PRODUCTIVITY COMMISSION INQUIRY

INTO POST 2005 ASSISTANCE ARRANGEMENTS FOR THE AUTOMOTIVE MANUFACTURING SECTOR

SUBMISSION FROM THE GREATER GEELONG CITY COUNCIL

Introduction

This submission has been prepared by the Greater Geelong City Council, in conjunction with the Geelong Manufacturing Council and the Geelong Community in recognition of the importance of the automotive industry in Geelong's economy.

This submission has been prepared by Council following consultation with firms in the automotive industry in Geelong as well as other interested organisations and individuals.

Manufacturing Industry in Victoria and Geelong

Manufacturing is the most important industry sector in the Victorian and Geelong regional economies. More particularly, the manufacture of motor vehicles and components, parts and accessories is Victoria's largest manufacturing industry, contributing 2.3% of Victorian Gross State Product in 1998/99. This represents a total value added component of almost $3 billion per annum from the industry's total turnover of approximately $9 billion per annum. It also employs over 30,000 people in Victoria.

Geelong is a region of manufacturing excellence for not only automotive components, but also for metals, chemicals, textiles, food processing and aerospace engineering. In 1999 its manufacturing sector comprised 532 enterprises, of which 20 are directly manufacturing automotive products or components. These 20 businesses employ 3,811 people out of a work force of 95,000 in Geelong, and it has been estimated that the strong linkages with other industries and suppliers generates employment multipliers of 1.54 (Carter, R & Milanese A), resulting in up to 5,800 more staff. Payroll for these employees is in excess of $210m annually, and the turnover of these companies is in the order of $857m. A detailed profile of the Geelong manufacturing industry is included in Attachment 1.

The manufacturing companies in Geelong specialising in automotive products and components create and maintain strong linkages with other companies and suppliers in Geelong, thereby lifting their quality and production standards. This has occurred as a result of Australia's four car manufacturers requiring all componentry suppliers to attain minimum quality accreditation standards. In addition, the auto industry is quick to adopt new technologies such as CAD and CAM, which has spin-off benefits to other local manufacturing businesses and suppliers.

The size of Australia's population, and its income levels to some degree dictate the size of the domestic market for Passenger Motor Vehicles (PMVs) and Commercial Vehicles (CVs), which in turn dictates the size of the domestic components market. Owing to the limits of domestic market growth and rising levels of imports, increasingly both PMV assemblers, component manufacturers and aftermarket parts and accessories manufacturers are turning towards exporting activities in order to reach a viable scale of operation. Australian automotive exports in 2001 were valued at $5b. In fact the manufacture of aftermarket parts and accessories is a growing sector of the industry. They supply approximately 50% of the domestic parts and accessories market for both domestically assembled and fully imported vehicles.

Given the importance of the Manufacturing sector to the Geelong regional economy, there is a need to ensure that the region not only maintains its manufacturing investment but also builds upon it for the future. It will do this by improving skill levels, adopting world best practice and adapting new technologies. In addition it will focus on innovation and boosting the capacity of the manufacturing sector by transferring new knowledge into new products, improved products or more efficient production processes. The level of exports will double by 2010.

Automotive Industry in Geelong

There are twenty companies in Geelong involved in either the manufacture and/or assembly of motor vehicles or automotive components. These firms employ approximately 3,811 EFT staff. Expenditure on wages and salaries in the region is estimated to exceed $210 million with an estimated turnover of over $857 million. These companies have formed an industry cluster group known as CARnet (Combined Automotive Regional Network for Excellence & Teamwork) whose aim is to highlight and promote the extensive range of automotive strengths and capabilities that exist in Geelong, with particular emphasis on creating and expanding export opportunities. In August 2000 a report on the Positioning of Geelong's Automotive Industry both nationally and internationally was produced. As a result of this report, a Blueprint was prepared which detailed the future focus and activities of the automotive industry in Geelong, to ensure its sustainability into the future, and the CARnet group is actively following this plan.

There are a number of recognised benefits for automotive companies who are located in the Geelong region. Together they generate a mutually supportive commercial and technical infrastructure, and the proximity to customers facilitates close supplier-customer relationships. Other benefits include the availability of skilled labour, linkages with other local industries which supply components, car seats, automotive glasses, springs and suspension components, access to suppliers, and locational flexibility. In addition, Geelong is ideally located to deliver product on-cost, on-time, in-sequence and to quality requirements to either the car makers assembly plants or those of the first tier suppliers.

Support industries in Geelong include specialist toolmakers, automotive engineering services (there are at least nine specialised automotive engineers within the region), instrument makers, drafting and design services (automotive), light and heavy vehicle maintenance (mechanical, electrical and panel beaters), and car seat cover manufacturers. This level of diversity and capability of manufacturers in Geelong enables them to capitalise on niche opportunities as they arise.

Geelong is largely a component/sub-assembly supplier and is therefore vulnerable to any increase in imported vehicles and/or components. To maintain a robust and vigorous automotive manufacturing sector in Geelong requires a high level of investor confidence by the four manufacturers to require locally sourced supplies on a long-term basis.

It is widely acknowledged that the Automotive Competitiveness & Investment Scheme (ACIS) has been of significant assistance to manufacturers in Geelong, particularly through rebates for R&D expenditure. It is Council's contention that if the Tariff regime is to be wound down, then it is essential that the ACIS or some similar style scheme be continued, at least at the current rate.

Employment Issues

Geelong's unemployment levels have in recent times tended to be marginally below the state average. Any change to the industry assistance programs for the automotive industry, which could result in a significant lessening of the local manufacturing effort, could create a serious unemployment problem in the region.

A recent report by the National Institute of Economic and Industry Research entitled State of the Regions highlighted the fact that salary levels in the Barwon Region are well below other comparable regions and Melbourne in particular.

Melbourne North	$16,090
Barwon	**14,989**
Mallee-Wimmera	16,195
Melbourne West	16,940
West Victoria	16,458

In addition, the report also highlighted the fact that around 20% of income in the Barwon region is generated from Social Security Benefits. This demonstrates that employees and residents in the region are already significantly disadvantaged against their counterparts in other areas of the state. Any changes to tariff levels or the ACIS scheme could seriously affect the level of employment in the automotive sector in Geelong, further deteriorating the already lower salary levels, and increasing the dependence upon social security.

It should also be recognised that only 80 per cent of the workforce of the Geelong region work in the region. Ten percent of the work force are working in Melbourne and the remainder are working in other locations around Victoria.

Overall, the picture is one of an economy which has generally proven to have resilient employment in its core manufacturing sector, despite a significant shake-out in recent years, and which has shown solid growth in selected trade and service sectors. However there has been a slower rate of employment growth in some major service sectors, particularly wholesale and retail trade, and finance, property and business services. The relative lack of employed residents in these two sectors is the major contributory factor to the region's low overall rate of employed residents for population size.

Recent data indicates that total employment in manufacturing industries in Geelong in 2000 was about 12,500 (see table at Attachment 1).

The strength of Geelong's manufacturing industry is important to the region's capacity to provide sustainable employment opportunities. The fact that manufacturing in Geelong has been able to maintain employment at its current levels, is clearly evidence of its importance in the face of relatively slow growth in employment in the service sector in Geelong, the sector which has provided the major growth in employment in the Australian economy over the past 20 years.

Automotive Industry Employment

Total employment in Geelong in the automotive industry has declined since 1990 from about 6,700 to 3,811. Most of this decline is likely to be due to improvements in productivity as manufacturers have adjusted to the exposure to international competition. For example, employment at Ford Geelong is now approximately 55% of that which existed in 1990, but production levels are approximately the same although the mix of products is different. The industry in Geelong is characterised by, and is indeed proud of the fact that the majority of the

3,811 employees are long-term employees, indicating that there is pride in the industry and in the production outputs. These are full time positions, which contrasts the service sector, which is dominated by part time workers.

Industry sources in Geelong believe that further reductions in employment in the automotive industry is most likely to be associated with reduced output rather than productivity improvements. The automotive industry in Geelong is estimated to have an employment multiplier effect of 1.54 (Carter, R & Milanese A), meaning that the 3,811 jobs generate a further 5,800 jobs in the Geelong economy.

The multiplier effect in Geelong may in fact be higher as a large proportion of the firms involved in component manufacture rely on the automotive industry for varying proportions of their output. Reduction in local manufacturing in the automotive industry is likely to result in some of these businesses becoming unviable. The extent to which this occurs will depend on the opportunities for these firms to pick up other business – a difficult task if some of Geelong's major businesses are suffering a downturn in production. It is a widely held view that the only way to retain large scale manufacturing activity is to maintain a competitive advantage based on the inherent advantages of high-income countries. These inherent advantages consist of:-

- Workers with advanced skills
- An excellent capacity to create new knowledge, and
- An excellent capacity to transfer new knowledge into new products, better products or more efficient production processes.

Geelong is cognizant of these principles, and is actively working towards achieving in all areas. A Local Learning and Employment Network (LLEN) has recently been established with the aim of harnessing the knowledge economy and skilling the workforce to accept new challenges and directions. With two significant tertiary educational institutions in the city, Geelong industry is ideally placed to work in partnership with them capitalising on their extensive research capabilities to equip our workforce with the latest technological advances to prosper on both the local and international scene.

Links to Education and Training in Geelong Region

Geelong's two tertiary institutions, the Gordon Institute of TAFE and Deakin University, are the main providers of education and training for Geelong's industry, and more particularly for the automotive industry. The Gordon's Manufacturing Industry Training Centre is a leader in practical and theoretical tuition for apprentices and trainees in the auto industry. A range of smaller private providers of training courses supports these institutions.

In 2001, there were 403 people undertaking an apprenticeship or traineeship in the Automotive, Motor & Transport Sectors, in Geelong

Deakin University has a close relationship with Ford Motor Company with the extent of their involvement including co-operation and funding for course development, administration support and curriculum development. It is believed that there are currently around 100 Ford employees enrolled in courses at Deakin University.

Ford and Deakin are involved in an Industry Participation Program, which will lead to significant benefits to the availability of manufacturing industry skills in Australia. This is recognised as an innovative program, which utilises Ford's manufacturing operations as the laboratory with post graduate students spending significant time in the plant working on practical issues. This initiative is seen as a potential model for future manufacturing industry and university research programs.

It is believed that Australia is being increasingly recognised as having lower costs for highly skilled labour than in other countries that have a significant automotive industry. This has the potential for Australian firms/engineers to become more involved in developing new designs and technologies for the automotive industry.

Training courses developed for the automotive industry have relevance for other manufacturing businesses. The automotive industry's exposure to international competition has brought innovation into education and training courses, enabling them to keep up to date with international standards and developments. These courses have broad application for the manufacturing industry and enable other industries to benefit from the innovations and improvements brought about by the need for the automotive industry to remain at the leading edge by working smarter and more productively. In this way, Ford is providing training and research infrastructure that can be used by other industries which, because of their smaller size, would otherwise be unable to access. This emphasises the importance of the presence of large internationally exposed manufacturing companies to Australia in general and Geelong in particular.

Geelong has been particularly fortunate in that a number of former executives from the automotive industry have taken on an educational role at both these institutions, thereby bringing valuable practical experience to the classroom. In addition, a number of these former executives have established their own business in Geelong, usually capitalising on niche opportunities in the automotive sector.

Investment Climate

The Geelong region has had experience over a long period of major reductions to the manufacturing employment base. Geelong has historically had a high proportion of its manufacturing employment in the automotive and textile, clothing and footwear sectors. These industries suffered severe downturns in the 1970's principally as a result of tariff reductions. The industries subsequently recovered some of their employment losses through the 1980's, but the automotive industry in Geelong suffered a further downturn in the early 1990's with the loss of around 3,000 jobs.

These major employee reductions have had a significant impact on Geelong's economy over the years, with resultant changes to the industrial structure. Some industries, such as the Textile Clothing and Footwear industry have been able to weather these downturns by restructuring and subsequently growing employment in niche markets. As noted above, the overall employment level in manufacturing in Geelong has demonstrated the resilience of the industry. However, these decisions do have a negative impact on the perceptions of Geelong as an investment location, as much on the finance sector as on the industrialists.

It should also be recognised that investment in the automotive industry, is mobile in terms of where the major firms such as Ford, Pilkington and Henderson's (three of Geelong's largest automotive firms) will invest their funds. Changes to industry assistance which result in Australia and Geelong becoming a less competitive location will mean that this investment will leave Australia – resulting in a disinvestment or net loss of capital funds available to invest in Australian industries.

It is important to the future of manufacturing in Geelong that should any proposed reduction in assistance to the Australian automotive industry be made following this Inquiry, that it be done in such a way that it will not be disadvantaged against its main competitors. Therefore if there was to be a further tariff reduction, it would appear that industry would favour one step down, rather than a series of smaller reductions.

Community Involvement of Automotive Companies

The automotive firms in Geelong have been and continue to be extensively involved in community activities. For example, Ford is a major sponsor of the Geelong Football Club, the Geelong Performing Arts Centre, the Geelong Speed Trials and the All Ford Day. The Ford Motor Company and its employees together contributed over $170,000 in 2001 to the Geelong charity organisation United Way – an umbrella group for 60 community organisations – which has raised over $20 million since 1985. Other automotive firms also make significant contributions to the Geelong community.

Senior executives of the automotive companies also play an important role in the community through membership of service organisations such as Rotary, Lions, Apex etc, and help to

- Maintain high standards in these clubs by playing a role in the management of the clubs; and
- Raise funds for community activities by using their local networks.

The importance of large firms such as those in the automotive industry is vital to the development and sustainability of communities such as Geelong.

Conclusion

The automotive industry is a key sector in the Geelong manufacturing industry comprising over 25% of the manufacturing workforce. However, its importance extends beyond this in terms of its influence and impact on the export orientation, quality standards and education and training for other manufacturers in the region. The automotive industry in Geelong, in company with the rest of the Australian automotive industry, has improved its performance in quality and productivity over recent years to match world standards.

Employment in Geelong's manufacturing industry has remained resilient over a long period of restructuring. During this period, the region has been able to retain key elements of its diverse manufacturing base. This has meant that as industry restructures and becomes more focused on quality and efficiency issues, Geelong has retained key businesses and their linkages to other local suppliers. However, employment growth in Geelong, in common with the rest of the economy, is in the services sector. The decline in manufacturing businesses has resulted in difficulties in obtaining ongoing employment for low skilled and trade skilled employees.

It is expected that the closure of any one of Geelong's major automotive employers as a result of changes to industry assistance would have severe unemployment consequences for the region.

It is important that the Productivity Commission provide a firm foundation for the automotive industry to plan its future. This should recognise that the Australian automotive industry has attained world standards of productivity and quality and recognise the important linkages between the industry and the broader manufacturing industry and development of skills in the workforce. The need to establish new markets appears to be the main limiting factor in the growth of the Australian industry, a factor which is largely beyond the control of the industry because of tariff and non-tariff barriers in the main potential growth markets.

Changes to industry assistance should recognise that some of the main competitors of and markets for Australia's automotive industry have high levels of protection which inhibit Australian producers from gaining access to those markets.

In conclusion, it is the opinion of the City of Greater Geelong and the Geelong Manufacturing Council, that in order to maintain a sustainable manufacturing industry in Geelong, and other parts of regional Australia, that the Tariffs must be held at 10% post 2005 together with the continuation of the ACIS industry support scheme.

This conclusion is also held by the local automotive manufacturers (CARNet), community groups and industry associations who have all strongly supported this submission.

References:

Carter, R and Milanese, A – 1986, *Import Dependence in a Branch Plant Economy: Input Output Modelling for the Geelong Region.*

NIEIR 2001 *State of the Regions Report*

NIEIR 2002 *Geelong's Economy in the Context of the Emerging Knowledge Economy; Strengths & Weaknesses*

Department of Innovation, Industry and Regional Development *Strategic Audit of Victorian Industry - Automotive*

Attachment 1: Structure of the Manufacturing Sector in the Geelong Region Compared with Australia in 1999/2000

Industry Description	Geelong Region		Australia
	Employment	Share %	Share %
Food, beverage & tobacco mfg.	1,450	11.7	18
Textile Clothing Footwear & Leather mfg	2,058	16.5	7
Wood & paper products mfg	1,402	11.3	6.9
Printing publishing & recorded media	589	4.7	10.7
Petroleum coal chemical and associated products mfg	853	6.9	10.5
Non-metallic mineral products mfg	666	5.3	3.8
Metal products mfg	2,237	18	15.5
Machinery & equipment mfg	2,531	20.3	21.5
Other manufacturing	658	5.3	6.1
TOTAL	**12,444**	**100.0**	**100.0**

Source: Australian Bureau of Statistics, *Manufacturing Establishments, Summary of Operations by ANZSIC Subdivision in a selected Statistical Division, 1999-2000*