

ACT
21 June 2002

Productivity Commission
PO Box 80
Belconnen ACT 2616

Dear Sir,

**POST 2005 ASSISTANCE ARRANGEMENTS FOR THE AUTOMOTIVE
MANUFACTURING SECTOR**

I enclose a short submission for this inquiry. I am aware that the submission will arrive after the closing date and apologise sincerely.

My submission offers reasons for not continuing the assistance arrangements beyond 2005.

I enclose also a book, *The Urge To Score*, which I published after leaving the automotive industry. Chapter 9 is relevant. If convenient, the book can be obtained as a download to your computer via <http://www.businessdoctrine.com>.

Once again I apologise for any inconvenience.

Yours sincerely,

(signature)

Robert Copley

POST 2005 ASSISTANCE ARRANGEMENTS FOR THE AUTOMOTIVE MANUFACTURING SECTOR

SUBMISSION BY ROBERT COPLEY

This submission favours reduction of tariffs after 2005 to five percent or zero, whichever accords with government revenue policy. It argues that automotive manufacturing neither needs nor deserves special case treatment.

Since the 1984 Button Plan, protection has been reduced from 57.5% plus quota to ten percent. Capital cities, Brisbane, Sydney, and Melbourne have had assembly plant closures and the state and national economies managed the resulting redeployment of labour and resources quite adequately. The Button Plan would have one more car manufacturer close, allowing the market to redistribute among the remaining three. While this is not necessarily still the goal, were it to happen, the consequences would be no less manageable than before.

The notion of a large scale withdrawal of foreign owned assemblers is of course a nonsense. It might be convenient for them to perpetuate, but they are not committed to it and would need bigger issues than removing these last remnants of protection.

In past reviews by the AIA /Productivity Commission, the automotive manufacturing case for continued assistance was based on specific needs of the industry:

- Time to restructure
- Conditions for investment (low inflation and interest rates)
- Stable employment base
- Industrial and Waterfront reform

These have been delivered and although there might be room for improvement, the situation now and foreseeable, is better than was envisioned in the 1980's and into the 1990's. Exchange rates have moved substantially in favour of local production. Market growth has occurred and Australia's local market now provides adequate sales for the support of a mature, vertically integrated industry, as exists in this country. With exports added, and modern manufacturing equipment and techniques adopted, there are no problems of scale that are insolveable, except in an innovation-shy establishment.

Of course manufacturers will have found new arguments for continued protection. That other car industries get it, will be a poor one. Governments look favourably on their own, indigenous companies. In Australia, public and community monies paid for protection go to foreign companies. Concessions to Holden and Mitsubishi, for example, are in effect to General Motors and Daimler Benz respectively, two of the worlds largest corporations. They do not need protection and with or without it they will make independent decisions.

The assemblers might also argue a need to maintain a strong local base as an export platform and there would be truth in that. In recent years however, they have been careless stewards of the market for locally manufactured cars. In the nineties, for example, market growth was in the order of 180,000 passenger vehicles. Manufacturing, decreased by 50,000 vehicles, representing 33% of lost market share. That trend seems to have continued in the present.

Vehicle manufacturers are also importers. They in fact have the lions share of imports. Under the protection regime they are able to obtain concessional entry for many, perhaps all, of their imported cars. This distorts the market in two ways (at least): other importers are disadvantaged, and the foreign parent companies are tempted to price their exports to Australia more than need be and so obtain tax-free profit. Whether they do it or not is irrelevant, if protection creates the possibility.

Industrial strife might seem like an issue in the light of recent stoppages by an exhaust manufacturer and a steel supplier and it is true that measures to further refine industrial practice are desirable. The fact remains however that industrial problems are brought on the industry by itself, namely its employers and employees, who seek a free buffer of government assistance rather than pay the very reasonable, often non financial, price for industrial harmony. New ideas for industrial reform, like the Orbital Engine, are easy to put to rest when there is no pressure.

ACIS does not reduce the price of motor cars and seems not to raise the level of industry technology in either product or productivity. It is a two billion dollar gift.

After the Button Plan was announced in 1984, the industry took several measures to act like an industry wanting to survive. It created a Plan Manufacturers Group to manage industry improvement in areas like component and steel commonisation, standard quality systems, export development, electronic data interchange, CAD/CAM standardisation and others. Industry leaders like Ivan Deveson went public declaring that they were challenged and committed to act. It also took a serious look at Lean Production and promoted many of that discipline's ideas. Lean Production is of course about reducing buffers. More about it is in the enclosed book which I wrote after leaving the industry, and I draw your attention to Chapter 9, 'Lean Production in the Automotive Industry'. Through the Plan Manufacturers Group, the industry became ideally positioned for a leap forward in productivity and competitiveness. But the pressure came off. Interest and exchange rates fell, and the government selected car manufacturing once again for special treatment. The lesson was not learnt, namely, that government makes industry better by applying pressure not by maintaining comfort levels. Privately, most industry executives would agree.

A major value-adding function of the industry is the selling of its cars. It is a function which a lazy industry might give away and forfeit the benefits. In the automotive industry, between 15% and 20% of automotive sales revenue goes to dealers for, among other

things, real estate, floor stock, interest payments and profit. The process lowers assemblers profitability and their money for new product development. It increases car prices in the community, and lowers sales. If members of the Commission have ever waited six to eight weeks for delivery of a new car, which could be built into two shifts, the chances were that dealer orders for floorstock were ahead of them in the queue. If the assemblers are serious about competitiveness, they will get to know and serve their customers. If the government were serious about retaining the industry it would wean it off assistance and put pressure back on it. As far as it went, the Button Plan worked because, in Paul Keating's words, 'the shoe was made to pinch'.

Being directly connected to the buyers of cars might help the car manufacturers try harder to meet their customers needs. At present the manufacturers offer a small range of mostly large, low technology cars (push rod, iron block, fuel-hungry engines and four speed gearboxes for example) that have looked much the same for several years. They are boring here and to overseas markets, which explains why so few are sold. There would be even fewer but for the low Australian dollar and the large, barely profitable, government fleet sales.

If assemblers are disinterested in customers, their attitudes to suppliers are no different. One example comes to mind, namely when Ford axed a long term, competitive glass supplier, Pilkington, in favour of a Chinese company which at the time was not even in production. Such attitudes are not deserving of public reinforcement. Indeed, given that 65% of the value-added in car manufacturing is contributed by component manufacturers, any protection that might be justified, is needed to save the local components industry from arbitrary decisions of the car companies.

I mentioned the Orbital Engine. I was referring to the two stroke adaptation by the Orbital Engine Company, which might have been powering Australian cars, using many parts fewer than current engines; lighter, cheaper; fuel efficient, clean, more repairable and replaceable; fully designed and manufactured in Australia, and offering the export market an attractive, competitive and innovative product. Without the pressure on local manufacturers to innovate, Australian car buyers and the world never had the chance to decide.

Car manufacturing is important to Australia. So is truck manufacturing, which is not protected by government assistance. There is an excessive impost on taxpayers (GST plus tariff), and to have tax revenue spent needlessly on an industry capable of self sufficiency but seriously in need of pressure rather than privilege to raise its performance, is surely bad policy.

Canberra
21 June 2002