

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON EMPLOYMENT
WORKPLACE RELATIONS
AND WORKFORCE PARTICIPATION

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Dr Anna Dacre
Committee Secretary
Standing Committee on Employment, Workplace Relations
and Workforce Participation
PO Box 6021
Parliament House
Canberra ACT 2600

Dear Dr Dacre

Inquiry into employment in the automotive component manufacturing industry

Thank you for your letter to Mr Mark Paterson of 12 May 2006 concerning the inquiry into employment in the automotive component manufacturing industry currently being undertaken by the Standing Committee on Employment, Workplace Relations and Workforce Participation.

As requested, please find enclosed employment figures for motor vehicle parts and accessory equipment manufacturing, for several selected countries up to 2002. This is the latest data available to the Department. Also enclosed is a summary of the Department's understanding of international investment incentives for industry in selected countries, that may be relevant for automotive manufacturers.

Thank you for providing the Department an opportunity to appear at a public hearing on Thursday 15 June 2006. The Department will be represented by myself and Mr Peter Clarke, General Manager, Automotive, TCF and Engineering Branch.

Yours sincerely

Ken Pettifer
Head of Division
Manufacturing, Engineering and Construction Division

3/ May 2006

Table 4.1: Employment in motor vehicle manufacturing (1998 -2002; units in thousands)

	Industry Definition	1998	1999	2000	2001	2002
Argentina	motor vehicles and parts	na	46.8	na	na	na
Brazil	motor vehicles and parts	250.0	255.1	259.1	254.8	250.1
China	motor vehicles and parts	1,963.0	1,807.0	na	na	na
India	motor vehicles and parts	281.2	288.6	na	na	na
Japan	motor vehicles and parts	734.0	704.9	683.1	664.0	646.2
S Korea	motor vehicles and parts	186.8	193.5	na	na	na
Austria	motor vehicles and parts	27.5	28.2	28.6	29.8	30.2
Belgium	motor vehicles and parts	54.8	52.7	54.0	53.2	51.0
Finland	motor vehicles and parts	7.4	7.3	7.5	7.2	7.1
France	motor vehicles and parts	269.4	273.8	277.2	276.7	273.2
Germany	motor vehicles and parts	806.2	835.5	855.5	867.6	866.6
Italy	motor vehicles and parts	190.3	181.0	178.8	175.7	163.9
Netherlands	motor vehicles and parts	27.7	28.0	28.0	26.8	26.8
Portugal	motor vehicles and parts	23.6	24.4	28.2	20.9	20.0
Spain	motor vehicles and parts	154.8	159.5	165.6	161.9	158.5
Sweden	motor vehicles and parts	70.8	72.3	77.5	79.1	80.6
UK	motor vehicles and parts	251.9	224.8	231.3	222.4	219.2
Czech Rep	motor vehicles and parts	67.0	69.4	78.5	na	na
Hungary	motor vehicles and parts	33.9	32.1	33.2	36.2	na
Poland	motor vehicles and parts	108.0	100.0	na	77.6	74.3
Romania	motor vehicles and parts	na	86.2	76.0	74.7	na
Russia	motor vehicles and parts	662.0	534.0	535.0	na	na
Serbia	means of transportation	65.6	60.8	56.0	na	na
Slovak Rep	motor vehicles and parts	na	na	14.7	na	na
Slovenia	means of transportation	7.6	9.8	9.4	6.4	na
Canada	motor vehicles and parts	163.0	168.0	172.0	163.0	167.0
Mexico	motor vehicles and parts	137.8	140.0	148.1	138.1	na
USA	motor vehicles and parts	na	1,312.6	1,313.6	1,212.8	1,151.6
S Africa	motor vehicles and parts	77.1	77.7	79.2	na	na

na= not available
Source: VDA

changes over three or more years. Only the five countries as noted had an increase of more than 2.5 percent. In contrast, thirteen vehicle-producing countries had declines in employment. The remaining 6 stayed about even. In other words, only about one in five vehicle-producing countries had a notable improvement in employment.

4.3 Assembly employment declines compared to auto parts

For many vehicle-producing countries, the number of workers employed in vehicle assembly, including engines and bodies, has been declining relative to employment in auto parts manufacturing. The adoption by auto companies around the world of so-called lean production techniques and just-in-time delivery systems associated with the Toyota Production System has played a critical role. The restructuring that has taken place as a result of employers im-

plementing lean systems, as described in the *Challenges and Strategies* section of this IMF Auto Report, has significantly altered employment patterns and conditions in the global automotive industry.

Transnational auto assembler companies have restructured production and supply chains in pursuit of several objectives. Gaining faster time-to-market for their products, increasing flexibility in operations and how workforces can be deployed and utilized, and shifting more risks and responsibilities onto suppliers while demanding continuous price concessions, are frequently identified. Wages and conditions for many workers in the assembly and parts industry have been under constant pressure as a result. Some of the most difficult conditions occur in the supply chain, the worst taking place in Export Processing Zones (EPZs) where systematic violations of labor and workers rights occur.

As a result of restructuring we would not be surprised to see the statistics indicate a decline in the percentage of employment in assembly. Put another way, we expect the restructuring of the auto industry, which has long included outsourcing practices and the dis-integration of what were once "in-house" operations, to be an important factor causing the share of employment in the auto parts sector to rise. The statistics in our Tables, in fact, strongly suggest this.

Table 4.2: Employment in motor vehicle assembly, including engines and bodies (1998 -2002; units in thousands)

	Industry Definition*	1998	1999	2000	2001	2002
Brazil	motor vehicles	83.0	85.1	89.1	84.8	82.1
China	motor vehicles and engines	723.0	626.0	na	na	na
Indonesia	motor vehicles and engines	38.4	41.5	49.8	na	na
Japan	mv, engines and bodies	211.0	202.6	196.3	190.9	185.7
S Korea	mv, engines and bodies	92.6	85.3	na	na	na
Thailand	motor vehicles and engines	78.6	97.2	101.6	na	na
Austria	mv, engines and bodies	17.8	18.7	17.9	18.7	18.4
Belgium	mv, engines and bodies	46.7	44.1	44.3	42.8	41.0
Finland	mv, engines and bodies	6.6	6.5	6.7	6.5	6.3
France	mv, engines and bodies	190.0	193.0	180.5	179.8	177.5
Germany	mv, engines and bodies	549.2	565.7	570.9	570.2	559.1
Italy	mv, engines and bodies	113.8	104.3	100.2	85.9	76.8
Netherlands	mv, engines and bodies	22.0	22.4	22.2	21.4	21.4
Portugal	mv, engines and bodies	13.6	12.2	13.0	12.4	11.9
Spain	mv, engines and bodies	93.1	94.6	98.5	94.3	92.4
Sweden	mv, engines and bodies	48.5	53.5	53.6	55.3	56.4
UK	mv, engines and bodies	150.8	127.9	130.7	123.3	121.3
Poland	mv, engines and bodies	na	na	na	28.9	24.7
Ukraine	motor vehicles	49.0	47.0	47.1	na	na
Canada	mv, engines and bodies	76.0	75.0	74.0	68.0	69.0
Mexico	mv, engines and bodies	92.7	94.1	98.4	91.9	na
USA	mv, engines and bodies	na	475.5	474.1	438.1	420.5
S Africa	mv, engines and bodies	32.5	32.5	34.2	na	na

* mv = motor vehicles

na=not available

Source: VDA

Table 4.4 ranks vehicle-producing countries by the share of their industry employment in the vehicle assembly sector for 1999. In Japan, for example, only 29 percent of employees in 1999 worked in the assembly sector (including engines and bodies), the lowest share among the listed countries. Japan's remaining 71 percent of employees worked in the auto parts sector. At the other end of the range, Table 4.4 shows 84 percent of employees in Belgium worked in the assembly sector and only 16 percent in auto parts manufacturing.

A host of factors contribute to the ranking, such as the structure and historical development of the auto industry in a particular country, the nature of its international trade relations within and across vehicle-producing regions. Of course, it partially reflects the comparative size of nations' auto parts sectors. However, the ranking also strongly suggests where lean production, just-in-time systems and outsourcing approaches have become most pronounced; namely, in the U.S. and in Japan. The impacts of globalization and TNC strategies in the automotive industry may also be partially reflected in Brazil's result. The ranking of European countries at the other end of the spectrum suggests that relatively narrower disparities between assembly and parts workers, together with sector-wide bargaining, can act to lessen incentives to outsource.

Table 4.3: Employment in motor vehicle parts and accessory equipment (1998-2002; units in thousands)

	Industry Definition*	1998	1999	2000	2001	2002
Brazil	motor vehicle parts	167.0	170.0	170.0	170.0	168.0
China	mv parts and accessories	759.0	730.0	na	na	na
Japan	mv parts and accessories	523.0	502.3	486.8	473.1	460.5
S Korea	mv parts and accessories	94.2	108.2	na	na	na
Austria	mv parts and accessories	9.7	9.5	10.7	11.1	11.8
Belgium	mv parts and accessories	8.1	8.6	9.7	10.4	10.0
Finland	mv parts and accessories	0.8	0.9	0.9	0.8	0.8
France	mv parts and accessories	79.4	80.8	96.7	96.9	95.7
Germany	mv parts and accessories	257.0	269.8	284.6	297.4	307.5
Italy	mv parts and accessories	76.5	76.7	78.6	89.8	87.1
Netherlands	mv parts and accessories	5.7	5.5	5.8	5.5	5.5
Portugal	mv parts and accessories	9.9	12.1	15.2	8.5	8.0
Spain	mv parts and accessories	61.7	64.8	67.2	67.5	66.1
Sweden	mv parts and accessories	22.3	18.7	23.9	23.8	24.2
UK	mv parts and accessories	101.1	96.9	100.6	99.1	97.9
Poland	mv parts and accessories	na	na	na	48.8	49.7
Slovak Rep	mv parts and accessories	na	na	4.7	5.7	na
Canada	mv parts and accessories	87.0	93.0	98.0	95.0	98.0
Mexico	mv parts and accessories	45.1	45.9	49.7	46.2	na
USA	mv parts and accessories	na	837.1	839.5	774.7	731.1
S Africa	mv parts and accessories	36.2	35.4	36.1	na	na

* mv = motor vehicles
na=not available
Source: VDA

This brings us to the other important and cautionary indication from the figures in Table 4.4. Over time, we see that in all but one of the countries for which comparable data exist, the share of employment in the assembly sector dropped. (A comparable earlier figure is not available for the U.S. because of a switch in classification systems, but extensive outsourcing and dis-integration of U.S.- based auto TNCs in North America means a very high likelihood that the assembly sector share of auto employment declined there too.) The figures point to a cautionary sign that the challenges posed by outsourcing and disparities among assembly and parts workers remain.

Table 4.4: Percent of industry employment in assembly
(including engines and bodies)

Country	1994	1999	2002	Change	
				99 v 94	02 v 94
Japan	31	29	29	-2	-2
Brazil		33	33		
USA		36	37		
S Africa		42			
S Korea	43	44		1	
Canada	48	45	41	-4	-7
Portugal	49	50	59	1	10
UK	62	57	55	-5	-7
Italy	70	58	47	-13	-24
Spain	64	59	58	-4	-5
Austria	74	66	61	-7	-13
Mexico		67			
Germany	74	68	65	-7	-10
France	71	70	65	-1	-6
Sweden	80	74	70	-6	-10
Netherlands	86	80	80	-6	-6
Belgium	86	84	80	-2	-5

Source: VDA, IMF

International Investment Incentives for Industry

Providing incentives to attract FDI

A departmental analysis of 45 developing countries found that 85% offered some kind of tax holiday or reduction of corporate income tax for foreign investment. In developed countries, the nature of that support has shifted over the last decade away from market protection measures (high tariff and non-tariff barriers, minimum local content requirements, etc) to subsidies of various forms (investment attraction, designated regional development zones, innovation and Research and Development (R&D), skills development, tax concessions, etc). This shift was encouraged through new WTO Agreements aimed at liberalising trade and investment. Automotive support policies internationally can be broadly classified into eight types:

- Import tariffs;
- Non-tariff import barriers;
- Investment incentives;
- R&D assistance;
- Education and training support;
- Regional aid;
- Trade blocs; and
- Corporate tax rates.

Canada

The Ontario Government initiated the Ontario Automotive Investment Strategy, which is designed to support private sector investment with skills training; innovation and research; improved infrastructure; and energy efficiencies and environmental technologies.

United States

State Governments, particularly in the Southern States, have been active in offering investment incentives to auto makers. Incentives include property tax abatements, lower electricity rates, extension of infrastructure, payments toward worker training programs, job creation tax credits, pre-employment job training programs, combined with project specific incentives.

Mexico

Mexico has two main programs to stimulate manufacturing – Maquiladora and PITEX (Program for Temporary Imports to produce Exports) – that largely operate in the same manner. The first is focused on companies that specialize in in-bond manufacturing and export, while the second is for companies that may have significant domestic sales. Both programs exempt companies from import duties and applicable taxes (e.g. VAT) on inputs and components incorporated into exported manufactured goods. In addition, capital goods and the machinery used in the production process are tax exempt, but are currently subject to import duties.

Mexico's state government incentives include project subsidies or other financial assistance, employee housing, R&D tax exemptions, payroll tax exemptions, supplier development programs and state-paid worker training.

Brazil

Brazil actively sought investment in the automotive industry. A typical auto-sector investment incentives package includes both financial and fiscal incentives, with both state and municipal governments adding to this. The fiscal incentives are commonly state sales-tax holidays and exemptions from municipal taxes and the financial incentives commonly include the provision and preparation of the project site and buildings, along with dedicated infrastructure.

United Kingdom

The UK offers incentives for companies locating in depressed regions of the country, as long as the investment generates employment. Regional Selective Assistance (RSA) is also available from the central government for qualifying projects. Grants are the main type of assistance, and the level of grant is based on capital expenditure costs and expectations of job creation. The UK government has created a new automotive academy to perfect and share production techniques between the UK's top car engineers and manufacturers.

France

The formal French investment regime is among the least restrictive in the world. There is no generalized screening of foreign investment. Only acquisitions, irrespective of size or the nationality of the investors, involving public order, the national security of France or the national defence interests are subject to prior approval by the Finance Minister.

Germany

There are about 3,000 incentive programs for investors in Germany, offered by EU, federal, and state authorities. Cash grants are available for improving the structure of regional economies and the economy as a whole. The government has placed particular emphasis on investment promotion in the former East Germany and has offered a large number of incentives to this end. Available incentives currently include cash grants; tax incentives; investment grants; and credit programs.

Spain

A range of investment incentives exists in Spain. Authorities that provide incentives in Spain include the EU; Spanish Government (usually to match EU funding); Regional Governments and Municipalities. Types of incentives available include subsidies; tax exemption; credit access; customs duty exemption; land grants; subsidised training; and supply of infrastructure facilities.

Czech Republic

The Czech government has in place an approved package of incentives which can be taken up by foreign and domestic firms. The package includes relief from corporate taxes for up to 10 years, job-creation grants, re-training grants and opportunities to obtain low-cost land. A tax incentive is also available for the expansion of an existing manufacturing investment. Subsidies are offered for services centres for software development, customer service and repairs. Tax deductions for new machinery, real estate tax relief, job creation grants, re-training grants, simplified customs procedures and duty-free import of machinery are also available.

South Africa

The Motor Industry Development Program (MIDP) was designed to help the industry adjust and increase its competitiveness in the new post-apartheid trade policy environment. The program comprises four principal elements: reduction of import duties on vehicles and components; Import Rebate Credit Certificates to offset duties on imported vehicles and components; access to the standard duty drawback program for exporters; a duty free allowance on imported components and a "Productive Asset Allowance" that provides import duty credits equal to 20% of the value of qualifying investments.

India

Several non-tax incentives, in the form of capital subsidies and concessional credits are offered by the central and state governments in the interest of developing backward areas, exports or some specific industries. No distinction is made between domestic and foreign investors.

China

China has developed and expanded a complex system of investment incentives over the last twenty years. The Special Economic Zones (SEZs) of Shenzhen, Shantou, Zhuhai, Xiamen and Hainan, 14 coastal cities, hundreds of development zones and designated inland cities all promote investment with unique packages of investment and tax incentives. Chinese authorities have also established a number of free ports and bonded zones. In recent years, SEZs have sought to enhance their autonomy while officials from inland China have pressed the central government to reduce SEZ privileges. To make progress toward a consistent (and required) national trade regime as part of its WTO accession, China has indicated that it will not introduce any new SEZ investment incentives and will decrease existing incentives over time. It also reduced by more than half the number of SEZs in 2004.

Thailand

The Thai Government is actively seeking to develop its auto manufacturing sector by offering incentives and creating an investment friendly policy environment. The auto sector development strategy, launched in early 2002, offered all automotive projects with investment values of 10 billion baht (US\$254,000) and related parts production a permanent exemption of import tax on machinery regardless of the investment zones.

In July 2004 the Thai Government announced an additional investment strategy to support the auto sector. The strategy provides tax and non-tax incentives as follows: exemption or reduction of import duties on imported machinery, materials and components; exemption of corporate income taxes for three to eight years; permission to bring in foreign technicians and experts; and permission to take or remit foreign currency abroad.

Philippines

Export-oriented companies registered with investment agencies such as the Philippines Board Of Investment, Philippine Economic Zone Authority, Clark Development Corporation and Subic Bay Metropolitan Authority are entitled to incentive packages such as income tax holiday, tax and duty free importation of capital equipment and raw materials. Assemblers and manufacturers who do not operate a customs bonded manufacturing warehouse and/or whose facilities are not located inside export zones are refunded duties paid on raw materials used in the manufacture or production of articles upon exportation of the same through a tax credit system.

Malaysia

Malaysia is to introduce the following measures to support the auto sector: establishment of an Industrial Adjustment Fund; provision of incentives to components and parts manufacturers to upgrade quality, increase market access, enhance skills and enable expansion into the global supply chain of the major automotive companies; provision of training grants for automotive manufacturers, assemblers and components and parts manufacturers; and provision of R&D grants.