



7th February 2006

The Secretary
Standing Committee on Employment, Workplace Relations and Workforce
Participation
House of Representatives
Parliament House
Canberra ACT 2600

Dear Sir/Madam,

Please find following a brief submission from the Australian Expert Group in Industry Studies to the House of Representatives Inquiry into Employment, Workplace Relations and Workforce Participation prepared by Dr Phillip Toner.

Yours sincerely,

Professor John Howard PhD
Director AEGIS
University of Western Sydney

Australian Expert Group in Industry Studies, University of Western Sydney
Submission to the Standing Committee on Employment, Workplace Relations
and Workforce Participation

1. This short note is in response to the request for a submission from the Australian Expert Group in Industry Studies to the House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation inquiry into the automotive component manufacturing industry.

2. This submission is brief as it focuses only on one narrow aspect of the terms of reference of the Committee's inquiry. The subject of the submission is the trade performance of the motor vehicle and parts industry. Nevertheless, this issue highlights the challenges faced by the automotive sector in Australia.

3. Table 1 indicates that the nominal value of automotive imports, including components, increased from \$6.14 bn in 1989-90 to \$19.90 bn in 2002-03 (Table 1). This is an increase of 224 percent. Over the same period value added amongst Australian manufacturers in the automotive industry fell from \$5.25bn to \$5bn, a fall of 5 percent. In other words, over the 14 years to 2002-03 the nominal value of imports increased two and quarter times, but the value of local production fell in net terms. Another way of expressing this is that in 1989-90 total value added was equal to 85 percent of imports, but by 2002-03 this had fallen to just 25 percent. Value added is a measure of the net value of production in an industry. (In approximate terms it is the difference between turnover of an industry and inputs to production purchased from other industries. It includes for example, wages, gross profits and capital depreciation in an industry).

The fall in local value-added can be explained, in part, by the combined effect of consumers and manufacturers substituting imported motor vehicles and parts for locally produced products. Consumers are choosing to buy imported product and manufacturers are increasingly using imported components instead of locally produced components. The latter effect is evident in the decline in local content over the period.

Local manufactures are also importing motor vehicles from their overseas affiliates that compete with their local production. (For example, all of the four local producers Holden, Ford, Mitsubishi and Toyota import components used in the production of local vehicles as well as importing vehicles and associated parts). This substitution on the part of consumers and local producers is supported by the fact that whereas value-added of local production fell by 5 percent, turnover of local manufacturers increased by 90 percent over the same period. The rise in turnover is accounted for in large part by sales of imported components and vehicles by local manufacturers.

4. These adverse trends in the automotive industry are part of a larger deterioration in the performance of Extensively Transformed Manufactures in Australia, of which the automotive industry is an important part. All merchandise trade is classified by the Department of Foreign Affairs and Trade on the basis of the degree of processing into extensively transformed or simply transformed manufactures (STMs). In 2004-05 Australia imported \$110bn of ETMs and exported \$25bn in ETMs resulting in a trade deficit in ETMs of \$85bn. This is equivalent to nearly 10 percent of GDP. Australia's deficit in automobiles and parts is the equivalent of 2 percent of GDP. Over the last four years the level of ETM exports actually declined.

5. The inference to make from these data is that not only is Australia becoming less competitive in the manufacture of automotive products but this is part of a larger trend which has seen the nation's ETM performance deteriorate markedly, especially over the last four years. It is clear that current policies for the promotion of ETM exports, in terms of skills, R&D, innovation and investment need to be re-evaluated.

6. If you would like further details on these matters please contact me on (02) 82556210 or ph.toner@uws.edu.au.

Dr Phillip Toner
Senior Researcher
AEGIS, UWS

Table 1: Selected Imports and Value-Added Data. Australian Automotive Industry Current Prices.

Financial year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Autos Imports Total \$bn	5.68	6.14	5.35	5.81	7.45	9.03	11.05	10.39	10.97	13.94	14.66	15.45	17.48	18.13	19.90	20.92	22.68
Autos Value Added \$bn		5.25							4.21	5.07	4.8	3.8	4.6	4.7	5.0		
Value Added as a % of Imports		85.4							38.3	36.4	33.2	25.0	26.6	26.2	25.4		
Autos Turnover \$bn		12.61							15.06	15.50	16.72	17.43	23.76	23.80	23.90		
Turnover as a % of Imports		205.1							139.5	111.2	114.0	112.8	135.9	131.2	120.1		

ABS Manufacturing Industry, Australia (Cat No. 8221.0)

DFAT Composition of Trade Australia 2004-05, Canberra, unpublished data

Table 2: Selected Import and GDP Ratios. Australian Automotive Industry

Financial year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
ETM Imports	33.9	37.7	35.5	37.2	43.5	48.0	56.5	58.7	59.3	68.6	74.1	82.1	87.1	89.1	98.9	98.6	110.2
ETM Exports	5.8	7.2	8.5	9.7	12.0	13.8	15.3	17.9	19.1	20.1	19.5	21.9	25.2	25.9	24.7	23.3	24.8
ETM Deficit \$bn	28.1	30.5	26.9	27.5	31.5	34.2	41.2	40.8	40.2	48.5	54.5	60.3	61.9	63.2	74.2	75.3	85.4
ETM Trade Deficit as % of GDP	7.7	7.7	6.6	6.6	7.2	7.4	8.5	7.9	7.4	8.4	9.0	9.3	9.0	8.6	9.5	9.0	9.6
Autos + Parts Trade Deficit \$bn	4.9	5.2	4.0	4.5	5.9	7.4	9.2	8.5	8.4	11.4	11.9	11.7	12.8	13.2	15.2	16.1	18.0
Autos Trade Deficit as % of GDP	1.0	0.9	0.7	0.8	0.9	1.0	1.2	1.1	1.0	1.4	1.3	1.3	1.3	1.2	1.4	1.4	1.5
Auto Parts Trade Deficit as % of GDP	0.4	0.5	0.3	0.3	0.4	0.6	0.7	0.6	0.5	0.6	0.7	0.6	0.6	0.6	0.5	0.5	0.5
Auto + Parts as % of GDP	1.4	1.3	1.0	1.1	1.4	1.6	1.9	1.6	1.5	2.0	2.0	1.8	1.9	1.8	1.9	1.9	2.0
MV+ Parts as % of ETM Trade Deficit	17.5	17.1	15.0	16.5	18.8	21.6	22.4	20.8	20.9	23.5	21.8	19.4	20.7	20.9	20.5	21.3	21.1

Source: ABS Australian National Accounts 2004-05 (Cat No 5204.0) Table 5. Expenditure on GDP, Current prices (\$m)

DFAT Composition of Trade Australia 2004-05, Canberra, unpublished data