

Engineering Employers Association  
South Australia

**Submission to Productivity  
Commission Review of Post 2005  
Assistance Arrangements for the  
Australian Automotive Industry**



May 2002



## **INTRODUCTION**

The Engineering Employers Association, South Australia (EEASA) is a registered organisation under the *Workplace Relations Act 1996* and has membership of approximately 450 companies in the automotive component, toolmaking, foundry, plastics, whitegoods, electronics, defence and general engineering sectors. The Association provides a range of advisory services to member companies in the areas of industrial relations, human resource management, environment, industry development, education, training and industry performance.

The Association is affiliated nationally with the Australian Industry Group (Ai Group) and has a number of member companies in industries common to the representation base of the Ai Group. Furthermore, a number of Association members in the automotive components sector are also members of the Federation of Automotive Products Manufacturers (FAPM).

Consistent with the Terms of Reference, this submission has identified a number of priority issues for the Commission's consideration, including:

- The future of ACIS
- Import tariff levels
- Market access
- Linkages between sectors
- Industrial relations
- Environmental issues

To determine appropriate policy directions required to support the growth of industries allied to the automotive sector, the Association conducted a survey of member companies in April 2002 seeking views on a number of key issues. The survey received responses member companies in tooling, foundry, plastics and general engineering that derive some level of turnover from work related to the domestic automotive manufacturing sector.



The Association has long been an advocate for the growth of manufacturing in South Australia, and it is within that context that we recognise the importance of the vehicle industry as a key driver of the State's broader manufacturing economy. Equally, the linkages that exist between the vehicle, automotive component and allied industry sectors are strategically important in terms of wealth creation and flow on effects to other sectors. Importantly, this submission contends that linkages between the automotive sector and broader manufacturing industries have strengthened in recent years as the vehicle industry has grown.

We also emphasise to the Commission figures already before it in relation to the contribution of the automotive sector to the State's manufacturing Industry Value-Added (14.3% in 1999-00), employment (13,500 in 1999-00 or 16% of the State's total manufacturing workforce), exports (\$1.5 billion in 2000-01 or around 17% of the State's total exports) and Gross State Product (2.4%).

In broad terms, the Association recognises the need for automotive industry participants to become globally competitive, and evidence has been submitted by the FAPM to demonstrate how the Automotive Competitiveness and Investment Scheme is delivering upon this objective. It is important for the Commission to support in its recommendations to the Federal Government the future investment plans of the major automotive manufacturers, component suppliers and allied industry sectors to avoid making other global locations appear more attractive.

## **THE FUTURE OF THE AUTOMOTIVE COMPETITIVENESS AND INVESTMENT SCHEME**

Evidence has already been submitted to the Inquiry by the FAPM and the Ai Group regarding the extent to which the Automotive Competitiveness and Investment Scheme is assisting the automotive components sector to improve its technological capabilities through increased levels of investment in research, development and new technologies.



EEASA would reinforce this important point in this submission. Over a third of respondents to our survey (36%) indicated they had earned ACIS import duty credits, which has delivered tangible results to boost production and increase employment. All respondents support the continuation of ACIS or a similar scheme beyond 2005.

Indeed, the call for the Federal Government to provide a comparable assistance scheme beyond 2005 is also a key point of the South Australian Government submission, which seeks for the Commonwealth to continue for at least five years from 2005 an assistance scheme which promotes investment, R&D and production within the industry. EEASA supports this recommendation and calls for an appropriate level of funding of no less than is currently provided, maintained in real terms, to be directed to future assistance programs.

The automotive and allied industry sectors are working to integrate into a global manufacturing industry presently undergoing major structural change. Australia's vehicle producers are competing with other divisions of parent companies to which they belong for investment. To meet the challenge of attracting global investment with small volume runs typical of Australia's vehicle sector means vehicle manufacturers will need to exploit niche markets with world class products that are appropriate for their destination market. The South Australian industry has contributed significantly in recent years to achieving that objective, but further improvements are required.

The South Australian Government makes the further point that significant structural change is imminent and will drive rationalisation and technological changes leading to new global sourcing arrangements. It will become increasingly important under this scenario for suppliers and affiliated industries, where given the opportunity, to also prepare for change to ensure they are as prepared to participate in global sourcing as manufacturers in any other country with a vehicle manufacturing base.

Suggestions raised by member companies about ways to improve the ACIS scheme include allowing credits to be used to import raw materials and capital equipment for automotive use, in addition to manufactured products as provided under the current



legislation. Companies have also indicated a need for more information to be provided by the Government regarding ACIS duty credits trading.

## **IMPORT TARIFF LEVELS**

The FAPM, Ai Group and South Australian Government have made the recommendation to retain tariffs at 10% post 2005 at least until 2010 until real market access outcomes are achieved that result in increased access to markets throughout the world and particularly in Asia. The Association supports this recommendation.

The Commission should exercise caution when considering recommendations to the Federal Government regarding further reductions in Australia's tariff levels beyond the legislated fall to 10% in 2005. Further changes should not occur until a rate of Free across all automotive products by APEC member industrialised countries and a commitment by non-industrialised APEC members to further reduce tariff and non-tariff barriers to automotive imports has been negotiated.

When asked what the probable impact might be of a reduction in Australia's tariffs for Passenger Motor Vehicles and automotive components to 5% or less by 2010, 79% of surveyed EEASA member companies indicated that production would fall, employment would reduce for 74% whilst 68% indicated they would reduce new investment levels.

Additionally, 63% of respondents indicated they believed imports would increase under a reduced tariff whilst 50% reported that exports would reduce. The translation of these expectations into actual outcomes would not assist Australia's balance of merchandise trade, and would only serve to erode a domestic market upon which vehicle manufacturers and their suppliers still depend for critical mass.

## **MARKET ACCESS**



Tariff and non-tariff trade barriers are perceived as the most significant issue likely to affect the long-term viability of the Australian automotive industry. The role of governments to level the playing field by negotiating free trade and bilateral agreements is a highly legitimate one, and can achieve much to assist industry gain access to international markets.

However, the extent to which Australia has already liberalised access to its own vehicle market must now be put into perspective with outcomes secured by Australian Governments to liberalise access to markets in other countries. A quick examination of tariffs where the Australian vehicle industry is looking to improve access reveals the following:

#### **Import tariff regimes on cars in selected regional markets**

Country	Tariff	Non-tariff assistance level
Australia	15%	Low
Malaysia	140% to 300%	Very high
Japan	0%	High
USA	2.5%	Moderate
European Union	10%	Low
Canada	6%	Low
Korea	8%	Very high
South Africa	23-40%	Low
Thailand	60-80%	High

*Source: Australian Industry Group submission to the Productivity Commission review of post 2005 arrangements for the automotive manufacturing sector, May 2002.*

#### **LINKAGES BETWEEN SECTORS**

The vehicle assembly and automotive components manufacturing sectors are supported in South Australia by a critical mass of toolmaking, foundry and plastics companies. South Australia has approximately 60 contract and in-house toolmaking companies that support the State's manufacturing industry with high quality tooling on a cost competitive basis relative to the United States and Europe.



The industry employs about 1,300 people and generates turnover of around \$150 million per annum, of which around 10 per cent is derived from export activity.

EEASA has a strong membership base in the toolmaking sector and works closely with the South Australian Tooling Program delivered by the State Government's Centre for Innovation, Business and Manufacturing to improve quality, lead times, price and service.

Around 60% of turnover in the South Australian toolmaking industry is derived from the automotive sector. This has been largely consistent over the past four years since data relating to sales by industry of origin have been collected by the Centre for Innovation, Business and Manufacturing.

The foundry industry is another important industry to both the automotive sector and the South Australian economy. The industry employs over 2,000 people in this State producing about 80,000 tonnes of castings and has a turnover of around \$360 million per annum, of which around half is generated directly and indirectly from exports.

Some of South Australia's key foundries that produce castings for various industry sectors generate up to 60% of turnover from the automotive sector. Several others derive around 20%.

Plastic injection moulding companies also contribute significantly to the South Australian economy, generating around \$200 million in industry value-added on an annual basis, turnover of around \$570 million and employment of around 3,000 people. The South Australian plastics industry supplies a range of products and components to many sectors including automotive, irrigation, electrical and residential, and is an example of an industry that benefits from the presence of automotive manufacturing whilst at the same time is key to production in other sectors.

The plastics sector is positioning itself to benefit from increased awareness and commitment to environmental improvement in the automotive sector with the development of new products in conjunction with the vehicle manufacturers to reduce vehicle weight and consequent fuel emissions, and also to increase recyclability.



A commercial trend is developing for the design and production of vehicle components to be undertaken increasingly by companies other than vehicle assemblers. Automotive component producers, tooling companies, foundries, plastic injection moulders and service providers find themselves competing increasingly for global investment dollars to fulfil the heightened expectations of their customers, the vehicle manufacturers. Global investment funds are attracted when countries have stable and secure investment environments underpinned by policies that recognise long product lead times.

It is not only the vehicle industry that benefits from having the tooling, foundry, plastics and service providing sectors close at hand. Whitegoods, electronics and defence industries also derive a benefit from their presence by way of access to improved manufacturing skills, capability and technologies gained through participation in the ACIS scheme, and competitiveness derived from economies of scale generated by the automotive sector.

Companies from various sectors that responded to the Association's survey indicated the average level of turnover derived from the vehicle industry was 45%. This figure is not expected to change significantly over the next five years based on assumptions relating to critical mass within the vehicle sector. Respondents indicated however that the proportion of automotive related turnover has increased from an average of 38% just five years ago. These figures are consistent with the growth in domestic vehicle production between 1996 and 2001.

The key point we wish to make here is the tooling, foundry and plastics sectors are making advances in their own right, independent of the linkages to the domestic automotive sectors, but remain largely dependant on domestic vehicle manufacturing for their core business. Any shrinkage in this business would have severe ramifications on these industries by way of eroding the competitiveness derived from critical mass.

## **INDUSTRIAL RELATIONS**





The industrial relations environment within the automotive industry is an area that deserves the Commission's close attention within the context of this Inquiry. Industrial disputes at individual suppliers can, and have, brought the whole industry to a stand-still.

The 'just-in-time' supply chain that characterises the industry has been threatened or interrupted since August 2001 on at least four separate occasions costing the loss of hundreds of millions in domestic and export sales.

Better industrial relations solutions need to be found to enable issues to be resolved more expeditiously than occurs at present, to avoid manufacturers looking to source components from overseas, which would seriously damage the Australian automotive industry and South Australian suppliers.

The Ai Group in its submission has made a number of recommendations regarding issues that need to be addressed as a matter of urgency, including several amendments to the *Workplace Relations Act*. These include:

- Resolving factional issues within the AMWU to reduce the dividing line between the coverage of the two main awards in the automotive industry for the benefit of employers and the industry as a whole;
- Reform Award structures within the automotive industry;
- Develop an automotive industry 'avoidance of disputes' procedure or code of practice;
- Provide suitable industrial relations training programs for union delegates within automotive component suppliers by a genuinely independent body;
- Provide the Australian Industrial Relations Commission with enhanced powers to suspend or terminate bargaining periods;
- Outlawing protected industrial action in pursuit of pattern bargaining;
- Providing the Australian Industrial Relations Commission with the power to order a cooling off period;
- Introduction of secret ballots before protected action can be taken;



- Outlawing protected industrial action in all circumstances during the life of a certified agreement.

Furthermore, it is vital that the issuing of Section 127 orders is not unnecessarily delayed, and such orders are complied with by the unions. These recommendations are underpinned by the position that an efficient and fair system of enterprise bargaining is essential for the automotive industry.

## **ENVIRONMENTAL ISSUES**

The South Australian Government has highlighted in its submission the importance of the automotive sector in contributing to the State's economic prosperity through jobs, exports, international integration, innovation in technology and management, and as a driver of associated production and service industries. In addition to these points, EEASA notes the automotive sector makes a strong contribution to improving Australian industry's environmental performance, through supplier agreements requiring suppliers to have ISO 14001 accreditation. Environmental sustainability is recognised by the automotive sector as fundamental to the long term future of the industry. This in turn is driving innovation with respect to the development of alternative fuel types, emission standards, recyclable materials and efficiency in the use of those materials.

Increased levels of investment in R&D and environmental education programs will be required to support the longer term pursuit of environmental sustainability in both production activity and product development within Australia's automotive industry. This should be recognised in any future assistance programs.

## **RECOMMENDATIONS**

In addition to supporting the key policy recommendations of the FAPM and Ai Group, the Productivity Commission should consider the following as the Association's recommendations to the Inquiry:



- Financial assistance to the automotive manufacturing sector must continue to be provided post 2005 to support the ongoing process begun under ACIS of developing and improving the Australian vehicle industry within an international context. An appropriate level of funding of no less than is currently provided, maintained in real terms, should be allocated to future assistance programs.
- Further tariff reductions beyond legislated levels should be considered only after firm commitments by all APEC members to reduce tariffs across all automotive products have been made;
- A number of industrial relations issues must be considered by the Commission as they relate to productivity within the automotive industry, including reforming relevant Union and Award structures, providing suitable training programs for union delegates developed and overseen by an independent body, and developing an automotive industry avoidance of disputes procedure or code of practice with commitment obtained from all unions and employer representatives;
- Assistance should be provided to enable the automotive sector, suppliers and allied industries to meet domestic and international environmental standards in future years. This is particularly relevant as pressures are likely to be exerted on Australian manufacturers by countries that ratify the Kyoto Protocol prior to 2005, including the UK, Europe and Japan.