

# Supplementary Paper to Commission Productivity

Submitted by

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## ***Alterations to ACIS Mark II***

There are two aspects to the alterations to ACIS Mark II as suggested by Autoliv in its submission.

### *Changes to the way ACIS Credits are earned in respect of R&D*

Autoliv believes there are opportunities to refine the ACIS regulations regarding what activities constitute R&D for ACIS purposes.

This refinement would ensure that companies who are actually performing R&D that will enhance Australia's competitiveness, and that bridges the technology gap between ourselves and other countries actually receive the rewards under the scheme. This tightening could also reflect the different risk profiles of dollars committed to research, compared to those allocated to development, with the former having a much longer period before any return.

Within the Scheme currently, there are a number of activities that are classified as eligible R&D that could be described as "marginal" (e.g. certain recruitment costs).

### *Changes to the accountability associated with receiving and spending ACIS benefits*

On-going participation in the ACIS program could be assessed on an annual basis against a range of KPI's. In addition to OE turnover (which is the fundamental basis of on-going membership currently), KPI's including employment, the types of technology being introduced by the company, or exports could form the basis for membership on a continued basis.

This could be accompanied by greater accountability regarding the manner in which ACIS benefits are spent by individual companies. This is particularly appropriate if the prospect of split pools is considered. As a suggestion, the funds paid under ACIS could be directed towards reinforcing the types of expenditure that earn ACIS benefits in the first place. This type of circular approach would create a virtuous cycle, and is consistent with the monitoring provisions present in other forms of Government assistance.

### ***The theoretical foundation for ACIS***

The unique characteristics of the Australian automotive industry present substantial arguments for sector-specific assistance. These include:

#### *Global footloose capital*

The degree of foreign ownership present in the Australian automotive industry makes it almost unique in regard to the factors that drive new and re-investment.

Specifically, the need for Australian companies to continually seek approval for investment projects from international Boards, and the support afforded to automotive companies by governments in other countries means that public policy settings have a heightened importance in the determination of investment locations.

#### *Spillover impacts*

There is strong anecdotal evidence to suggest that the automotive industry is undoubtedly the leader in the introduction of production and process technologies within the Australian manufacturing sector. This evidence extends to areas including manufacturing processes, environmental management, supply chain issues; and education and R&D.

While this is difficult to establish empirically, Autoliv believes that some attempt should be made to quantify this impact, and that there is a growing body of evidence regarding the qualitative nature of these spillovers.<sup>1</sup>

The move towards greater international competitiveness that the Australian industry has seen over recent decades has, by definition, demanded that Australian companies attempt to be in step with the most efficient processes and procedures in place internationally.

#### *The implications for a ACIS II*

Autoliv believes that these factors add further dimensions to the support for an extension to ACIS beyond 2005. In addition to assisting the industry through the adjustment from a 15 to

10% tariff, these factors create an additional rationale to the provision of assistance to the automotive industry in Australia.

It should be noted that the support afforded by the argument regarding footloose capital does have a transitional component. The reduction of government assistance to the industry on a global basis would make this reason less compelling, as investment cases could be considered on a “level playing field basis”. While this argument has been considered in regards to tariffs, it is equally applicable in the area of investment assistance, where government policy needs to be internationally competitive.

In essence, Autoliv is prepared to face international competition in its bids to win investment into Australia. However, the company does not believe that, once it has reached full international competitiveness, it should have to display added levels of efficiency or lower costs to compensate for Australian government assistance levels being out of step with competitor locations.

### ***Industrial Relations***

Autoliv supports the Commission’s recommendations regarding the introduction of a more consultative approach to industrial relations.

The company displays an extremely progressive, consensus-based IR paradigm, and has strong evidence of its success. The main tenets of the system in place at Autoliv are:

- A culture of respect, transparency and an aim to be an “employer of choice”;
- A non-aggressive, flat structure that promotes open communication;
- The presence of a range of consultative mechanisms, and the provision of opportunities for employees to provide input to company decision-making; and
- The provision of benefits that are creative, and reflect the needs of the workforce.

This approach has resulted in a range of impressive IR-related results for the company. These include:

- No loss of production time as a result of industrial disputation for 12 years;
- A staff turnover level of 0.5%; and
- Greater workplace satisfaction resulting in the company being less of a target for industrial action.

Autoliv believes there is much to be gained from this style of industrial relations.

Equally, the company is adamant that ACIS II should not be linked to any IR-related obligations. One potential effect of this would be to create a stronger bargaining position for the union movement, with companies acquiescing to demands simply to gain quicker access to ACIS benefits. This would introduce a distortion to the flow of workplace relations in the industry, and possibly establish a range of structures that restrict companies in the longer term, beyond the existence of ACIS II.