

Driving the industry's future

- 5.1 This chapter considers the positioning of the automotive component manufacturing industry's future. The industry has proved itself to be competitive and innovative. Although it is facing challenges, it has the resources to move forward to a positive future.
- 5.2 The chapter discusses the development of automotive industry policy, including the support given by the Australian Government through the Automotive Competitiveness and Investment Scheme and one-off industry assistance.
- 5.3 The industry's capacity for innovation is key to its future ability to be a competitor in the global marketplace. Accordingly, the chapter discusses measures to support and promote the Australian industry as a centre for innovation.
- 5.4 Positioning the industry to maximise niche markets and high-end value adding roles will ensure industry sustainability. This shift is essential to securing skilling and sustaining employment in the automotive components industry into the future.

Innovation

- 5.5 The Australian automotive industry is an important avenue for the entrance of innovative product design and business processes into Australia to the benefit of many other industries. Automotive product design is constantly changing in response to advances in technology, regulatory standards and consumer preferences. Therefore, the industry must be at the forefront of innovation.

- 5.6 Innovation and investment are key partners. The automotive industry is supported by significant levels of investment by the Australian Government, primarily through the Automotive Competitiveness and Investment Scheme (ACIS), import tariffs and support for structural readjustment. State governments also support the industry heavily through various investment schemes, and the industry's own investment in research and development (R&D) is substantial.
- 5.7 Despite the significant levels of investment in the industry, jobs continue to be lost and business continues to move offshore to lower cost countries. The global competition to attract automotive R&D investment is fierce and current pressures on the industry indicate the need for it to undergo another major transition. The pressures also provide the industry with the opportunity to develop a future business strategy as a centre for innovation, design and engineering excellence.
- 5.8 The tyranny of distance that has detracted from Australia's capacity to be a major automotive exporter now finds Australia ideally located close to the central Asian markets. As some manufacturing moves offshore in response to employment and commodity cost pressures, an opportunity arises for the industry to focus on high value-adding roles. These roles are directed to project management of design and production.
- 5.9 The industry is unable to compete with the manufacturing labour costs of developing countries and therefore must promote its intellectual capacity and develop this as a niche market. This requires managerial capacity and innovation in business systems (that is, organisational innovation).
- 5.10 The Australian automotive sector already has a focus on organisational innovation and so is well positioned to consider a new industry focus. It has been suggested that the lack of organisational innovation has contributed to the decline of technical dominance by the United States. In contrast, 91 per cent of firms in the Australian automotive sector 'are focussing on innovation in business systems.'¹
- 5.11 Organisational innovation requires high investment and so is usually undertaken only by large firms. However, the significant government investment in the sector can be utilised to support the adjustment that needs to take place across the sector and assist in positioning the industry for its future.

1 Department of Education, Science and Training (DEST), *Mapping Australia's Science and Innovation – Main Report*, 2003, p. 103.

Development of industry policy

- 5.12 Until the early 1980s the Australian automotive environment was heavily protected by a high tariff environment. It was 'characterised by tariffs, export assistance, a local content scheme, import quotas and import tariff relief on a proportion of imported components.'² As a result, the industry was heavily dependent on Government assistance which ensured that it was an inward-focussed industry without the necessity to focus on developing export markets.
- 5.13 Despite consistent recommendations to open the automotive market, real changes did not occur until 1985 with the development of the Passenger Motor Vehicle Manufacturing Plan which became known as the 'Button Plan', after the then Minister for Industry and Commerce, Senator John Button. The Button Plan is still considered to be responsible for re-shaping the Australian automotive industry.
- 5.14 The Button Plan set out a vision for the industry which encompassed no more than three manufacturers producing less than six models. The plan was originally intended to run until 1992 and the essential elements were:
- maintenance of the tariff at 57.5 per cent;
 - increase in the import quota to 22 per cent but with the tariff on out-of-quota imports reduced to 100 per cent, to be phased down to the general tariff level of 57.5 per cent by 1992 at which point tariff quotas would become redundant;
 - inclusion of light commercial and four-wheel drive (4WD) vehicles in the tariff quota system; and
 - improved access to export facilitation.³
- 5.15 The Button Plan was reviewed in 1988 and amended in response to global pressures, most significantly the depreciation of the Australian dollar. The following changes were put in place:
- the immediate abolition of tariff quotas;
 - reduction in the general tariff to 45 per cent, phasing down to 35 per cent in 1992; and
 - reduction in the tariff on light commercial and 4WDs from 35 and 25 per cent down to 20 per cent and phasing down to 15 per cent by 1992.⁴

2 Department of Employment and Workplace Relations (DEWR), *Submission No. 11*, p. 11.

3 D. Richardson, 'Protection in the Motor Vehicle Industry', Department of the Parliamentary Library, *Current Issues Brief 22*, 1996-97, p. 2.

4 D. Richardson, 'Protection in the Motor Vehicle Industry', Department of the Parliamentary Library, *Current Issues Brief 22*, 1996-97, p. 2.

- 5.16 A 1990 review set out the post-1992 arrangements which included:
- phasing of the general tariff rates down from 35 per cent to 15 per cent in the year 2000;
 - reductions in the tariff on light commercials and 4WDs down from 15 to 5 per cent in 1996; and
 - retention of 15 per cent duty free entitlement for producers and export facilitation arrangements.⁵
- 5.17 Government assistance through tariff arrangements has been subject to significant review, in particular two reviews undertaken in 1997 and 2000 by the Productivity Commission.⁶ As a result, the tariff rate was cut by five percentage points on 1 January 2005 to 10 per cent and is planned to be further lowered to five per cent in 2010.
- 5.18 The Department of Employment and Workplace Relations (DEWR) notes that when combined with other industry assistance packages, 'the effective rate of protection (that is, the assistance to the industry's value added) is still around 20 per cent'. This means that 'the effective rate of protection is still more than four times the projected average for the whole of the manufacturing sector'.⁷
- 5.19 It is widely acknowledged that high levels of Government protection limit productivity and innovation. As a nation, Australia cannot compete in a global market through a policy of protectionism; Australia can only compete on the global stage by consistently keeping one step ahead of competitors through innovation.
- 5.20 In its 2002 report, the Productivity Commission noted that industry also acknowledges that reduction in government assistance can spur productivity improvements which in turn can:
- help firms cope with the additional competitive pressures associated with lower assistance;
 - enhance the industry's longer term capacity to attract capital and its competitiveness more generally; and
 - increase the industry's contribution to the economy and community well-being.⁸
- 5.21 While some submissions were in support of the historical high tariff system, they acknowledged that the tariff system will not work in the current political environment. Other suggestions were made regarding the
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5 D. Richardson, 'Protection in the Motor Vehicle Industry', Department of the Parliamentary Library, *Current Issues Brief 22*, 1996-97. p. 2.

6 Productivity Commission, *The Automotive Industry, May 1997*, and *Review of Automotive Assistance*, August 2002.

7 DEWR, *Submission No. 11*, p. 9.

8 Productivity Commission, *Review of Automotive Assistance*, August 2002, p. xxv.

- control of imported parts through quota or unwieldily quality control systems.⁹
- 5.22 In a liberalised global trading environment, it is not appropriate to have open trade policies balanced with restrictive practices. It is, however, important to ensure that trade policies, including free trade agreements, are enforced with Australia's best trading interests as a priority.
- 5.23 It is concerning to note reports of countries taking advantage of free trade agreements (FTAs) that provide for a zero tariff environment. For example, the Committee heard that the Australia–Thai FTA:
- has prompted Japanese companies to expand their operations in Thailand in order to take advantage of the zero tariff entry into Australia not available to Japan. This places further pressure on domestic producers as widely recognised Japanese brands are imported into Australia at very competitive prices.¹⁰
- 5.24 It is important that upcoming FTA negotiations with China, Malaysia and ASEAN aim to deliver preferential market access for automotive component companies. As noted by the Victorian Government, any such preferential market access will be transitory as 'China and ASEAN are currently negotiating FTAs with other countries'.¹¹ However, even short term advantage gained by preferential market access will afford component companies the opportunity to establish trade relationships and secure export markets.
- 5.25 The Committee welcomes the commitment by the Minister for Industry, Tourism and Resources that the import tariffs for the automotive sector will not be cut as part of the China FTA.¹²
- 5.26 A further tariff reduction to five per cent as planned for 2010 is also predicted to contribute to a downturn in output and employment by about nine per cent by 2016. This translates to an annual decline of 400 jobs per year across the industry.¹³
- 5.27 As yet, there has not been sufficient time to assess the full impact of the January 2005 tariff reduction on employment trends. The Committee's reference did not enable it to explore these issues in detail. Therefore, it is of the opinion that the review planned for 2008 should take place and future planned tariff movements should be considered carefully in terms
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9 Mr J. Carney, *Submission No. 1*, p. 1; Society for Australian Industry and Employment, *Submission 10*, p. 14.

10 Victorian Government, *Submission No. 24*, p. 8.

11 Victorian Government, *Submission No. 24*, p. 9.

12 'Manufacturing Tariffs to Stay in China FTA', accessed 20 August 2006, ABC, <abc.net.au>.

13 Productivity Commission, *Review of Automotive Assistance*, August 2002, p. 206.

of employment rates, market position, future FTA negotiations and the maintenance of a sustainable domestic supply base.

Automotive Competitiveness and Investment Scheme

- 5.28 The Automotive Competitiveness and Investment Scheme (ACIS) is the Australian Government's major policy investment initiative for the industry. The scheme is aimed at supporting the industry from 2001 to 2015 in the transition to five per cent tariff rates as outlined above. At present, ACIS is also the policy program guiding the automotive industry.
- 5.29 The scheme provides for \$7 billion to be available in three stages over the years from 2001 to 2015. In stage one, \$2 billion was delivered over 2001–2005. Stage two will deliver \$2 billion over 2006–2010 and stage three will deliver \$1 billion over 2011–2015, subject to modulation. A further \$2 billion is uncapped funding for the period of the scheme (2001–2015).
- 5.30 The eligible participants are automotive component producers (ACP), automotive machine tool and automotive tooling producers (AMTP), automotive service providers (ASP) and motor vehicle producers (MVP).¹⁴
- 5.31 ACPs, AMTPs and ASPs are jointly eligible to receive:
- 25% of the value of investment in approved plant and equipment; and
 - 45% of the value of investment in approved R&D.¹⁵
- 5.32 The total package of assistance for the 254¹⁶ ACPs, AMTPs, and ASPs registered for ACIS 'will be \$0.9 billion from 2006–2010 and up to \$450 million from 2011 to 2015'.¹⁷
- 5.33 MVPs are eligible to receive:
- 25% of the value of production of motor vehicles, engines and engine components, multiplied by the automotive tariff rate;
 - 10% of the value of investment in approved plan and equipment used to produce motor vehicles, engines or engine components;
 - a 25% investment incentive and a 45% R&D incentive in those instances where MVPs produce automotive components (other

14 An automotive service provider provides automotive services and is eligible for ACIS if those services are at least \$500 000 in value and at least 50 per cent related to the production of motor vehicles or original equipment.

15 Department of Industry, Tourism and Resources (DITR), *Submission No. 19*, pp. 6, 10.

16 Figure accurate at 1 March 2006.

17 DITR, *Submission No. 19*, p. 10.

- than engine and engine components), automatic machine tools, automotive machine tooling, or provide automotive services to a third party MVP; and
- up to 45% of eligible R&D under the \$150 million MVP R&D Scheme which is directed at encouraging Australian motor vehicle producers in high-end R&D technologies (from 2006-2010).¹⁸
- 5.34 The total package of assistance for MVPs from 2006–2010 will be \$1.1 billion and up to \$550 million from 2011–2015.
- 5.35 Approved plant and equipment includes plant and equipment for the manufacture, assembly, design, development or engineering of motor vehicles, engines, engine components, automotive components, automotive machine tools or automotive tooling (or plant the equipment that directly supports these). Also included is related plant and equipment that is necessary:
- to comply with Commonwealth, state or territory legislation;
 - for the activation of automotive-related manufacturing processes;
 - to facilitate the provision of automotive services or approved research and development; and
 - to indirectly support functions that are integral to the production of motor vehicles, engines, engine components, automotive components, automotive machine tools or automotive tooling.
- 5.36 Approved R&D includes:
- basic and strategic research;
 - industrial and engineering design;
 - production engineering;
 - development activities relating to the building and testing or prototypes;
 - re-engineering and modification of existing products and processes;
 - development and installation of purpose-designed systems for:
 - quality assurance and process control; or
 - materials or movement control;
 - testing and modification of new production systems (either purpose-built or interchangeable) to achieve repeatability within specific tolerances;
 - obtaining industrial property rights, including:

18 DITR, *Submission No. 19*, p. 10.

- the preparation and lodging of applications and other documents that are required to be lodged, in Australia or elsewhere, for the initial grant or registration of the rights; and
 - the initial grant or registration of the rights, in Australia or elsewhere;
 - for a participant, activities conducted at the participant's own expense that are aimed at improving a product or process of an engine or component supplier to the participant.¹⁹
- 5.37 Of the assistance paid to automotive component suppliers under ACIS, 64 per cent related to R&D and 36 per cent was for plant and equipment. It is worth noting that 'the top ten registered component producers have received 43.4 per cent of ACIS assistance paid to all the component producers.'²⁰
- 5.38 A review of ACIS was not a part of the terms of reference for this inquiry. However, because of its relevance to the viability of the industry, the Committee did hear evidence as to its effectiveness. ACIS is an essential part of supporting the future of the automotive industry in Australia and, as intended, provides a 'decade of certainty'. As the major Government assistance program for the automotive industry, ACIS, and the direction it sets for the industry will have significant impacts on future investment and employment trends. Evidence to the inquiry was overwhelmingly in support of the scheme.
- 5.39 The Committee acknowledges that there is a review of to ACIS due to occur in 2008. The policy underpinning the ACIS scheme must continue to support the transition to a lower tariff environment and focus on positioning the industry to compete in the changing global environment.
- 5.40 However, while ACIS was initially established to support the structural readjustment necessary after the change to tariffs, the industry and the economy has since undergone significant changes. There is evidence to indicate that the emergence of China, India and Thailand are causing rapid changes within the industry. Consequently, there are strong drivers for ACIS to be restructured to focus on supporting the industry to grow and respond to these competitive pressures rather than maintaining its current form.
- 5.41 The Federal Chamber of Automotive Industries (FCAI) told the Committee that large cars are the niche product market for the Australian

19 DITR, *Submission No. 19*, p. 11.

20 DITR, *Submission No. 19*, p. 6.

- industry.²¹ However, there are also opportunities to develop niche product markets in alternative technologies in response to the rising cost of oil and resultant public concerns about the cost of petrol.
- 5.42 Calls were made in submissions and other evidence by some parts of the automotive components sector for ACIS funds to be tied to a reciprocal obligation to source local parts.²² A requirement for ACIS recipients to source parts locally may conflict with World Trade Organisation (WTO) obligations.²³
- 5.43 Concerns were expressed that ACIS funds are given for R&D for which Australian products do not benefit. Because of this, there is little security for smaller manufacturers 'in terms of commitment for model and product life for which the investment and expenditure has been made'. This becomes a disincentive for R&D to take place.²⁴
- 5.44 Concerns were expressed that ACIS support for innovation should not be granted to develop products which use imported components. The Victorian Automotive Industry Strategic Action Group (AISAG) found that the current structure of ACIS support for MVP innovation 'has significantly contributed to an increase in imported components at the cost of local component producers.'²⁵
- 5.45 As discussed earlier in the report, the Committee shares the concerns about falling local content levels and the effect on supply chain employment. Consumers increasingly expect product disclosure information as a standard when making purchases of many Australian manufactured products. Therefore, it is not unreasonable to expect that consumers be given the option to support the local industry by being fully informed as to the percentage of local components in locally manufactured vehicles. This position is supported by FAPM.²⁶
- 5.46 ACIS does provide significant financial support for the industry. However, given the number of closures in the automotive components industry over the past 12 months, it would not appear to be sufficient of itself to secure the transition of the industry to a more sustainable future.

21 Mr P. Sturrock, Federal Chamber of Automotive Industries (FCAI), *Transcript of Evidence*, 22 June 2006, p. 13.

22 AMWU, *Submission No. 17*, p. 27; Mr D. Hugo, Flexdrive Cables, *Transcript of Evidence*, 26 June 2006, p. 13; Mr D. Cameron, AMWU, *Transcript of Evidence*, 26 June 2006, p. 23

23 Mr P. Clarke, DITR, *Transcript of Evidence*, 15 June 2006, pp. 4, 11.

24 Mr D. Hugo, Flexdrive Cables, *Transcript of Evidence*, 26 June 2006, p. 11.

25 Victorian Government, *Submission No. 24*, p. 24.

26 FAPM, *Submission No. 16*, p. 10.

- 5.47 Clearly, the innovation of the future is going to focus on sustainable technologies, including hybrid and other technologies with the most potential for growth. Without greater investment in this area, Australia is at risk of falling behind global competitors in technology innovation and business practices. Some evidence indicated that Australia is already perilously close to this stage.²⁷
- 5.48 A review of ACIS should include what role it can play in the establishment of Australia as a centre for automotive innovation. This role includes promoting investment for R&D in new and emerging technologies and showcasing Australia as a leading investment destination for high-end R&D.

Additional industry assistance

- 5.49 In addition to the substantial benefits paid under ACIS, the Australian Government has provided additional financial assistance to some automotive companies. For example:
- In 2002, Mitsubishi Motors was given \$85 million of combined Australian and South Australian Government assistance for the creation of an R&D facility and 900 new jobs.²⁸
 - In 2006, Ford Australia was given a financial assistance package of \$52.5 million for design, engineering and manufacturing projects, an R&D facility and the creation of 273 new jobs.²⁹
 - In 2006, GM Holden was given \$13.4 million of combined Australian, South Australian and Victorian Government assistance for R&D and training aimed at safety, fuel management improvements and the reduction in greenhouse gas emissions in some models.³⁰
- 5.50 The assistance was given on condition that the local component sector is given 'every fair and reasonable opportunity to supply necessary

27 Centre for TPM, *Submission No. 12*, p. 2; Victorian Government, *Submission No. 24*, p. 24; Mr B. Franklin, FAPM, *Transcript of Evidence*, 26 June 2006, p. 63; Mr David Lamb, CSIRO, *Submission No. 28*, p. 4.

28 J. Koutsoukis and S. Evans, 'No Jobs, No Money for Mitsubishi', *Australian Financial Review*, 27 April 2002.

29 Prime Minister of Australia, 'Assistance to Ford Australia', *Media Releases*, 5 May 2006.

30 Minister for Industry, Tourism and Resources, '\$13.4 million to Holden for safety and fuel upgrades', *Media Releases*, 25 October 2006.

components for these projects.³¹ This is consistent with Australia's WTO obligations.

- 5.51 However, as noted above, there are no local content reporting requirements. Therefore, determining whether 'fair and reasonable' opportunities are afforded to local component suppliers becomes difficult to measure.

R&D assistance

- 5.52 In addition to the R&D assistance received under ACIS, and the investment programs outlined above, automotive component producers can access the R&D Tax Concession:

[This] is a broad-based, market driven tax concession which allows companies to deduct up to 125% of qualifying expenditure incurred on R&D activities when lodging their corporate tax return. A 175% Incremental (Premium) Tax Concession and R&D Tax Offset are also available in certain circumstances. This program forms part of the Backing Australia's Ability - Building our Future through Science and Innovation \$5.3 billion package to follow on from the \$3 billion Backing Australia's Ability strategy announced in 2001.³²

- 5.53 The Committee heard evidence regarding the erosion of the real value of R&D Tax Concessions as a consequence of a 1995-96 reduction of the R&D Tax Concession from 150 per cent to its current level of 125 per cent. This erosion of value, compounded by lower corporate tax and coupled with the modulation of ACIS R&D credits at 50 per cent, makes 'the Australian automotive industry very uncompetitive in global terms as a location in which to undertake automotive R&D'.³³
- 5.54 The Committee notes the Department of Industry, Tourism and Resources' (DITR) 2003 evaluation which concluded that the 125 per cent R&D Tax Concession is an appropriate and effective policy measure. There has also been an increase in direct Government R&D support since 1995-96 which is in part a result of the introduction of ACIS.³⁴

31 Prime Minister of Australia, 'Assistance to Ford Australia', *Media Releases*, 5 May 2006.

32 DITR, *Submission No. 19*, p. 15.

33 FAPM, *Submission No. 16*, p. 26.

34 DITR website, accessed 23 March 2006, <industry.gov.au>; DEST, *Mapping Australia's Science and Innovation - Main Report*, 2003, p. 386.

- 5.55 It was put to the Committee by the Australian Manufacturing Workers Union (AMWU) that although R&D support for the sector through ACIS is high, the 50 per cent modulation rate effectively limits the support and does not encourage growth in investment. Further, the R&D Tax Concession should be extended to cover the portion of R&D investment that is not eligible for ACIS support due to the modulation rate.³⁵
- 5.56 The Committee notes the importance of ensuring that Australia is regarded favourably as a location for R&D investment and the gains to Australia for this investment in terms of job creation, skills transfer and retention.
- 5.57 Australia cannot compete in terms of attracting new manufacturing investment without attractive R&D support measures due to the strong competition provided by the emerging Asian markets in terms of lower wage and commodity prices. However, with a highly innovative industry already in place, Australia can promote its strengths in terms of a location to support the development and commercialisation of innovation.

Recommendation 12

The Committee recommends that the Australian Government review R&D assistance available to automotive component manufacturers to assess whether it is commensurate with incentives offered internationally.

- 5.58 The inquiry received evidence regarding inaccessibility of R&D tax concessions (both through ACIS and the R&D Tax Concession scheme) to foreign-owned multinational companies and their Australian based subsidiaries.³⁶ While the principle behind R&D assistance is to support Australian innovation, the OECD reports that R&D is becoming progressively more internationalised.³⁷ On average, OECD countries report a 16 per cent share of foreign affiliates undertaking R&D, with the United Kingdom, Canada and Ireland reporting in excess of 35 per cent.³⁸

35 Mr P. Conroy, AMWU, *Transcript of Evidence*, 26 June 2006, p. 30; AMWU, *Submission No. 17*, p. 27.

36 SA Government, *Submission No. 5*, p. 19; Ai Group and EEASA, *Submission No. 26*, p. 15.

37 OECD, *Science, Technology and Industry Scoreboard 2005*, p. 78; the United Kingdom, Canada and Ireland report the highest percentage share of R&D owned by foreign affiliates.

38 OECD, *Science, Technology and Industry Scoreboard 2005*, online version, accessed 21 August 2005, <thesius.sourceoecd.org/vl=22083205/cl=21/nw=1/rpsv/scoreboard/a10.htm>.

- 5.59 Given that the automotive industry is becoming increasingly characterised by international parent companies investing in affiliate production and R&D, it is multinational companies who may have the best capacity to support investment in R&D. If Australia wants a share of the lucrative automotive R&D market, then this is more likely to eventuate through support for Australian based subsidiaries of multinational companies.
- 5.60 The OECD has noted a trend towards:
- the emergence and development of international networks of co-operation agreements or alliances either between firms or between firms and government or university R&D bodies.³⁹
- 5.61 The Committee notes that tax assistance was considered in some detail previously by the House of Representatives Standing Committee on Science and Innovation in its 2003 inquiry report into business R&D expenditure in Australia titled *Riding the Innovation Wave: The Case For Increasing Business Investment in R&D*. The issue was again raised by the same Committee in the 2006 inquiry report titled *Pathways to Technological Innovation*.
- 5.62 Both of these reports made recommendations regarding the extension of R&D assistance to Australian subsidiaries of foreign-owned multinationals.⁴⁰
- 5.63 Representatives from DITR told the Committee that concessions for foreign-owned R&D were not provided because it raised the question of whether the concession was for overseas activity or the local industry.⁴¹
- 5.64 The Committee does not consider the concerns expressed by DITR to be unsurmountable. Given the critical importance of encouraging R&D investment and the reality that much of this investment comes from foreign-owned multinationals, the Committee is of the view that automotive component companies that are able to demonstrate the extent to which R&D work is undertaken in Australia should qualify for support.

39 OECD, *Science, Technology and Industry Scoreboard 2005*, online version, accessed 21 August 2005, <thesius.sourceoecd.org/vl=22083205/cl=21/nw=1/rpsv/scoreboard/a10.htm>.

40 Parliament of Australia, accessed 21 August 2006, Standing Committee on Science and Innovation (40th Parliament) *Riding the Innovation Wave: The Case for Increasing Business Investment in R&D* June 2003, <aph.gov.au/house/committee/scin/randd/report.htm>. and Standing Committee on Science and Innovation (41st Parliament) *Pathways to Innovation*, June 2006, <aph.gov.au/house/committee/scin/pathways/report.htm>.

41 Mr P. Clarke, DITR, *Transcript of Evidence*, 15 June 2006, p. 9.

Recommendation 13

The Committee recommends that the Australian Government extend R&D assistance to work undertaken by Australian based automotive component manufacturing subsidiaries of multinational companies where it can be demonstrated that the work is to be undertaken in Australia to benefit Australian products.

Intellectual property protection

5.65 The increase in global trade flows is posing some threats to the security of intellectual property rights. The Committee heard concerning evidence that some trading partners:

have little or no regard or respect for the protection of intellectual property which puts innovative Australian automotive component manufacturers at a further disadvantage as their import competitor need little or no investment in R&D and is effectively “stealing” technology.⁴²

5.66 To illustrate this point Mr Raymond Brown, of small Australian manufacturer Davies Craig, told the Committee:

I can give you another perfect example of that situation. Our major competitor in the electric fans area of our market – automotive cooling, electric fans – is in fact the Chinese, and I would have to say that four years ago we had a situation where one of the Chinese manufacturers copied our product absolutely to the last “t”, so not only the product itself – the packaging, the colour, the part numbers even, of the product. That was the extent of copying that we were experiencing and are still experiencing in the marketplace right now.⁴³

5.67 In the negotiation of free trade agreements it is imperative that the protection of intellectual property rights is treated with the utmost importance. Equally important is the application of appropriate sanctions for breaches.

42 AAAA, *Submission No. 18*, p. 5.

43 Mr R. Brown, AAAA, *Transcript of Evidence*, 21 March 2006, p. 17.

5.68 The Committee was told by DITR that, in regards to free trade negotiations:

the intellectual property issue in China is well and truly on the agenda. My understanding from talking to IP Australia, which is within our portfolio, is that the Chinese are moving very quickly to improve the administration of their intellectual property laws. My understanding on this – it is not my particular area of policy responsibility – is that the actual laws in China are not bad, it is the enforcement of them that has been a problem, but they are rapidly moving to improve that. One of the reasons for that is they realise that if they want to attract investment and intellectual property to grow and develop their own industries, they have to have adequate protection in place, because if they do not, companies will be reluctant to make those investments and make intellectual property available.⁴⁴

5.69 DITR further added:

about the APEC auto dialogue: at every meeting I have attended the intellectual property issue is pushed very strongly. The whole issue of counterfeit parts is constantly being pushed. Countries will need to recognise that if they wish to be competitive.⁴⁵

5.70 It is heartening that the issue of intellectual property protection, in particular for the automotive industry, is receiving due attention in trade and diplomatic negotiations. The Committee also acknowledges the difficulties associated with enforcement of breaches in other countries and the need for companies to invest in intellectual property protection where available.

5.71 This is not an issue confined to the automotive industry. It was also raised in relation to Chinese enforcement of intellectual property in the Standing Committee on Science and Innovation inquiry into pathways to technological innovation.⁴⁶

5.72 The Committee urges the Government to continue to place high priority on this issue and urges industry peak bodies to continue to work closely with IP Australia to report and monitor breaches.

44 Mr K. Pettifer, DITR, *Transcript of Evidence*, 15 June 2006, p. 13.

45 Mr P. Clarke, DITR, *Transcript of Evidence*, 15 June 2006, p. 13.

46 Standing Committee on Science and Innovation (41st Parliament) *Pathways to Innovation*, June 2006, <aph.gov.au/house/committee/scin/pathways/report.htm>, p. 121.

Automotive Centre of Excellence

- 5.73 The Automotive Centre of Excellence (ACE), as discussed in Chapter 3, will not only add intellectual capacity and value to efficient manufacturing, but allow Australia to promote itself internationally as a destination for automotive investment.
- 5.74 The Committee was told that the value of the ACE lies in the extent to which it can:
- strengthen the automotive industry's, and the wider manufacturing sector's, manufacturing and engineering capabilities to ensure they can compete globally;
 - improve education & training and research & development outcomes through promoting critical mass and network effects;
 - position Australia as a globally significant centre of excellence in the automotive industry, particularly in the areas of collaborative engineering services and niche manufacturing;
 - showcase Australia's automotive expertise;
 - position Australia as a supplier a high quality education and training (including distance delivery) services for the automotive industry;
 - build the industry's image to allow it to attract the talented employees that it needs;
 - broker best practice product design and manufacturing outcomes;
 - improve linkages (both physical and virtual) between industry stakeholders; and
 - allow high facility and equipment costs to be shared.⁴⁷
- 5.75 The stage one development focuses on the delivery of training. Stage two development will house the remainder of the automotive trades training and R&D facilities. Stage three development will host the commercial facilities in a hub that will provide an income stream for the ACE and be a central showcase for the industry. Stages two and three are yet to be funded.
- 5.76 The Committee is supportive of the continued development of the ACE and concludes that it will better integrate the industry by servicing the needs of education and training, R&D, industry collaboration and promotion.

47 Kangan Batman TAFE, *Submission No. 7*, p. 4.

- 5.77 While the Committee considers it essential that the industry be involved in funding and ownership of the ACE, it also considers that the Australian Government should commit to progressing the stage two development given its focus on developing R&D facilities and its potential to showcase Australian automotive innovation internationally.

Recommendation 14

The Committee recommends that the Australian Government commit to progressing, in partnership with industry, the stage two development of the Automotive Centre of Excellence in Melbourne. This may necessitate some Government start-up funding and addition to coordination support.

Promoting Australian industry

- 5.78 The Australian Government has recently established measures, such as the Automotive Industry Strategic Group (AISG) to assist in the promotion of the Australian industry within global supply chains. The AISG, led by the Minister for Industry, Tourism and Resources, comprises representatives from MVPs, component manufacturers and the relevant ministers from South Australia and Victoria.⁴⁸
- 5.79 The Committee was told that the Minister has been very active in pursuing new markets and talking to the MVPs to encourage them to provide new markets for suppliers. Although during this inquiry it was too early to determine whether this approach has been successful, it was credited with opening better communication between MVPs and component suppliers.⁴⁹
- 5.80 Various industry representatives informed the Committee that while they supported AISG's 'innovative and constructive' approach, there is a need for more opportunities for the industry to promote itself as a whole.⁵⁰ There is a call to focus on automotive component industry specific

48 DITR, *Submission No. 19*, p. 6.

49 Mr K. Pettifer, DITR, *Transcript of Evidence*, 15 June 2006, p. 4.

50 Mr R. Scoular, Ford Australia, *Transcript of Evidence*, 26 June 2006, p. 67; Mr M. Lee, Australian Die Casting Association (ADCA), *Transcript of Evidence*, 26 June 2006, p. 6; Mr D. Cameron, AMWU, *Transcript of Evidence*, 26 June 2006, p. 20.

facilitation to ensure that Australian component manufacturers are best able to access foreign markets.⁵¹

Recommendation 15

The Committee recommends that the Australian Government support the development of automotive component industry specific trade facilitation to ensure that Australian component manufacturers are able to access foreign markets.

Renewing the industry vision

- 5.81 While the Committee heard many predictions of the failure of the industry, it agrees with the Productivity Commission's 2002 finding that there is reason for optimism about the industry's future. The industry is currently facing new challenges, but it has survived and thrived through challenges of a similar magnitude in the past.⁵²
- 5.82 The difference this time is the context of globalisation and the influence of transnational market forces, a pervading pessimism in some parts of the automotive industry and the expectation of some that the onus is on Government to 'rescue' the industry.
- 5.83 The Committee disputes this pessimism and also the need for any rescue measure by the Government. The Committee is firmly of the view that the Government has expressed a commitment to the industry and that Australian manufacturers have the capability and competitive drive needed to sustain a strong automotive industry and strong levels of employment.
- 5.84 It has been made clear to the Committee throughout the course of this inquiry that a comprehensive vision is needed affirming the commitment of the industry to securing future automotive investment in Australia.
- 5.85 The Committee acknowledges that there is an industry vision for the advanced manufacturing industry, of which the automotive industry is a significant part. Released in July 2006, *Making it Global: Advanced Manufacturing Action Agenda* sets out the main areas that the sector will

51 FAPM, *Submission No. 16*, p. 15

52 Productivity Commission, *Review of Automotive Assistance*, August 2002. p. 198.

need to focus on in order to be internationally competitive and innovative.⁵³

- 5.86 *Making it Global* focuses on industry leadership and collaboration, market access and development, technology and innovation, skills and training, and measuring industry performance.
- 5.87 These Action Agenda measures will aid the automotive industry on a macro level; however the current fragmented nature of the automotive component industry, coupled with the already significant levels of public investment, means that a focussed automotive component industry vision is needed. A vision would assist in addressing issues such as declining employment levels, training and recruitment issues and the complexity of the interrelationships of the supply chain.
- 5.88 While ACIS indicates the Government's long-term commitment to the existence of an Australian automotive industry, it does not provide an industry vision and nor was it even intended to provide this.
- 5.89 To meet the new challenges facing the industry, the Committee has concluded that an articulated automotive component industry vision is needed that sets the baseline expectations of the industry across the supply chain. The vision must cover issues such as training and retention, export markets and programs, taxation and incentive system for innovation. An articulated vision will provide a context of security, both nationally and internationally, that may assist in attracting skilled workers and greater R&D investment.
- 5.90 The Government financial commitment through ACIS funding can be linked to this vision and used to support the industry to take its place as a strong competitor in the global marketplace. Government support should recognise manufacturer efforts to develop global niche markets. The Committee notes that such niche support was recently provided to Ford Australia for its development of a hybrid vehicle.
- 5.91 It is inevitable that a certain level of manufacturing activity will move off-shore to lower-cost countries. Australian automotive opportunities lie in skilled manufacturing, product and project design and innovation. In recognition of this, the industry vision must focus on establishing Australia as a centre of excellence and a niche market for innovative product and project development and design.

53 Department of Industry, Tourism and Resources, *Making it Global: Advanced Manufacturing Action Agenda*, July 2006.

- 5.92 A vision for the automotive component industry cannot be achieved without the commitment and leadership of industry. Motor vehicle manufacturers, automotive component manufacturers and all other participants along the automotive supply chain must work equitably and in collaboration to focus on how to achieve a long-term, sustainable future. Any cultural issues in the sector impeding this collaboration cannot be 'fixed' by government – instead, overcoming any such issues is reliant on the courage and leadership of industry players.
- 5.93 Despite the automotive component industry having received substantial government assistance over the last decade, there remains much that could be improved for the position of the sector. While acknowledging that there is this work to be done, the Committee reiterates its confidence in the future of the sector. During the course of the inquiry, there were many examples provided that demonstrated the innovation and capability of the industry.
- 5.94 However measures are needed to coordinate the strategic development of this innovation and capability in order to achieve a competitive sustainability in the global marketplace, rather than continue the ethos of maintaining the current domestic situation.
- 5.95 The Committee has made a number of strong comments about industry stepping up to its responsibilities and shaping its future and also about refining the focus of government support to ensure the industry objectives of growth and sustainability are realised.
- 5.96 There is no 'one size fits all' remedy to these issues. Instead, a number of challenges must be met by industry and facilitated by government policy makers to respond to the global market and the challenges this poses for the future of the Australian automotive component industry.
- 5.97 In light of this, the Committee considers there is a strong need to readjust some aspects of the support currently provided by government. However to effect change for the future of the sector, these changes must also be accompanied by a high level of industry responsibility and the type of industry-wide participation that was not afforded this inquiry.

5.98 The Committee considers the following to be priority issues:

- The vision for the automotive component industry should be clearly communicated and aim to develop Australia as a niche market of innovation and investment.
- The level of local components in locally manufactured vehicles should be made publicly available.
- The planned 2008 independent review of ACIS should consider the appropriateness of the ACIS structure, current eligibility categories and priorities, and the effectiveness of the scheme to assist the Australian industry to position itself to be globally competitive and sustainable over the long term.

Recommendation 16

The Committee recommends that the Australian Government, in partnership with industry, renew and communicate its vision for the automotive component industry that sets out the priority issues and measures to establish Australia as a niche market for innovation and investment.

Recommendation 17

The Committee recommends that the Australian Government reintroduce reporting on the level of local components in locally manufactured vehicles, consistent with World Trade Organisation obligations.

Recommendation 18

The Committee recommends that the Australian Government review of Automotive Competitiveness and Investment Scheme in 2008 consider:

- **current eligibility categories and priorities; and**
- **the effectiveness of the scheme in assisting the Australian industry to best position itself to be globally competitive and self-sustaining in the long-term.**

In conclusion

- 5.99 This inquiry has come at an important time for the Australian automotive components industry as it faces significant global and local challenges. At a global level there is increased competition from emerging economies, changes in production strategies and manufacturing models. Locally, there are challenges to be met in securing and training a skilled workforce and finding new markets, particularly export markets.
- 5.100 Given these challenges, the Committee wanted to ensure that the inquiry tackled these issues head-on and did not shirk from criticism of industry, government policy or MVPs. The report strongly endorses initiatives in some areas while urging industry leadership in other areas.
- 5.101 However, the Committee's desire to conduct an open and comprehensive inquiry was complicated by a number of elements. Firstly, there was a general lack of participation in the inquiry from some industry peak bodies and few businesses expressed interest in speaking to the Committee. Other companies who did not participate, despite the opportunity to provide evidence in a confidential forum, cited fears of retribution or loss of contracts.
- 5.102 There was also a perception amongst some areas of the industry that the 'solution' to current challenges was greater financial support to the industry from Government. The Committee has expressed its concerns regarding the lack of industry response to this inquiry and the need for the industry to assert its own direction and create the economically viable and globally competitive future that is within its reach.
- 5.103 This report makes a series of strong recommendations that assert a positive future for the Australian automotive components industry. These recommendations target the actions within the scope of the Australian Government to establish the market environment, investment incentives and workforce potential to enable this future. However, achieving and delivering on this future remains the realm of the industry.
- 5.104 To ensure that Government initiatives are establishing the framework environment for success, there is the need for adequate data on the components industry. Currently most ABS data is at the level of the entire automotive industry, which does not provide sufficient analysis to determine the status and needs of the automotive component industry. Given the foundational importance of this industry to many other sectors of the economy, the Committee recommends that steps are introduced to ensure data is made available specific to the automotive component industry.

- 5.105 Having more statistical data on the nature of change in the automotive component industry will assist in identifying future workforce needs, and so support planning to meet growth and technology changes in the industry.
- 5.106 The Committee has made a number of recommendations in the areas of training and addressing skills needs. First and foremost, adequate and informed industry representation on training issues across all aspects of the supply chain is essential. Because of the automotive training industry's lack of engagement with the inquiry, the Committee expresses its concerns that there is inadequate representation occurring at the industry skills council level and urges a review of the status of Automotive Training Australia.
- 5.107 A lack of clarity and active representation at this level can only hinder the industry's progress and its capacity to contribute to training programs.
- 5.108 Substantial on-the-job training takes place in the industry, and there is a need for the recognition and transferability of skills across the industry. The Committee recommends that these factors are considered in the review of manufacturing training packages.
- 5.109 There are innovative success stories in regards to training taking place in the industry. The NAMIG training model, the concept of a centralised teaching foundry and the development of the Automotive Centre of Excellence offer significant opportunities to deliver tailored training that meets the specific needs of regional areas and workplaces.
- 5.110 The Committee recommends that support, and where appropriate funding and resources, be allocated to ensure the consolidation and extension of these training models.
- 5.111 For training models to deliver an able and motivated workforce, the industry must attract both entry-level and skilled workers. With the industry in transition, and with the media giving precedence to news of redundancies over news of industry innovation, recruitment is often challenging.
- 5.112 This is not an issue that Government can resolve as it is for industry to counter negative stereotyping and assert its positive and lasting future as a key industry in Australia. However, as a starting point, the Committee recommends that Government support is given to establishing an industry leaders' forum that can develop strategies at a national level to overcome stereotypes surrounding the image of the industry and boost recruitment into the industry.

- 5.113 Recruitment strategies and a positive industry image are also paramount when there are labour and skill shortages in certain areas such as Australia is currently experiencing. The Committee notes the measures introduced by the Australian Government in October 2006 and considers that these initiatives will assist the automotive components industry in securing qualified workers in the future. The Committee recommends that, in addition to those measures introduced, tertiary automotive engineering courses be made eligible for fee concession schemes and options to retain in Australia local and foreign-born engineering students are further examined.
- 5.114 Potential means of addressing skills shortages and recruitment challenges in the industry are discussed. With redundancies occurring in some areas of the industry, and recruitment difficulties experienced in others, there is a need for industry to work more cohesively to develop innovative solutions to some of these workforce challenges. The Committee recommends labour adjustment programs take into account the workforce needs of the automotive component sector and ensure that support is provided across all affected sectors of the industry.
- 5.115 The focus of the recommendations addressing training, skill shortages and labour adjustment programs is on responding to immediate challenges within the industry and establishing a continuing workforce. While these responses are essential, they will not ensure the ongoing competitive viability of the industry without a shift in focus to a clear niche market position with the investment, drive and commitment of industry. Structural adjustment assistance and innovation incentives are provided so the industry has the ability to focus on achieving success in the global marketplace.
- 5.116 In recognition of the global economy dominating the automotive industry as a whole, the Committee recommends that R&D assistance is made available to Australian based automotive subsidiaries of multinational companies. This would ensure that Australia retains a share of the lucrative innovation and design market. Further, current R&D assistance should be assessed to ensure it is commensurate with incentives offered in other countries and so that, in as far as possible, Australia is able to attract innovation investment and not lose this market niche to off-shoring.
- 5.117 To this end, the Committee gives its support to the Automotive Centre of Excellence in Melbourne and recommends it receive the support necessary to ensure its progression beyond training delivery to the establishment of R&D facilities.

- 5.118 Innovation must be accompanied by careful selection of markets and recognising Australia's competitive advantages. As Australia's closest neighbours, Asian nations may either be viewed as fierce low cost competitors or burgeoning export markets. The Committee recommends support for automotive component industry trade facilitation.
- 5.119 In conjunction with securing export markets, there must be an ongoing domestic market for locally produced automotive components. While the automotive industry is comprised of several sectors, its overall survival depends on the integrated nature of the supply chain and on the viability of its sectoral parts.
- 5.120 Retaining local content levels in locally manufactured vehicles is a vital element in the industry's future and accordingly the Committee recommends the reintroduction of local content reporting. While it is not the role of Government to set local content levels, the Committee is firmly of the view that in return for public expenditure delivered through ACIS, the public expects disclosure about the local and imported content of vehicles.
- 5.121 Government assistance to the automotive industry is primarily delivered through ACIS. The Committee recommends that the planned review of ACIS in 2008 brings the scheme in line with the goal of a globally competitive and self sustaining industry into the future.
- 5.122 The Australian Government has a strong commitment to the industry. The industry has a long history in Australia and there are many outstanding examples of innovation, dynamic companies committed to meeting change and growing their markets and skilled and dedicated workers who value life-long employment in the industry.
- 5.123 The Committee is not about to 'set a plan' for the industry. The industry itself is the specialist in this area and it knows best its strengths, capabilities and the market opportunities. However, a sense of apathy pervades some areas of the industry, and alarmist media reports of redundancies and business closures do nothing to invigorate the industry and enable it to see clearly its future direction.
- 5.124 Consequently the Committee sees a need for industry and Government to communicate a shared vision. This vision should identify the priority issues for change and strategies for the industry to achieve its place as a niche market for innovation and investment.
- 5.125 It should be articulated how Government assistance, through ACIS and other concessional support, aids the transition to an industry of innovation that secures its position in the global automotive marketplace. Industry should also articulate its target markets, niche export potential, and

mechanisms to achieve an integrated industry with appropriate recognition of supply chain interdependency.

- 5.126 With a renewed vision that establishes respective responsibilities for industry and government, the Australian automotive components industry can shift into top gear and drive its own future – securing ongoing employment and retaining valuable skills in Australia.

Phillip Barresi MP

Chair

4 December 2006