounding the National Energy Market (NEM). Manufacturers are being forced to pay twice as much for Australian gas as their competitors in Japan⁶, meaning Queensland manufacturers are looking to take their business offshore to reduce their operational costs. It is imperative recommendation 2 is adopted as a top priority for the Queensland Government.
19. Since the announcement of the Powering Queensland Plan, in early June 2017, wholesale energy prices have reduced, though are still above the rates they were in a 12-month comparison⁷. The plan does not address the major issue facing energy consumers, network costs. Coupled with a volatile gas market and surging network costs, manufacturing is extremely exposed as an industry to increasing energy costs.

⁴ [CCIQ June Quarter Pulse 2017](#)

⁵ <http://www.qgso.qld.gov.au/products/tables/employed-persons-industry-qld/index.php>

⁶ S.Brehey, 'Andrews' inflated power bills will punish the poor', The Herald Sun, 25 August 2017, 38

⁷ <https://www.asxenergy.com.au/>

20. Further ways to reduce the costs for Queensland manufactures would include optimising Energex and Ergon's network assets and setting prices at efficient levels, 40% below existing levels. Additionally, introduce five-minute settlement periods to wholesale bidding practices. Thirdly reviewing inefficient tariffs, especially in distribution areas that are not congested and are in practicality cross subsidising congested parts of the network.
21. CCIQ supports recommendation 2 in relation to its comments on the development of the Queensland Government's gas action plan.

Tax

22. Tax reform is a critical issue facing businesses across all industries in Queensland. The level of direct taxes and charges on businesses by all tiers of government is consistently cited as one of the biggest constraints the small business community faces.
23. CCIQ agrees that the state tax system could be improved by removing distortionary taxes such as stamp duties and insurance levies. However, CCIQ does not support the recommendation that payroll tax should be broadened and expanded. In fact, payroll tax should be removed.
24. Businesses view payroll tax as a penalty for employing more staff. The tax is levied on businesses irrespective of a firm's capacity to pay and acts as a handbrake on business investment and growth due to the perverse disincentives the tax produces.
25. Queensland currently has the lowest payroll tax rate and the highest exemption level in of all the states in Australia. Removing the exemption and increasing the revenue generated from payroll tax would diminish Queensland's tax competitiveness, increasing the risk of local business operations choosing to relocate interstate. Similarly, increasing budget revenues through higher payroll taxes will give other state jurisdictions competitive advantages when competing for domestic and foreign investment funds.
26. CCIQ believes tax reform should be comprehensive and take place at the national level, rather than tackle reform in a piecemeal fashion. Australia's tax system faces a number of challenges which has made raising revenue from traditional tax bases more difficult. The growing vertical fiscal imbalance is seeing states hold onto many inefficient and distortionary taxes while still growing more dependent on federal grants to fund operations.
27. Proper tax reform is required. A focus on removing distortionary taxes, reducing the complexity of the existing system and favouring the expansion of broad-based consumption taxes should be the key considerations for the reform agenda.

28. Currently the payroll tax rate in Queensland sits at 4.75%, with an exemption threshold of \$1.1 million. Surveys of business sentiment consistently confirm that the business community views payroll tax as a tax on employment and a penalty for giving someone a job.
29. The biggest impact payroll tax has on business decision making occurs when the total payroll approaches the exemption threshold. The effective marginal cost of employing additional labour increases once the employer moves through the exemption threshold and becomes liable for payroll tax.
30. As a direct result, payroll tax limits the expansion of manufacturing businesses in Queensland, particularly those below but approaching the tax-free threshold. Payroll taxes increase compliance costs of manufacturers, diverting crucial resources away from business operations and discourages manufacturers from creating additional jobs.
31. CCIQ's modelling shows that by lifting the payroll tax threshold from \$1.1 million to \$1.5 million, tax relief could be offered to approximately 15,500 Queensland businesses, with foregone revenue to the state government of approximately \$311 million in the 2017-18 budget. By lifting the payroll tax threshold these changes will deliver 2000 direct jobs in addition to flow on effects for indirect jobs across Queensland.
32. CCIQ believes overall that payroll tax should be abolished. In the short term, the threshold should be raised to \$1.5 million, progressively lifted to \$2million beyond that, and then abolished.

Workforce Skilling

33. A highly skilled and adaptable workforce is critical if Queensland's manufacturing industry is to thrive. To this end, CCIQ welcomes the Queensland government's commitment to the introduction of reforms to the VET system that would support the changing skills demands of an evolving manufacturing model distinguished by innovation and technological change.
34. Science, Technology, Engineering and Technology (STEM) skills are highly sought after by employers, with declining demand for the more traditional low skill trade labour that previously characterised the manufacturing sector. As a consequence, reforms to the VET sector will need to allow for flexible curricula that reflect changing employer demand and can provide for current and emerging markets.
35. In order for Queensland to take full advantage of an advanced manufacturing industry, the focus of education and training must not only be on the STEM skills set, but also the development of foundational, non-technical, managerial and leadership skills. An expanded

training focus is also an opportunity to highlight to Queensland's "best and brightest" the wide range of careers available in the manufacturing industry and attract their skills and ideas to the sector.

36. It is also imperative that the higher education and VET sector work with industry to develop curricula that focus on the practical application of their skills to the everyday activities of a manufacturing workplace. According to data from the AI Group, 22 per cent of manufacturing employers report that graduates with higher level qualifications in STEM subjects have a lack of workplace experience and difficulty applying their skills. This is a strong indication that education providers must collaborate with industry bodies to gain insight into what the genuine skills needs of manufacturing business are and reflect that in curricula. The establishment of Jobs Queensland is a welcome initiative in this regard.

APPRENTICESHIP STRATEGIES

37. In a sector reliant on trade skills, it is critical for government to address the ongoing issue of declining apprenticeship numbers if the manufacturing industry is to truly prosper in Queensland.
38. A key inhibitor for businesses engaging apprentices is the significant administrative and financial burden involved. This is particularly the case for small businesses. Further funding for apprentice mentoring and support services as well as targeted financial incentives for manufacturing businesses who indenture apprentices is much needed.

FUNDING MODEL

39. Any review of VET funding models for courses providing skills for modern manufacturing must aim to strike the right balance between financially incentivising students to consider a career in manufacturing while not encouraging "rogue" providers to enter the market and take advantage of a demand surge.

Conclusion

40. CCIQ thanks the Commission for the opportunity to provide comment and welcome any feedback. Please contact Kate Whittle, General Manager of Advocacy, at kwhittle@cciq.com.au for matters relating to this submission.