

**Submission to the:**

**Productivity Commission Inquiry**

**into the**

**Post 2005 Assistance Arrangements for the Automotive  
Manufacturing Sector.**

**Geelong Manufacturing Council**

**CARnet-Geelong Automotive Industry Network**

**May 2002**

**Geelong Manufacturing Council  
P.O. Box 638  
GEELONG 3220**

10 May 2002.

The Commissioners  
Productivity Commission  
Automotive Industry Inquiry  
P.O. Box 80  
BELCONNEN ACT 2616

Dear Sirs,

**Re: Inquiry into Post 2005 Assistance Arrangements for the Automotive Manufacturing Sector.**

The Geelong Manufacturing Council (G.M.C.) and CARnet-Geelong Automotive Network are pleased to forward a submission to this inquiry.

The Automotive Industry is of high importance and a significant generator of regional prosperity, with employment of 3,800, turnover of \$850m and salaries of \$210m annually. The G.M.C. and CARnet firmly believe that any recommendations must encourage an attractive base for investment in the Australian automotive industry.

This proposal argues that tariffs should be retained at 10% post 2005, and the Automotive Competitiveness and Investment Scheme (ACIS) scheme should be continued to foster an internationally attractive investment location in Australia.

Advances made over the last decade to improve productivity and quality have developed a significant national asset. Geelong has been actively pursuing an integrated industry for some time and has been successful with recent initiatives in the areas of education, research and development.

The G.M.C has recently commissioned a report by NIEIR looking into the future of the region's manufacturing industry. The report has found that the industry faces a number of challenges, including low levels of investment, the need to increase skills, increasing use of technology and how to substantially increase the level of exports.

Geelong's social and economic fabric would suffer significantly from a less favourable investment climate in Australia. Through direct and indirect effects, 10,000 people in Geelong are dependent on the automotive sector.

We trust that you will carefully consider the above position. Please advise if you require clarification or elaboration of any of the issues raised above.

**Yours Sincerely,**

**Bruce Jessen  
Chairman**

### **Executive Summary**

The Geelong Manufacturing Council and CARnet firmly believe that under the terms of this inquiry with respect to facilitating a competitive and globally integrated manufacturing sector requires the Commission to make recommendations that encourage an attractive base for investment in the Australian automotive industry.

With respect to the above, this proposal argues that tariffs should be retained at 10% post 2005, and the Automotive Competitiveness and Investment Scheme (ACIS) scheme should be continued in its substantive form to foster an internationally attractive investment location in Australia.

The Australian automotive industry has taken great steps forward particularly over the last decade to improve productivity and quality and as such has developed a significant national asset. In Geelong, as elsewhere this has not been achieved without considerable pain and dislocation of the workforce. It is important that these hard-won gains must now be nurtured so that they continue to drive competitiveness.

Geelong has been actively pursuing an integrated industry for some time now and is particularly successful with recent initiatives in the areas of education, research and development. The Geelong Manufacturing Council has recently commissioned a report by NIEIR looking into the future of the region's manufacturing industry. The report has found that the industry faces a number of challenges. These include low levels of investment, the need to increase skills, increasing use of technology and how to substantially increase the level of exports.

The fundamental issue is how to ensure that Australia remains an attractive and competitive destination for globally mobile automotive investment. To lower the tariff level below 10% may seriously erode the investment attractiveness of Australia and this should only be done when the impacts are known with certainty.

The potential effects of an adverse investment climate on a highly dependent automotive community such as Geelong require careful consideration and may require costly adjustment programs. Geelong's social and economic fabric would suffer significantly from a less favourable investment climate in Australia. Through direct and indirect effects, 10,000 people are dependent on the automotive sector.

Key points in relation to Geelong:

- The Automotive Industry is of high importance to Geelong, with employment numbers of 3,800, turnover of \$850m and salaries of \$210m annually injected into the community.

It is also considered that building a sustainable industry, should be a prime consideration in any recommendation.

To do this requires the following:

- Tariffs retained at 10% from 2005 until at least 2010.
- Continue the ACIS program.
- Introduce programs to assist companies to compete with imports and develop exports
- Fund programs to build centres of excellence in automotive, manufacturing, design, education, research and development.
- Continue to open up export markets

### **The Geelong Manufacturing Council**

The Geelong Manufacturing Council was established in 1998 by the Geelong Development Board and the Australian Chamber of Manufactures to assist and promote the region's manufacturing industry.

The Geelong Manufacturing Council has the vision of a Geelong as technologically advanced and internationally competitive manufacturing centre in the 21<sup>st</sup> century.

The Geelong Manufacturing Council is a successor to the Geelong Manufacturing Industry Taskforce, which prepared a submission to the 1996 Industry Commission Inquiry into the Automotive Industry.

The Geelong Manufacturing Council facilitates a number of networks and industry groups with similar objectives as the Council. The Geelong Manufacturing Council is a non-political, not for profit group largely funded by industry.

### **Manufacturing in Geelong**

Geelong has traditionally been a manufacturing region. In the 1970's. over 30% of the workforce were employed in this area. The drop to below 20% has been largely driven by reduced tariffs, advances in technology and increases in capital intensity and increased levels of international competition.

The key manufacturing sectors remain as automotive and components, textiles, clothing and footwear, metals, foods, chemicals and petroleum. The region has 14,000 people employed in the manufacturing sector over almost 600 companies.

Research by NIEIR has found that 51% of the region's GDP and 41% of regional employment is derived from the manufacturing sector. It follows from these figures that the health of the manufacturing sector is vital for ongoing stability of the region's economic and social foundations.

### **The Automotive Industry in Geelong**

With around 3,800 people employed, representing over 25% of Geelong's manufacturing workforce, the automotive industry is an integral and important part of the Geelong's industry base and as such has important social ramifications within the region. CARnet has undertaken strategic planning for the future of the industry and identified a number of strategic directions that will ensure that the industry is sustainable in the long term. It is important that the post 2005 tariff regime remains at a level which makes these possible.

Geelong is also pursuing an agenda to build its automotive capabilities and develop a centre of excellence in aspects of automotive design, education, research and manufacturing.

While Australia in 2005 will feature a tariff regime that will be comparable with other developed countries, an important consideration for globally mobile investment capital, any move to vary this level of support should be carefully analysed.

#### *CARnet-Geelong Automotive Network*

CARnet was established by the Geelong Manufacturing Council in 1998 to assist the automotive sector in the Geelong region to promote investment and employment.

The objectives of CARnet include to build on synergies within the automotive industry, improved networking and the ultimate aim of building and supporting investment and employment in the region.

The Geelong CARnet group is comprised of representatives of: Backwell IXL, Deakin University, School of Engineering & Technology, Melba Industries, Gordon Centre for Manufacturing, City of Greater Geelong, Aikman Engineering, EDAG/Future, Ford Motor Company, Pilkington Automotive, Hendersons Automotive, Coghlan Russell, Industrial Supplies Office, Department of State and Regional Development, Ford Motor Company, Paratus Industries and the Geelong Manufacturing Council.

Key activities of CARnet over the last couple of years include:

- Automotive Opportunities Project
- Positioning Geelong National & Internationally
- CARnet CD Rom
- CARnet Display
- Automotive Careers Week Program
- Forging links with 1<sup>st</sup> tier Suppliers
- Developing A Centre of Automotive Design in Geelong

The Automotive Positioning Project demonstrated that the Geelong Region has a number of advantages as a location for automotive design, research and manufacture. Advantages include: proximity to assembly operations; skilled labour; transport infrastructure; training, research and education. The breadth of capability in the region across design machining, stamping, components manufacturing and the willingness of local government and tertiary institutions to support industry are also important advantages.

Opportunities for the industry to develop links with automotive manufacturers and alliances with other suppliers, including e-commerce need to be pursued and forms part of the strategy.

It is our view that as the automotive industry is subject to a unique business environment, programs particular to automotive would assist with the further development of the sector. These would take into account the competitive pressures facing the industry and the effects of this on local suppliers.

CARnet has completed a strategic positioning project that has provided information in relation to the Geelong Region as a Centre of Automotive Excellence and the ongoing success and viability of the industry. This has been assisted through State Government support and has recommended a number of directions and programs required to ensure long-term survival of the industry.

The global nature of the automotive industry has presented new challenges to the industry. These effects are felt at a regional level. Changes such as the pilot AANX network can be costly and require considerable capital injection. Some smaller companies have difficulty in financing such a level of expenditure.

Industry specific programs are required to address industry specific issues. General assistance programs do not do enough to encourage investment from industry. Initiatives that promote innovation are also important to the future of the industry, but for smaller companies can be difficult. The scale and nature of the automotive industry means that the generic programs can fail to meet the challenge.

CARnet has demonstrated that increased business opportunities can be gained through a proactive approach using this type of initiative.

### **Response to the Terms of Reference**

The automotive industry is one that is highly exposed to international competition. Import penetration has increased markedly over the last 10 years, such that it is now over 59%. If this is allowed to continue the ability of the Australian industry to remain competitive will be eroded. There are several impediments to automotive investment in Australia, foremost of which is the small size of the Australian market and the already high level of imports.

The Geelong Manufacturing Council and CARnet believes that under the terms of reference the Productivity Commission should not recommend that tariffs be lowered any further than that already legislated for and recommends continuing the assistance available under the ACIS scheme. Further programs, separate to ACIS aimed at assisting companies to compete should also be introduced. This may then allow the industry to recover some of the damage that the enormous reductions between 1986 and 2000 did to the industry in respect of import penetration.

The Australian market is one of the most competitive in the world. It is also desirable that additional forms of assistance be available to smaller companies not previously eligible for existing programs.

The lack of a locally produced small car and the increased market shared which this segment of the market is providing is also a strong argument for encouraging a locally produced small car to be considered for development. The size of the Australian market is an issue that can reduce the benefit from volume and economies of scale and have adverse impacts on competitiveness.

The regional linkages found within the automotive sector to education, training and research, other manufacturing and the general community necessitate that the industry is of vital importance to the region's business base.

With respect to export, while there has been positive growth, however this only effects those companies with an export focus. Some smaller companies, have no export platforms should not be overlooked for assistance. These strong linkages have been formed over many years and are required for a strong and vibrant regional industry base.

Total employment in the automotive sector has decreased from about 6,700 in 1990 to 3,800 in 2002. For Geelong to continue to provide employment for such a significant number of its workforce, the industry must be confident in its ability to compete in the future. Strong indications are that this will be more likely at 10% than at a reduced figure.

### **Summary of recommendations:**

Geelong Manufacturing Council and CARnet believe that the following position should be adopted by the Productivity Commission:

- Existing legislated position on tariffs where tariffs are set at 10% from 2005 should be maintained until at least 2010;
- The ACIS program should be continued, with a further scheme funded;
- Introduce programs to assist companies to compete with imports and develop exports;
- Fund programs to build centres of excellence in automotive, manufacturing, design, research and development;

- Continue to open up export markets.

Any reduction in the attractiveness of Australia as an investment location for automotive industry has the potential to severely disrupt the regional economy and the economic and social consequences of this would be dramatic.

Please advise if you require clarification and elaboration of any of the issues raised above.

**Yours Sincerely,**

**Bruce Jessen  
Chairman**