

**ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE**

**Inquiry into Manufacturing in Victoria**

Sydney — 29 October 2009

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Mr R. Paton, Chief Executive Officer, Manufacturing Skills Australia.

**The CHAIR** — I welcome Bob Paton, the Chief Executive Officer of Manufacturing Skills Australia, to our all-party parliamentary committee inquiry into manufacturing. Thank you very much for coming along. Could I ask you to state your name, your position within your business and the business address?

**Mr PATON** — My name is Robert Paton, but I have been called Bob since I was about 10. I am the Chief Executive Officer of Manufacturing Skills Australia, which is one of the 11 national Industry Skills Councils. Our business address is 8/80 Arthur Street, North Sydney, New South Wales.

**The CHAIR** — Thank you. It is over to you to make a brief presentation, and we have a range of questions relating to the terms of reference.

**Mr PATON** — Thank you, Chair. I understand that the Committee has briefing information already about our organisation, but I will just touch on it briefly. Industry skills councils are national industry-owned organisations. There are 11 of us split across the whole of industry, and we look after most of the manufacturing area, including the automotive industry. There are other ones that deal with specific areas of industry such as agrifood and so on.

We have been in existence since 2004. Our major stakeholders are — and the company is owned by — industry associations, employer associations and unions. We are a not-for-profit organisation. We are funded primarily from money under contract from the Commonwealth Government, through the Department of Education, Employment and Workplace Relations, on a significantly detailed performance agreement. That contract runs for about three years or so.

That identifies the roles that we perform under that agreement. They are fairly broad, but essentially they cover developing and maintaining national qualifications in the vocational education sector across our scope of industry coverage. We provide advice to the Commonwealth and state and territory governments on workforce needs and skills needs across Australia. We also act as an interface between government at all levels through to industry in information about training and skills.

Our role also encompasses helping companies and enterprises with workforce development and skills needs. I must say that there are around a quarter of a million companies that we try to address the needs of. My organisation is fairly modest with 17 people, so it is a bit of a challenge. We tend to operate by skimming the tops of the waves at a policy and strategic level where we can. A major part of that role is about the development of qualifications to use in the national training framework and then develop the skills that companies in Australia can use. That is a key component of it.

That work is informed by the intelligence and the information that we gather and through our consultation. We produce an environmental scan for the industry once every 12 months. It comes out around February of each year. That is really having a look at the industry landscape to see, on the information that we have gathered, have read or heard and been told and so on, what the skills issues for the next 12 months or so will be, whatever they might be. If there is a training solution that can address that, we will certainly do that by changing or modifying our qualifications to suit that need. The environmental scans are public documents that sit on our websites and in other places.

**The CHAIR** — Thank you. I want to go to a November 2008 OECD report called *Learning for Jobs — OECD Reviews of Vocational Education and Training*, which reviewed Australia's vocational education and training system. I am not quite sure that what they said about Australia was fair, but in regard to planned provision and skills forecast, they made the following recommendations:

Skills forecasts are often unreliable and should not be the foundation of central planning. In future, there should be more emphasis on a system driven by student demand balanced by employer willingness to offer workplace training.

When we looked at the skills section of our report, we scanned comments from various organisations such as OECD. I thought that was a bit bleak, but is it a fair assessment from OECD to say that about our skills base here?

**Mr PATON** — No, I do not think it is fair. It comes from, I believe, a fairly narrow perspective. It views skills formation as a provider driven approach, but in fact it is a combination of both enterprise needs being met through skills development and so on and also through the training system and the education system in feeding a market demand.

Australia, I think, has an interesting combination of the two. There was a decision made back in the early 1990s that we would have an industry-led training system as opposed to a provider-led or driven one, and that industry would then specify what they wanted and when they wanted it — that sort of stuff. It is a compromise between the provision of training by providers to meet a market they believe is there, or meeting the needs of industry and enterprises to actually train their people.

**The CHAIR** — That is a key point.

**Mr ATKINSON** — One of the things we hear a lot about is the fact that the manufacturing industry is not a particularly sexy industry in terms of attracting new talent, particularly young talent. We notice that the profile of the manufacturing industry workforce is ageing and that there is a looming skills exodus because of retirements. What, in terms of going beyond just skilling up people, do you think is crucial to the manufacturing sector actually getting a greater share of the talent, young talent, in the country and to becoming a greater or a more desirable work opportunity or career opportunity for people?

**Mr PATON** — It certainly has been a problem as long as I have been dealing with this area, which is some years. But it is also interesting that most industries claim they are not particularly attractive to new entrants and so on. I think that for manufacturing it is a fair comment, because there is a traditional view of a dirty smokestack industry and so on. There has been a lot of work done at both state and commonwealth levels, again for as long as I can recall, on trying to promote careers across industries in general. Certainly in manufacturing there has been a lot of activity. We have done some of that work ourselves. But there are plenty of players that have done work there. There have been various campaigns and so on to promote it.

If we have a look at the science awards last night where Australia got recognition for developing wi-fi technology and reaping the benefits of that and so on, we promote a lot of those highflying sorts of activities. In science and manufacturing and so on, there are close links with many of those things. The fact is that there are still workers in manufacturing who are not working in sexy jobs, but what they get is a reasonable remuneration for the work they do. They can often accept the situation and say, 'That is fine; that actually suits my need'. Individuals are driven by many different things. But the skills profile of the workforce in manufacturing has a strong bias around the sort of certificate 3 or 4 level. That is driven a lot by tradespeople and high-level production workers, but the majority of workers are sitting below that point. There are certainly jobs that are exciting and interesting and can lead to lots of really good things, but there are others that will probably never be all that exciting.

I must say that careers promotion is not a key role of ours. Despite what you might think, we are not charged to do that; however, the state industry training advisory bodies in Victoria are an example, and that is part of it and we work closely with them. One of the changes that is happening, though, and we hope to build on it, is there has been a change in the last four or five years of implementing lean and agile manufacturing into companies. Car companies are great

exponents of that; Toyota is the absolute world leader and shining example of it. Applying those processes into workplaces makes the company more productive and so on.

But one of the offshoots of that is that there is far greater employee involvement in decision making about day-to-day and hour-to-hour activity, where teams and groups are involved in a lot more planning, performance monitoring and so on. That engagement actually gives — I know from discussions with people and from what I have heard — a sense of better engagement with the enterprise, that it is not just people working on the shop floor thinking those higher up do not care about them or know about them, when in fact they are quite deeply engaged in it. That requires a whole of enterprise approach to productivity and the engagement of people, but it develops a greater sense of worth. People in what would be considered reasonably menial jobs for low pay in manufacturing still feel that sense of self-worth and involvement, which is certainly a benefit.

**Mr ATKINSON** — A notion that has been put to us in the context of our hearings has been the establishment of a manufacturing university, the point being that there are schools of law, medicine and so on and so forth, but there has been no focus at that level on manufacturing. Is that something your organisation has given any thought to? Is it part of a broader industry dialogue or, if not, how would you react to that sort of proposition which has been put to us?

**Mr PATON** — I do not know if a single manufacturing university is the answer. I mean, there is the shining example at Swinburne University where they have a centre of manufacturing. RMIT is doing the same thing. They are in the planning stages of developing that. They actually tap slightly different markets in a way, so they are dealing with different aspects of manufacturing.

I think perhaps the competition would be a good thing as well, where one levers off the other a little bit; they try to outshine the other and so on. I know some of the companies that engage with them and are involved with them are happy about the arrangement. It gives them an opportunity to have actual direct engagement with the companies in the research and development work that goes on. The one at Swinburne, for instance, has a short-run manufacturing production of some pretty sophisticated pieces of equipment. They have one machine that is producing tiny little tips that go on probes for arterial work and so on. It is a very short run producing quite intricate, complex, very detailed and miniature things. I think they do camera cases or something that they put into arteries. So they are doing that sort of work.

But the centre is then opened for their students at all levels, both in higher education and vocational areas, to experience and become aware of and involved in. Both the people who are engaged by an employer to learn or those who are learning so they can seek a job and a career in manufacturing have exposure to some of that. People like Boeing Phantom Works is based in Melbourne, and it is one of three in the world, I think.

**The CHAIR** — Boeing?

**Mr PATON** — Boeing Phantom Works. It sounds like something from science fiction. Boeing has three Phantom Works organisations — there is one in Spain, one in the United States and one in Australia — and these are advanced, detailed, research organisations for Boeing. I think we should be proud there is one in Australia, centred at Fishermans Bend. Some of the work they do is in conjunction with universities, some of which are in Victoria.

We are involved with Boeing and some other manufacturers in Queensland, as an example, looking at things like the embodied energy in fibre composites products and how that can be of benefit in terms of the manufacture of goods out of fibre composites instead of alternative materials like steel, aluminium, timber and concrete. That is being done through the Queensland Government, I must say, as an initiative from them as the state that does everything and the state that would like to be involved in lots of innovation in industry. They would see that the research would help government spend on things like boats and bridges and other things. But Boeing are

involved because they are interested in the research and want to ensure that the production of componentry for Boeing in Melbourne does not leak off to China, for instance; that we could have a technological edge in Australia that would deliver a market capability for Australian production.

**The CHAIR** — Can you expand on that a little more?

**Mr PATON** — I can. I cannot tell you the exact detail because I really do not know. But Boeing in — —

**The CHAIR** — Could I put it another way? Would you be recommending we ask Boeing to come in and give evidence? Are they a shining example?

**Mr PATON** — I think so. I think they would be a good example of a global corporate but US-centric; they have diversified some of this work around the globe. I believe the deal with Boeing generally is that there are currency and tax offsets. If Australia purchases a lot of Boeing aircraft, there is a deal where we manufacture some of the Boeing components in Australia. They may not be for those aircraft that we are purchasing, but there is an offset in it. And the Boeing principle also is that the organisation that manufactures them basically has a whole-of-life responsibility in it so it covers both design and manufacture, maintenance and modification and so on. It is not Boeing competing against Boeing; it is Boeing manufacturing arrangements competing with other aircraft manufacturers. So if Boeing had an edge on some technology that it could capture, it would perhaps secure jobs, economic prosperity and so on for their Australian operation or whatever it might be.

**Mr ATKINSON** — There has been an enormous amount of work done on skills, skills development and overhauls and training. I think you could probably fill this room with reports. You have probably been at the centre of a lot of that material and the investment by governments. In a Victorian context, are you happy? Are there gaps? What are the most crucial priorities in terms of skills or skilling the workforce in Victoria at the moment in the context of all that has already been done?

**Mr PATON** — I think the Victorian model is interesting in that it is going to test that sort of market-driven approach, and the notion that it is basically going to service a demand model is fine. The concern is that where companies, for instance, want to upskill existing workers, which is a major thrust of ours, there would be some sort of bureaucratic or other limitation put on access to training and funding. Most companies that we talk with, certainly in manufacturing, have a view that if they are paying taxes and so on, they expect a good return from government in whatever it might be. Many of them do invest in their own skills development and put company funds straight into it, but they also expect that there would be some reasonable deal from the government arising from that.

**Mr ATKINSON** — Is the deal direct grants or is it tax deductibility?

**Mr PATON** — It is access to paid training for their employees.

**The CHAIR** — If you were writing the recommendation on that — you might like to take this on notice — what would be the components of such a recommendation?

**Mr ATKINSON** — And an extension in your thinking now is also the apprenticeship programs, which comes back to some of that government provision as well.

**Mr PATON** — It does. Apprenticeship programs are reasonably well served and there are reasonable incentives available, certainly from the commonwealth and then offsets by the state and so on. No, I think it is more for the existing workers who are not apprentices. I was going to say it may surprise you, but the profile of recognised skills held across the whole of industry sits somewhere around 45 per cent of the Australian workforce not holding a post-school

qualification. In manufacturing it is more like 48 per cent and that difference is significant, given that if there are 1 million workers nationally, it is a lot of people.

Our concern is, firstly, the people are not unskilled, because they probably would not have a job if they were unskilled. They have skills that are being used in a productive way that are remunerated by the employer. That is not so much the issue. We have all seen and heard enough evidence that the higher the skill level, the greater chance of success for the enterprise in being a sustainable organisation, having market success and so on. For the individual, the profile shows the higher the level of education, the longer the life span, as an example. There are a lot of positives in there.

Heading in for the third year now, our goal has been to try to do things that will raise that skills profile of formally recognised skills so that we can benchmark from that and build on it. If the intention is to raise skill levels, because our business centres around formalised and national training framework arrangements, we would like individual workers to have their skills recognised through a codified process of national qualifications and so on, and then from that point say we can now build on top of that to raise that general skills level.

There are a lot of benefits in giving that recognition to people. Again there is a lot of comfort for the individual in it and pride and so on. But it also gives an absolutely recognisable point where you can raise skills points and maybe retrain people in other areas or to just lift the general range.

**The CHAIR** — I will conclude by referring to some evidence we received from Mr Shane Infanti of Australian Manufacturing Technology Institute Ltd. This evidence, if you want to check it on our website, was given on 6 August 2009. He talked about people being skilled in manufacturing but who may not necessarily have qualifications. He saw a huge need for management skills. Would you like to either address that now or give us some information in relation to that later?

**Mr PATON** — I can address it briefly now and give you information later if you wish.

**The CHAIR** — All right, that is fine.

**Mr PATON** — I can probably give you chapter and verse now, but I think time is a bit tight. The reference I made before to lean and agile manufacturing is driven through our drive of a qualification structure called competitive manufacturing. That arose out of research that was done in the late 1990s and early 2000s into the idea of all employees being involved in this sort of process. It is a pretty clear-cut science where it says that you focus on the end product, work backwards from that and strip out anything that is excess in the process to achieve the end point.

But the key thing in it is that the whole of enterprise is involved, from the chief executives and the board level all the way down to every level of the workforce, and so there are leadership skills developed at every point in that hierarchy of skills, from individual workers in a lot of self-determination and understanding about where they fit, through to team leaders and so on, through to supervisors, and then managers et cetera. It is a key point because it does actually make a significant change. When I talked earlier about workers being part of the process and self-determining, to some degree that is part of that strategy where people have a far better understanding about where they fit.

I think that Taylor and his approach to manufacturing is anathema to that sort of approach, because what it says is that everybody is a member of a larger team or organisation. They each contribute but contribute within a system towards common goals and focus. The other aspect is about measuring all of those things so that you know where you are going, what you have achieved and how you can improve and so on, and the opportunity for people to contribute. These groups solve problems and improve performance and so on. It is management but it may not be wise to describe it as a single point or several points higher up in a hierarchical structure. But in fact it is management of individuals, management of smaller groups in a large enterprise. It does not just sit at a range of manager boffins.

**The CHAIR** — Thank you very much. You will be provided with a copy of the transcript within about a fortnight. You are free to correct any typographical errors but not the substance of your submission. Thank you for your evidence today, Mr Paton; it has been helpful, and we thank you in advance for anything else you may have to forward to us.

**Mr PATON** — Thanks very much again for the opportunity. If there are other questions that the Committee feels I did not address properly or you seek other information, I would be happy to address that after your deliberations.

**Witness withdrew.**