



**Senate Economics References Committee — Inquiry into
the future of Australia's automotive industry (initial inquiry
into manufacturing and supply chain transition)**

Interim submission from the South Australian Government

January 2015

Context

On 25 November 2014 the Senate requested that the Senate Economics References Committee conduct an inquiry and report about the future of Australia's automotive industry. The South Australian Government was invited to provide a submission to the inquiry.

The Committee is due to report to the Senate by the first sitting day in November 2015. The Committee would like to receive submissions to the broader inquiry by 29 May 2015. As its first order of business, however, the Committee intends to inquire into (automotive) manufacturing and supply chain transition. The Committee is considering producing an interim report in the first half of 2015 and would like to receive submissions for this part of the inquiry as soon as possible. The Committee Secretary has been advised that the South Australian Government will provide its interim inquiry submission on or before 3 February 2015.

This submission is in response to the initial part of the inquiry into automotive manufacturing and supply chain transition.

A further submission will respond to all the terms of reference of the inquiry.

Previous inquiry into the Automotive Transformation Scheme Amendment Bill 2014

In its submission to the Senate Economics Legislation Committee inquiry into the provisions of the Automotive Transformation Scheme (ATS) Amendment Bill 2014 (Bill), the South Australian Government urged the Senate to reject the Bill, and recommended that:

- the proposal to remove \$500 million from the ATS from 2014-15 to 2017-18, per the *Mid-Year Economic and Fiscal Outlook 2013-14* is reversed, so that the funds are retained in the Scheme;
- the original ATS end date of 1 January 2021 is retained; and
- ATS guidelines are expanded to enable companies to use the funds for diversification strategies, so that they can enter new markets for a sustainable future.

In a range of submissions to the ATS inquiry, the automotive industry made it clear that if the ATS Bill 2014 is approved by the Senate and goes on to receive assent, many Australian small-to-medium-sized enterprises in the automotive components sector will find it challenging to survive. Assent would also be likely to lead to early closure of the Original Equipment Manufacturers (OEMs) and permanent loss of individual skill sets and enterprise-level and supply chain capabilities.

This was confirmed in the Minority Report (within the inquiry report) by Senators Carr, Madigan, Muir and Xenophon:

- 1.12 *Our most pressing and serious concern with this Bill is the risk that it will trigger early closures throughout the automotive supply chain, which in turn would force the motor vehicle producers to leave early. This would result in slashing*

transition times, compromising retraining opportunities for workers and retooling opportunities for companies.

(Commonwealth of Australia 2014, p. 25)

Recommendation 4 of the Minority Report was to establish the current Senate Economic References Committee inquiry into the future of Australia's automotive industry:

The Senate Economics References Committee should establish an inquiry to develop a policy framework for the future of Australia's automotive industry, covering all sectors of the industry—including, but not limited to: motor vehicle production, component making, aftermarket manufacturing, engineering, servicing, retail motor trades, other forms of sales support, and the training of apprentices.

(Commonwealth of Australia 2014, p. 29)

Automotive manufacturing supply chain transition

There is an urgent need for government to assist the orderly transition of the automotive supply chain into global supply chains, or other parts of the economy. In considering amendments to the existing support mechanisms, careful consideration must be given to the impacts and implications of closing down an entire industry, and the likely periods of substantive loss within a region, including regions with persistently high unemployment and broader social and economic disadvantage.

As stated in the South Australian Government submission to the Productivity Commission on the review of the Australian automotive manufacturing industry,

... [the automotive industry] is significant because it amounts to a substantial proportion of all manufacturing employment and its loss could mean a number of manufacturing enterprises would no longer be viable. It is strategic because the skills and capabilities of the automotive manufacturing industry are leading edge and passed onto those enterprises which supply to it and to those who access the skills of employees and managers who have worked in it.

(Government of South Australia 2013, p. 17)

Automotive manufacturing is of critical importance to manufacturing overall, because of its transmission of new technologies and enterprise-based innovations, and because these capabilities provide platforms for diversification into high-value, new manufacturing opportunities.

The motor vehicle industry is the main conduit for the introduction into Australia of advanced technology and the training of labour in the necessary skills. The ending of this conduit will increase the costs for other complex manufacturing industries do [sic] doubt leading to other plant closures.

(National Institute of Economic and Industry Research (NIEIR) 2014, p. 3)

Automotive production is complex manufacturing as illustrated by the South Australian Government-conducted supply chain mapping that determines the size and concentration of the automotive industry in South Australia, and the exposure of associated suppliers in the event of the withdrawal of GM Holden and other OEMs from the domestic market:

- There are 33 automotive Tier 1 companies in South Australia, employing 3,719 people, that provide components and services to GM Holden, Toyota and Ford. These Tier 1 companies have a combined revenue of \$1.131 billion and supply the three OEMs with support from 1,270 suppliers nationally.
- In excess of 700 companies employing 28,000 to 32,000 people are estimated to supply a wide range of services and products to the Tier 1 companies - Tier 2, 3 or 4 depending on their location in the supply chain.
- A small number of these Tier 1 companies are sufficiently diversified to continue in the market when domestic car manufacturing ceases.
- All 719 companies surveyed would be vulnerable, with risks ranging from moderate to severe. The most pessimistic forecast places 6,600 out of 7,700 FTEs at risk.

A shutdown of the Australian automotive manufacturing industry will lead to not just to a permanent loss of GDP, but a loss in economic welfare (measured as loss of consumption expenditure) as well, amounting to \$21.5 billion, or \$934 per person. The economic loss will be particularly severe in the automotive industry-intensive states of Victoria and South Australia, especially in Melbourne and Adelaide.

(The Allen Consulting Group 2013, p. 55)

With so many companies potentially at risk, government needs to do more in order to support companies to transition within the maximum timeframes.

The automotive manufacturing industry has provided the foundations for critical flow-on capabilities to other sectors, including lean manufacturing principles and senior management capabilities. The industry also contributes a proportionally large share to total manufacturing research and development relative to its share of employment and industry value added.

Managers in the [automotive manufacturing] industry are highly skilled and are experts in just in time engineering. These skills have spill-over effects into other industries when managers leave the automotive sector to work elsewhere....

While the spill-over benefits are not possible to model, the reality is that the Australian automotive manufacturing industry provides enormous benefit throughout the economy. Crucially, industry leaders have recently been affirming the importance of the domestic manufacturing industry to the broader economy, and specific businesses in particular.

Notably, Sam Walsh (CEO of Rio Tinto), has drawn the strongest link between automotive spillover benefits to other industries.

If I look at the various things I have shamelessly lifted from the car industry, the most obvious is the business improvement model.

To the uninitiated, the two industries might seem worlds apart.

[...] If I had to name one thing I have transitioned from what the automotive industry taught me across to what Rio's mining operations are doing today, it would be an intense, laser-like focus on value and efficiency.

Many of us are familiar with the systems that fall under the banner of 'Lean Six Sigma'...they are far from confined to any particular industry or process. At base level it represents a concentrated intent to eliminate variation or waste at every stage of production.

But, you might ask, what does operating a collection of large mining pits in the Pilbara have in common with producing precision engine components or wheel bearings?

The answer is that that these approaches to process and production are about bigger and more general questions than a specific product or sector. At their heart they are about solving problems and the essential problem is the same for everyone. What is wasting our time, our labour, our workforce skills, our energy consumption, our resources and our money? How do we discover it, isolate it, analyse it and eradicate it?

CEO of Rio Tinto, Sam Walsh

(The Allen Consulting Group 2013, p. 37-38)

This transferability of skills was also highlighted in the example of Spring Gully Foods.

Spring Gully Foods was established in 1946 in Rostrevor and supplied Spring Gully, Leabrook Farms and Gardener Range brands, including pickles, sauces and honeys. In addition the company manufactures packages and distributes brand name products for other companies, as well as a host of generic supermarket labels.

Spring Gully was awarded a South Australian Government grant to assist the business with reviewing its manufacturing operations, and purchase and commission new equipment to improve production efficiencies within the business.

It is expertise from the automotive industry that assisted Spring Gully to identify the necessary improvements to its manufacturing processes and execute the changes.

These examples highlight the possibility for using automotive industry developed skills for the benefit of other industry sectors.

South Australian Government support

The South Australian Government has responded to the closure of its automotive vehicle manufacturing industry with the *Building a Stronger South Australia: Our Jobs Plan (Our Jobs Plan)*, committing \$60 million over four years to provide an integrated package of support for firms operating in the automotive supply chain, as well as to stimulate demand and job creation in non-automotive industries.

Our Jobs Plan contains six key actions aimed at securing the future of the state's manufacturing sector and strengthening our economy, including supporting displaced workers, supporting affected communities, assisting the automotive industry to diversify, accelerating advanced manufacturing, creating new jobs and accelerating infrastructure projects to create employment.

Our Jobs Plan delivers the type of strategic response required to build productive capacity, to upskill the labour force, and to diversify the Australian economic base into industries able to sustain a global competitive advantage. However, a task of this magnitude cannot be achieved by state governments alone. Improving productivity, diversifying our nation's industry base, and developing a highly-adaptable workforce with skills that meet the increasingly-complex needs of industry, requires support and financial investment from all levels of government.

The South Australian Government also established the Automotive Transformation Taskforce, to enable targeted and focused implementation of specific elements of *Our Jobs Plan*, and relevant components of the Commonwealth Government's \$155 million Growth Fund.

The Taskforce reports to an Automotive Transformation Taskforce Board chaired by Mr Greg Combet AM, who is directly accountable to the Minister for Automotive Transformation.

It brings together resources from across agencies to provide a focus, urgency and central point for South Australian Government activities in the transformation of the automotive sector and its workforce.

The Taskforce has a number of important functions including:

- working closely with automotive component manufacturing companies to support diversification and transition initiatives for a more sustainable future and to retain their workforce;
- managing the design and delivery of programs and services for displaced workers affected by the closure of the national automotive industry;
- liaising with the Commonwealth and Victorian Governments in the final design, implementation and roll-out of elements of the \$155 million Commonwealth Government Growth Fund to the automotive sector;
- working with GM Holden on options for the future use of the Elizabeth manufacturing site;
- participating in government-wide strategies to attract investment and jobs to the state; and
- providing a central point for partnership development and communication.

The South Australian Government has also put in place programs targeting manufacturing firms wanting to increase their competitiveness, access new market opportunities and to explore new business models.

Commonwealth Government support

Following a review of the South Australian and Victorian economies, the Prime Minister announced a \$155 million Growth Fund, to create new jobs and investment in communities impacted by the closure of the automotive sector, with a particular focus on South Australia and Victoria.

The recently-released Australian Industry Report includes a strong focus on structural change and Australian industry.

However, while structural change can play a positive role in the process of economic growth and raising living standards, it can impose costs and cause difficulties for some groups. The government can play a role in helping to remove or reduce some of the barriers to the adjustment process, such as the costs of re-training, unnecessary regulation, the costs of moving geographically and skills mismatches, for example. The Government would work with affected individuals, firms and regions to ensure that they have genuine options and support to adjust. Policies that support smooth structural change will better position the Australian economy to be more competitive and capitalise on growth opportunities while lowering the costs of adjustment.

The Government can also play a role in facilitating the economy's ability to exploit its areas of comparative advantage, to enable Australian businesses to turn structural change to their benefit. Developing business capabilities, harnessing the potential of science and research and encouraging collaboration between researchers and industry, forging new trade alliances and trade agreements, facilitating the commercialisation of ideas and building workforce skills are just some examples of such initiatives. Facilitating, rather than resisting structural change, is likely to pay economic dividends in the long-run.

(Commonwealth of Australia 2014, p. 122)

The Commonwealth Government statements and programs need to be implemented as soon as possible and closely monitored to ensure that programs have adequate funding for the purpose.

South Australian Government recommendations

The South Australian Government reiterates its urging of the Senate to reject the Automotive Transformation Scheme Amendment Bill 2014, and continues to recommend that:

- the decision to remove \$500 million from the ATS from 2014-15 to 2017-18 per the *Mid-Year Economic and Fiscal Outlook 2013-14* is reversed, so that the funds are retained in the Scheme;
- the original ATS end date of 1 January 2021 is retained; and

- ATS guidelines are expanded to enable companies to use the funds for diversification strategies, so that they can enter new markets for a sustainable future.

The South Australian Government also recommends that:

- mechanisms are explored to formalise the use of skills developed in the automotive industry for the benefit of other industry sectors;
- funding available through the Commonwealth Government Growth Fund is closely monitored to ensure that it is adequate to assist companies to diversify into alternative markets and industries; and
- per the letter from the South Australian Minister for Automotive Transformation, the Hon Susan Close MP, to the Senate Economics References Committee Chair, Senator Sam Dastyari, dated 15 December 2014, the Senate Economics References Committee travels to South Australia as part of its inquiry for two purposes:
 - a first-hand assessment of the devastating impact that GM Holden's closure will have on the northern Adelaide suburbs; and
 - to view what the South Australian Government is doing at Tonsley following the closure of the Mitsubishi automotive manufacturing facility. The Tonsley redevelopment project demonstrates what can be done to mitigate the impacts of the fallout when a key automotive manufacturer closes, while illustrating that action needs to be of an appropriate scale and supported by a realistic measure of funding.

Minister Close also seeks an opportunity to appear before the Senate Economics References Committee, along with the Chief Executive of the South Australian Department of State Development, Dr Don Russell, to represent the state's automotive supply chain businesses and their impacted communities in person.

References

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