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The Automotive Inquiry
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Your Ref: AUT01

Dear Sir/Madam

Post 2005 Assistance Arrangements for the Automotive Manufacturing Sector

The Cities of Playford and Salisbury in Northern Adelaide are pleased to present this submission to the Productivity Commission on Post 2005 Assistance Arrangements for the Automotive Manufacturing Sector.

Both Cities recognise the need to develop more diversified and globally integrated economies and have put in place long term economic development strategies to achieve these outcomes. However, the automotive sector remains a major driver of our region's broader manufacturing industry, and our community wellbeing is still highly dependent on the fortunes of automotive manufacturing. Our combined region supports a range of major automotive companies, including the Holden Elizabeth Manufacturing Plant, which form the backbone of our regional economy. Our Cities are therefore highly interested in Commonwealth and State Government strategies that might impact positively or negatively on automotive and automotive component manufacturing in our region.

Our submission recognises the significant contribution that Government assistance has made to structural adjustment and a more globally integrated industry in recent years. However, we believe that such assistance levels must be maintained and be more highly focused on those regions that have high concentrations of automotive manufacturing, including Playford and Salisbury in South Australia. As will be demonstrated in this submission, the Cities of Playford and Salisbury are a part of Adelaide's industrial 'heartland' and rely more heavily than other Cities and regions on manufacturing, and particularly automotive related manufacturing, for local employment opportunities. Both Cities also have higher than average unemployment and youth unemployment rates. Continued structural adjustment and global integration assistance from Government is therefore essential to minimise the region's long term exposure to changes in the automotive industry.

The Commonwealth Government, through the Department of Transport and Regional Services, has selected the Playford and Salisbury Region under the Sustainable Regions Programme. This Commonwealth initiative is designed to assist significantly disadvantaged regions, which have the potential to improve through the strengthening and growth of existing and new industries. Any further adverse impacts to the automotive industry in Northern Adelaide would be devastating for our region which is already in crisis, with longer term effects to be felt by the State and Commonwealth Government.

It is important that the Commonwealth Government send a strong signal to the industry that it will continue to offer targeted assistance while industry invests and restructures. In our area, the development of the Edinburgh Parks Automotive Precinct to service Holden signifies a new era of world class automotive development in Northern Adelaide. The first precinct stage comprises 56 hectares of serviced industrial land adjacent to the Holden Plant, with a second 32 hectare stage planned. A range of first tier suppliers to Holden have either relocated, or are planning to relocate to the precinct. Major environmental efficiencies are being developed for the Precinct, including the potential for recycled water to be part of relevant production processes. The overall project is expected to support Holden in its aim to eventually increase production from its current 130,000 vehicles to an estimated 180,000 per annum. This major projected increase in employment by Holden and other first tier suppliers is critical to the socio-economy of Northern Adelaide.

Statistics at a Glance

The Cities of Playford and Salisbury have a combined estimated resident population of 179,997 (ABS population estimates, June 2000), which is projected to grow to 194,897 by the year 2010. The population is younger than the Adelaide Statistical Division average, with youth unemployment a major cause for concern. The ABS 1996 Census data estimates an unemployment rate of over 30% for residents between the ages of 15 - 24 within Playford and Salisbury.

General unemployment rates in Playford and Salisbury, as estimated in DEETYA Small Area Labour Markets, remain high at 21.3% and 9.5% in the December quarter of 2001 – consistently in excess of the Adelaide Metropolitan rate of 6.8%. Another disturbing factor in recent years is the emergence of unacceptably high mature aged unemployment levels. This can partially be attributed to the structural adjustment of industry, including manufacturing associated with the automotive industry.

Manufacturing employment in Playford and Salisbury, as a proportion of total employment, greatly exceeds the Adelaide Statistical Division average and highlights the exposure of the Cities and their businesses to the fortunes of the automotive industry. Manufacturing represented 24.7% and 22.2% of total employment in Playford and Salisbury respectively as at the 1996 Census, compared with 15.0% for South Australia in total. A high proportion of the regional workforce is also employed as production/transport workers, labourers, tradespersons or related workers compared with the Adelaide Statistical Division.

With this brief background, we make the following recommendations:

1. We are of the opinion that our local motor vehicle industry has positioned itself to continue to be a strong player within the domestic and international automotive markets. The industry has factored into its strategy the reduction of PMV and components tariffs in 2005 from the current level of 15% to 10%.

However, we believe that the 10% PMV and components tariff should be maintained beyond 2005 until real market access gains have been achieved in global markets by Australian exporters and there is clear evidence that further reductions will not impact negatively on foreign investment and regional employment. Any further reductions must be made incrementally to allow industry time to adjust.

2. Industry consultation undertaken by the Councils has highlighted the need for ongoing industry assistance to promote production, capital investment and R&D activity. Schemes such as the Automotive Competitiveness and Investment Scheme (ACIS), which is WTO compliant, should be maintained for another 5 years to demonstrate the commitment that Australia has to its automotive sector. This will aid in the global marketing of our product through a stable policy environment for prospective new markets.
3. An understanding of the costs of implementing and maintaining international environmental standards should also form a key consideration for the ongoing viability of the industry. R&D assistance to meet standards is recommended to assist with the costs of compliance, industry development through global markets and cleaner, greener production practices and technologies.
4. It is recommended that improved global market access be sought, both multilateral and bilateral, as this is viewed as a key driver for the future prosperity of the automotive industry. We are concerned that the domestic market is inadequate to sustain the industry in the event of possible further tariff reductions. The local automotive industry is increasingly looking for export sales to remain viable by exploiting economies of scale.
5. The design and implementation of remediation strategies is recommended to deal with structural adjustment issues in the event of an industry contraction in output and employment. Given the characteristics of our local workforce, our region is very susceptible to structural adjustment pressures. Regional employment is highly dependent on the automotive industry and the multiplier effects of retrenchment and contraction of an industry sector are wide reaching, both economically and socially, and may include:
 - The loss of jobs both within the major suppliers and also supporting industries;
 - A decrease in retail spending;
 - Workforce migration;
 - An increase in bad debtors
 - An increased demand for social activities for the unemployed;
 - An increase in family stress levels;
 - An increase in crime, drug abuse and domestic violence;
 - More resources required for social security assistance;
 - An increase in demand for counselling; and
 - Reduced opportunities for youth employment – contributing to an already serious position of 3rd generation unemployment within this region.

In this context the Northern Adelaide Region, which is already regarded as one of the most disadvantaged regions in Australia, will not be able to absorb these impacts.

Remediation strategies should target the susceptible second and third tier component suppliers and offer product and market diversification assistance that will minimise the impacts of any industry contraction.

6. Competition within the automotive industry for hosting of plants is strong with governments prepared to go to great lengths to attract and retain foreign investment. We believe that the Commonwealth and State Governments have a pivotal role to play in investment attraction for the automotive industry and recommend a collaborative and proactive approach to achieve better industry outcomes and to instil a greater degree of certainty in the industry.

In conclusion, the Cities of Playford and Salisbury recognise the importance of the automotive industry to the wellbeing of our community and we remain committed to the support and development of a globally competitive industry in our region. As important partners in addressing social, economic and environmental issues at the local and regional level, our respective Councils value the opportunity to make this submission to the Productivity Commission and look forward to providing further comment when appropriate.

Yours faithfully



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