



Australian Government

**Department of Industry
Tourism and Resources**

**House of Representatives Standing Committee
on Employment, Workplace Relations and
Workforce Participation**

**Inquiry into Employment in the Automotive
Component Manufacturing Sector**

**Submission by the Department of Industry,
Tourism and Resources**

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Introduction

The House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation agreed on 6 December 2005 to conduct an inquiry referred to it by the Minister for Employment and Workplace Relations into employment opportunities and challenges in the Australian component manufacturing sector with a focus on the following issues:

- Current and future employment trends in the industry;
- Emerging skill shortages and appropriate recruitment and training strategies;
- Labour adjustment measures required to assist redeployed and affected workers; and
- Measures to support skills development, innovation and investment in the industry.

The Minister for Industry, Tourism and Resources, the Hon Ian Macfarlane wrote to the chair of the Committee on 20 December 2005, confirming that the Department of Industry, Tourism and Resources (DITR) will provide a submission.

Department's Role

DITR advises the Australian Government and develops and implements policies which promote the competitiveness of the Australian automotive industry through a transition to lower tariffs and assistance. Strengthening the linkages between Australian-based firms and the global industry is an important part of this approach. The Department also conducts research and analysis to underpin policy formulation and evaluation, including the electronic publication of Key Automotive Statistics. It provides advice on general automotive trade issues, including advice on the implications for the automotive industry of proposed Free Trade Agreements.

Background

The Australian Automotive Component Industry and Drivers of Demand

In 2002-03 (latest available data) the automotive component industry had a turnover of approximately \$9.2 billion. R&D expenditure in the motor vehicle and parts sector in 2003-04 was \$721 million and has been growing at an average annual rate of 10.8 per cent since 1995-96. In 2004 return on sales in the automotive industry was 2.2%. There are about 250 producers of automotive components in Australia. In 2004-05, the automotive component industry employed an estimated 48,450 persons. More details on the industry are at [Attachment A](#).

The key drivers of demand for automotive components in Australia are sales of domestically produced vehicles, the level of local content in those vehicles, and exports of components directly or in exported vehicles. For the reasons set out below, the level of that demand is being placed under some sustained and increasing pressure. Reductions in demand are flowing through into job losses in the sector.

Global environment

The world automotive industry is intensely competitive and undergoing constant structural change. Many of these pressures stem from world overcapacity in the production of automobiles and components and the emergence of new sources of low cost competition, including from China.

Consumer tastes are also changing and there is a growing demand for small, more fuel efficient, vehicles. A number of major vehicle manufacturers have merged in an effort to reduce costs and achieve greater scale efficiency. They have also sought to reduce the cost of production by moving to common vehicle platforms, sourcing from fewer larger component suppliers, switching supply to lower cost sources, or asking component producers to achieve cost down targets.

These pressures have had a direct impact on the financial health of the parent companies of Mitsubishi Australia, Ford Australia and GM Holden. These companies are responding by reducing capacity, introducing new products, and driving costs from their business, including by seeking lower prices from component suppliers.

Domestic environment

This global environment is having a significant impact on the domestic automotive and component supply industry. The relatively high Australian dollar exchange rate and mature market for the large cars produced by the Australian industry is adding to this pressure. Overall, this has meant that the domestic production of motor vehicles by the 4 local producers – GM Holden, Ford, Toyota and Mitsubishi has declined slightly over the last 12 months – by about 15,000 units.

Local vehicle sales

Despite a strong domestic market for motor vehicles the number of domestically manufactured vehicles sold in Australia has declined. The total number of vehicles sold in Australia in 2005 rose to a new record for the fourth year in a row, with 988,269 units sold. However, the number of Australian made vehicles sold in 2005 dropped 9.3 per cent to 248,912. Numbers have been declining since 2003, which appears to be an emerging trend. The market share of domestically produced vehicles sold in Australia has reduced from 43 per cent in 1996 to 25 per cent in 2005.

Export Sales

The reduction in domestic sales has been substantially offset by growth in exports.

In 2005, it is estimated that approximately 140,000 vehicles were exported, which would represent a record for the industry. Australia's exports of vehicles, in dollar terms, have increased at an average annual rate of 14.5 per cent over the past nine years.

Australia's exports of automotive parts, in dollar terms, have grown at an average annual rate of 3.4 per cent over the same period. However automotive component

exports appear to have plateaued over the past four to five years, with a peak of \$1.8 billion in 2000 and \$1.68 billion in 2005.

Industry Impact

Despite the strong domestic market for motor vehicles, the declining market share for domestic producers and modest returns from export growth, have meant that over the past four years, the domestic Motor Vehicle Producers (MVPs) have had small profits. In fact, the four domestic MVPs suffered a combined net loss on local vehicle manufacturing in 2004 of \$115 million. This was predominantly due to the weak trading position of Mitsubishi Australia.

To improve their financial performance Australian motor vehicle producers have been rationalising and cost-cutting, with some supplier contracts going overseas and component manufacturers needing to reduce prices to compete. The pressures for global sourcing by MVP parent companies are also impacting on local component suppliers. There have been reports that a number of MVPs have reduced the level of local components used in recently released, or shortly to be released, models.

This, combined with a reduction in the level of local production, has reduced the demand for automotive components. The recent growth of direct exports of components has not been sufficient to offset this decline.

These developments have resulted in significant job losses within the sector over the last 12-18 months. This is addressed further below.

Industry Policy Framework

The Government's general policy for industry is aimed at providing an attractive macroeconomic environment for investment and removing impediments for growth through ongoing microeconomic reform.

In addition, a number of specific policies and programs are in place to address 3 key drivers of industry growth – investment, innovation and international competitiveness. Information on a number of these programs of specific relevance to the automotive components industry is at [Attachment B](#).

The Government also has specific policies for the automotive and textiles, clothing and footwear sectors.

Automotive industry policy

The Australian Government has a comprehensive automotive policy which aims to provide planning and investment certainty for the industry for the next decade to help with structural adjustment as tariffs are reduced. The package has 2 key elements. First, budgetary support through the Automotive Competitiveness and Investment Scheme (ACIS) which supports expenditure on production (in the case of the MVPs), investment and innovation activities. This is described in more detail below. The second element is a program of phased tariff reductions. After reducing from 15% to 10% on 1 January 2005, tariffs on passenger motor vehicles and related components

will remain at 10% until 1 January 2010, when the tariff will be reduced to 5%. More recently the Government has established the Automotive Industry Strategic Group (AISG) as a vehicle for working with the MVPs and components suppliers to secure new opportunities in global supply chains. This is also described further below.

Automotive Competitiveness and Investment Scheme

ACIS is a transitional assistance scheme directed towards encouraging new investment and innovation in the Australian automotive industry in the context of trade liberalisation. ACIS is expected to deliver an estimated \$7 billion to the automotive industry over the period 2001 to 2015.

ACIS rewards strategic investment, research and development, and the production of eligible motor vehicles through the issue of import duty credits to registered participants. These credits can be used to discharge customs duty on eligible automotive imports, or alternatively, can be sold or otherwise transferred.

Eligible participants include MVPs, Automotive Component Producers (ACPs), Automotive Machine Tool Providers (AMTPs) and Automotive Service Providers (ASPs). For ease of reference throughout this submission ACPs, AMTPs and ASPs are referred to collectively as "component producers".

Currently 254 companies are registered for ACIS. ACIS recipients are located in Victoria (66 per cent), South Australia (16 per cent) and New South Wales (14 per cent). The top ten registered component producers have received 43.4 per cent of ACIS assistance paid to all the component producers.

Over the period Quarter 1 2001 to Quarter 3 2005, the component producers have received a total of \$915 million in ACIS assistance. Research and development related credits paid make up 64 per cent of this assistance, and plant and equipment related credits paid make up 36 per cent. Due to the commercial-in-confidence nature of the ACIS assistance data, individual company data cannot be disclosed. Some charts on ACIS recipients, which make up the overwhelming majority of the automotive industry, are at Attachment C.

A review of the above arrangements is foreshadowed for 2008. More information on ACIS is in the "Measures to support skills development, innovation and investment in the industry" section of the submission.

Automotive Industry Strategic Group

In 2005, Minister Macfarlane, formed an Automotive Industry Strategic Group (AISG). The Group comprises senior representatives from the motor vehicle manufacturers and the components sector. Relevant ministers from South Australia and Victoria also attend the meetings. Its aim is to foster collaborative activity which will strengthen the capability of Australia's component suppliers and expand their opportunities within global supply chains. As part of this strategy Minister Macfarlane led a delegation with members of the AISG to Japan in September 2005 and another delegation to Detroit in January 2006, to meet with senior executives from the major motor vehicle manufacturers to promote the strengths of the

Australian automotive industry, and the component sector in particular. Actions are underway to follow up outcomes from these visits.

Comments on Terms of Reference

Current and future employment trends in the industry

The latest available data from the ABS Manufacturing Publication (8221.0) contains employment statistics at the 4-digit level for the automotive component manufacturing sector¹, for financial years 1996-97 to 2000-01. These statistics are shown in the table below.

Table 1. Automotive component manufacturing employment

	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001
Employment	34,770	35,619	33,857	37,968	39,418

Source: ABS Cat no 8221.0 Manufacturing Publication.

The Department also recently obtained some updated employment statistics from the ABS, however this is at the 3-digit level (motor vehicle and part manufacturing). Using this more recent data and motor vehicle manufacturing employment estimates sourced from IBISWorld, estimates of automotive component manufacturing employment for financial years 2000-01 to 2004-05 have been calculated. These estimates are shown in the table and chart below. Care should be taken when interpreting the statistics due to high standard errors. The statistics do not include changes to future employment from announced job losses.

Table 2. Estimated automotive component manufacturing employment

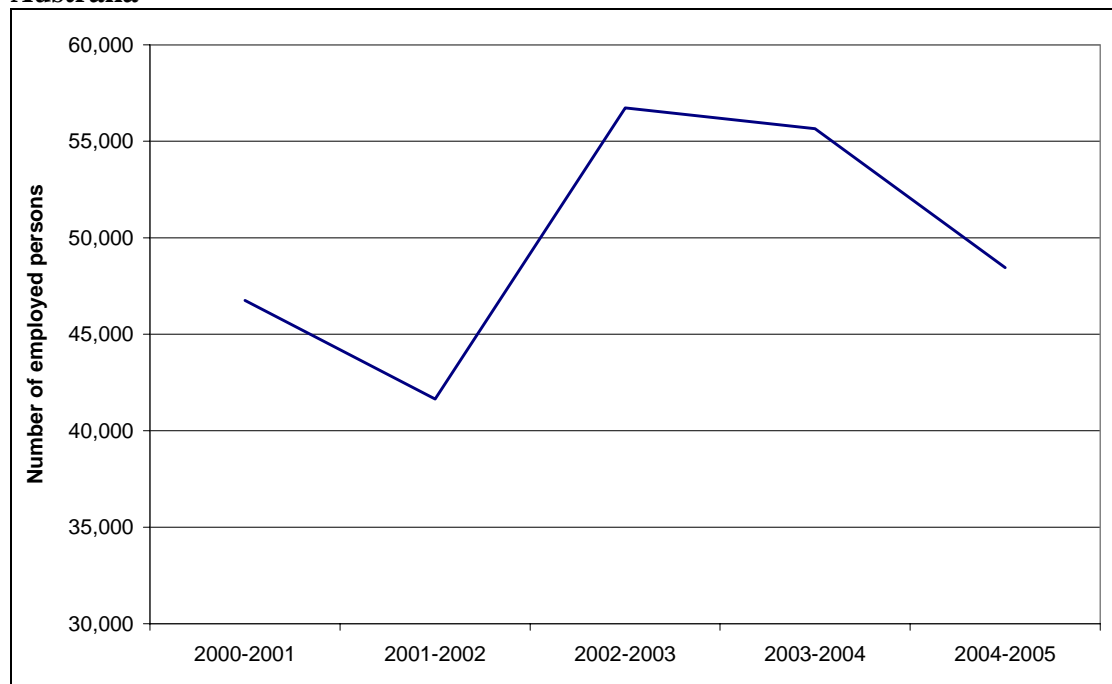
	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Employment	46,757	41,648	56,731	55,650	48,450

Source: Derived by DITR using ABS (3-digit data) minus IBISWorld motor vehicle employment estimates.

¹ Definition:

For the purposes of this submission, using the Australia New Zealand Standard Industrial Classification (ANZSIC), the automotive component manufacturing sector has been defined as including the 4-digit level classifications "motor vehicle body manufacturing", "automotive electrical and instrument manufacturing" and "automotive component manufacturing not elsewhere classified". However, please note that "motor vehicle body manufacturing" would include some employment outside the terms of reference for this inquiry. This external sub-group would make up approximately 25 per cent of automotive component manufacturing employment, using this definition.

Chart 1. Estimated automotive component manufacturing employment in Australia



Source: ABS (3-digit data) minus IBISWorld motor vehicle employment estimates.

As can be seen, over the last few years there have been a significant number of job losses in the automotive component sector in Australia. A table of job losses announced by component supplier firms has been compiled by DITR, and is at [Attachment D](#). Reasons given for these job losses include a decline in demand for larger cars and a reduction in production volumes at Ford, GM Holden and Mitsubishi, loss of contracts following decisions by MVPs to source parts from overseas, and the highly competitive environment for component suppliers.

Job losses in the automotive industry are not restricted to the component sector, with recent job losses announced at three of the four MVPs in Australia – Ford, Holden and Mitsubishi. Mitsubishi Australia announced on 20 January 2006 that 250 production-line jobs would be cut by March 2006. On 6 December 2005 Ford announced 350 voluntary redundancies for Victorian workers. GM Holden announced on 25 August 2005 that it has decided to retrench about 1,400 workers, principally from its Elizabeth plant near Adelaide.

There are a number of factors driving employment in the automotive components sector. The level of demand for automotive components is a key factor. The range of influences bearing on this has been discussed earlier. Industry productivity is another influence. Growing productivity is an important requirement for the industry to maintain and increase its competitive position. Productivity growth over the last decade has been strong and will need to continue if the sector is to maintain and improve its competitiveness.

Given this mix of factors, it is difficult to predict the future direction of employment in the sector. However, in the short term some further job losses could be expected to occur as previously announced job losses take effect.

Emerging skill shortages and appropriate recruitment and training strategies

This is not an area of responsibility or expertise for this portfolio. However, DITR recognises that there are skill shortages in the automotive component manufacturing industry, as well as a number of other industries.

Labour adjustment measures required to assist redeployed and affected workers

Support for Labour Adjustment

The Department of Employment and Workplace Relations is responsible for several labour adjustment measures designed to assist retrenched automotive industry workers. These assistance arrangements extend to workers in those companies supplying components which have lost business due to the decisions taken.

These include a \$10 million package within the Structural Adjustment Fund for South Australia (SAFSA) announced on 21 May 2004 by the Prime Minister, following the decision by Mitsubishi Motors Australia to close its Lonsdale engine manufacturing plant and reduce its workforce at its Tonsley Park vehicle assembly plant. The support includes intensive customised assistance for workers at both the Tonsley Park and Lonsdale plants with immediate assistance eligibility for all displaced workers. These arrangements also cover recently retrenched Mitsubishi workers.

A further \$10 million labour adjustment fund to assist displaced workers was announced on 26 August 2005 by the Prime Minister, following the decision by General Motors Holden to eliminate the third shift at the Elizabeth plant in South Australia. Relevant media releases are at [Attachment E](#).

Creation of New Jobs

SAFSA also includes a further \$40 million to support investments which will create sustainable new jobs in Adelaide.

Under SAFSA, grant assistance totalling \$24.3 million has been approved for eight projects with a total investment value of \$181.4 million. Proponents of the approved projects estimate that the investments will create over 780 direct jobs. There have been five projects funded under SAFSA associated with the automotive industry. These projects represent grant funding of \$8.401 million, a total investment of \$51.46 million and the creation of 263 jobs.

SAFSA is delivered as a grants program with eligibility and assessment criteria set out in Ministerial Guidelines. Decisions on funding proposals are made by the Australian Minister for Industry, Tourism and Resources and the South Australian Deputy Premier and Treasurer. Applications for funding are lodged with and assessed by Invest Australia which provides advice to a high level taskforce established to make recommendations to the two Ministers.

Over 150 inquiries have been received under SAFSA, and requests for further applications were suspended in November 2005, as the fund was oversubscribed.

Measures to support skills development, innovation and investment in the industry

There are a number of generic programs in the ITR portfolio focussed on strengthening investment and innovation. Those that have particular relevance to the automotive components industry are listed at Attachment B.

As noted earlier, ACIS is the major specific program for the automotive sector which focuses directly on strengthening investment and innovation. The activities of Invest Australia also have particular relevance and impact on the automotive industry. These two areas are outlined further below.

Automotive Competitiveness and Investment Scheme

Under ACIS, an estimated \$7 billion in assistance is to be paid out between 2001 and 2015 over three stages. The \$2 billion in Stage 1 (2001-2005), the \$2 billion in Stage 2 (2006-2010) and \$1 billion in Stage 3 (2011-2015), is subject to modulation to ensure that ACIS is not overspent. The remaining estimated \$2 billion is uncapped over the period 2001-2015.

MVPs will be eligible to receive assistance totalling up to \$1.1 billion from 2006-2010 and up to \$550 million from 2011-2015. This has flow on benefits to automotive component producers. Specific assistance includes:

- 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 plant 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 than engines 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 to invest in high-end R&D technologies (from 2006-2010).

Component producers also receive a number of streams of assistance totalling up to \$0.9 billion from 2006-2010 and up to \$450 million from 2011-2015. Specific assistance includes:

- 25% of the value of investment in approved plant and equipment; and
- 45% of the value of investment in approved R&D.

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;
- plant and equipment directly supporting the manufacture, assembly, design, development or engineering of motor vehicles, engines, engine components, automotive components, automotive machine tools or automotive tooling;
- plant and equipment required to comply with a law of the Commonwealth, a State or a Territory directly relating to the manufacture, assembly, design, development or engineering of motor vehicles, engines, engine components, automotive components, automotive machine tools or automotive tooling;
- plant and equipment for the activation of manufacturing processes for the production of motor vehicles, engines, engine components, automotive components, automotive machine tools or automotive tooling;
- plant and equipment facilitating the provision of automotive services or approved research and development; and
- plant and equipment indirectly supporting functions that are integral to the production of motor vehicles, engines, engine components, automotive components, automotive machine tools or automotive tooling.

Approved R&D includes:

- basic and strategic research;
- industrial and engineering design;
- production engineering;
- development activities relating to the building and testing of 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 specified tolerances;
- obtaining industrial property rights, including:
- 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.

Invest Australia

Investment is also promoted by the Australian Government through Invest Australia, the inward investment agency. Invest Australia helps international companies establish and expand their business in Australia. It is the first national point-of-contact for foreign investment inquiries and offers tailored, comprehensive and confidential assistance to international investors.

Invest Australia supports investment in the local automotive industry by promoting its strengths including:

- an established industry with world class design and engineering capabilities;
- a sophisticated network of world class R&D institutions;
- government support for the industry; and
- easy access to growing Asia Pacific markets.

Since the inception of the SIC process, 10 projects have been announced as having been granted incentives. The incentives included a \$12.5 million Strategic Investment Incentive to Holden announced in February 2001 for technology training and skills development associated with the V6 engine plant in Melbourne, Victoria.

Through its major project facilitation activities Invest Australia has also facilitated a number of investments in the automotive components sector such as Hirotec in Adelaide.

Useful References

The Committee may find it useful to refer to the Productivity Commission's report on "Review of Automotive Assistance" published on 30 August 2002.

Also, Attachment E and Attachment F contain four media releases for the Committee's information.

ATTACHMENT A

Background Statistics on Australian Automotive Component Manufacturing Industry

TOTAL AUSTRALIAN VEHICLE PRODUCTION, DOMESTIC SALES AND EXPORT SALES

	2000	2001	2002	2003	2004	2005
Domestic sales	247,427	238,026	249,059	276,392	274,537	248,912
Export sales	101,018	117,661	112,088	120,178	131,474	140,000 ²
Total sales	348,445	355,687	361,147	396,570	406,011	n/a
Total domestic production ³	359,686	347,174	359,751	406,668	407,537	388,985 ⁴

Source: VFACTS; DITR Key Automotive Statistics 2004

AUSTRALIA'S EXPORTS OF AUTOMOTIVE VEHICLES (A\$'000)

Country	2001	2002	2003	2004	2005	Annual Change	9 year Annual Growth
- All countries	3,264,686	3,082,510	2,977,389	3,028,429	3,463,873	14.4%	14.5%
Saudi Arabia	1,377,070	1,202,827	1,097,400	981,761	1,168,765	19.0%	52.1%
New Zealand	437,659	541,580	653,799	587,720	602,739	2.6%	4.3%
United States	605,006	547,730	254,311	502,106	375,518	-25.2%	6.7%
Kuwait	186,010	234,123	290,821	257,190	238,643	-7.2%	79.4%
United Arab Emirates	218,596	205,739	248,752	235,565	236,861	0.6%	15.8%
China	1,651	3,342	2,065	6,708	169,805	2431.4%	80.7%

Source: DFAT, STARS database

AUSTRALIA'S EXPORTS OF AUTOMOTIVE PARTS (A\$'000)

	2001	2002	2003	2004	2005	Annual Growth	9 year Annual Growth
- All countries	1,678,460	1,748,508	1,738,989	1,649,426	1,677,096	1.7%	3.4%
United States	485,866	522,168	493,724	471,237	396,331	-15.9%	9.1%
Republic of Korea	334,524	362,193	446,689	321,463	331,193	3.0%	3.7%
New Zealand	166,976	178,713	170,100	171,139	180,644	5.6%	1.8%
China	12,553	13,451	54,402	57,212	114,424	100.0%	52.4%
Papua New Guinea	62,885	61,054	58,393	64,464	68,566	6.4%	6.1%
Thailand	15,048	22,971	29,219	37,616	59,264	57.5%	22.4%

Source: DFAT, STARS database

RESEARCH AND DEVELOPMENT EXPENDITURE (A\$m)

Year	01/02	02/03	03/04	Annual Growth
Motor Vehicle and Parts	490	631	721	14%
Other Transport Equipment	65	100	147	47%

Source: Australian Bureau of Statistics (8104.0)

RESEARCH AND DEVELOPMENT (Number of Businesses)

Year	01/02	02/03	03/04	Annual Growth
Motor Vehicle and Parts	99	113	138	22%
Other Transport Equipment	30	34	53	56%

Source: Australian Bureau of Statistics (8104.0)

² DITR Estimate

³ Total domestic production and Total sales may differ as a result of changes in stock levels

⁴ FCAI Production Volume estimate for 2005

INDUSTRY VALUE ADDED (A\$m)

Year	00/01	01/02	02/03
Automotive Component Manufacturing	2,482.9	2,464.8	2,837.0

Source: Australian Bureau of Statistics (8221.0)

SALES AND SERVICE INCOME (A\$m)

Year	00/01	01/02	02/03
Automotive Component Manufacturing	7,441.7	7,870.4	9,198.4

Source: Australian Bureau of Statistics (8221.0)

AUTOMOTIVE COMPONENT MAKERS INDEXES (A\$m)

Year	Sales Index	Profit Index	Profit to Sale
2000	176.1	139.0	4.6%
2001	186.8	98.5	3.1%
2002	206.3	146.5	4.1%
2003	235.7	224.0	5.5%
2004 (estimate)	237.8	230.3	5.6%

Source: Australian Automotive Intelligence Yearbook December 2005

PROFIT PERFORMANCE OF LOCAL VEHICLE PRODUCERS

	Vehicle Manufacturing		Total PMV activities ²	
	Net trading profit (loss) \$m	Return on sales (%)	Net trading profit (loss) \$m	Return on sales (%)
1995	343	5.0	434	5.0
1996	351	4.9	520	5.7
1997	344	4.9	518	5.4
1998	389	5.0	502	4.6
1999	311	3.9	391	3.8
2000	427	5.1	384	3.3
2001	298	7.8	184	1.0
2002	383	12.0	411	8.0
2003	316	3.7	449	3.8
2004	(115)	-1.0	247	2.2

Source: ITR Industry Survey – Key Automotive Statistics

ATTACHMENT B

Information on ITR Programs

Automotive component manufacturers can also claim assistance for innovation and investment under a number of non-ACIS measures under the ITR portfolio including:

R&D tax concession – the R&D Tax Concession 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.

Commercial Ready – a competitive merit-based grant program supporting innovation and its commercialisation. It aims to stimulate greater innovation and productivity growth in the private sector by providing around \$200 million per year in competitive grants to small and medium-sized businesses (SMEs) between 2004-05 and 2010-11. A wide range of project activities can be supported, extending from initial research and development (R&D), through proof of concept, to early-stage commercialisation activities.

Industry Cooperative Innovation Program (ICIP) – a merit based grants program aimed at encouraging business-to-business cooperation on innovation projects that enhance productivity, growth and international competitiveness in Australian industries. The program has the particular focus of meeting strategic industry needs such as those identified through Action Agendas and supports projects which deliver industry wide benefits. ICIP will run until June 2011 and will provide \$25 million of assistance.

Strategic Investment Coordination (SIC) – the aim of the SIC process is to attract to Australia investment that would otherwise be located offshore. Invest Australia assesses proposals for investment incentives on a case-by-case basis against stringent criteria and advises the Minister for Industry, Tourism and Resources whether Cabinet consideration is warranted. The assessment process is comprehensive and rigorous.

The criteria include:

- a requirement for the proponent to demonstrate that the investment would not occur in Australia without the incentive;
- that it brings significant net economic and employment benefits; and
- that it is viable in the long term without subsidy.

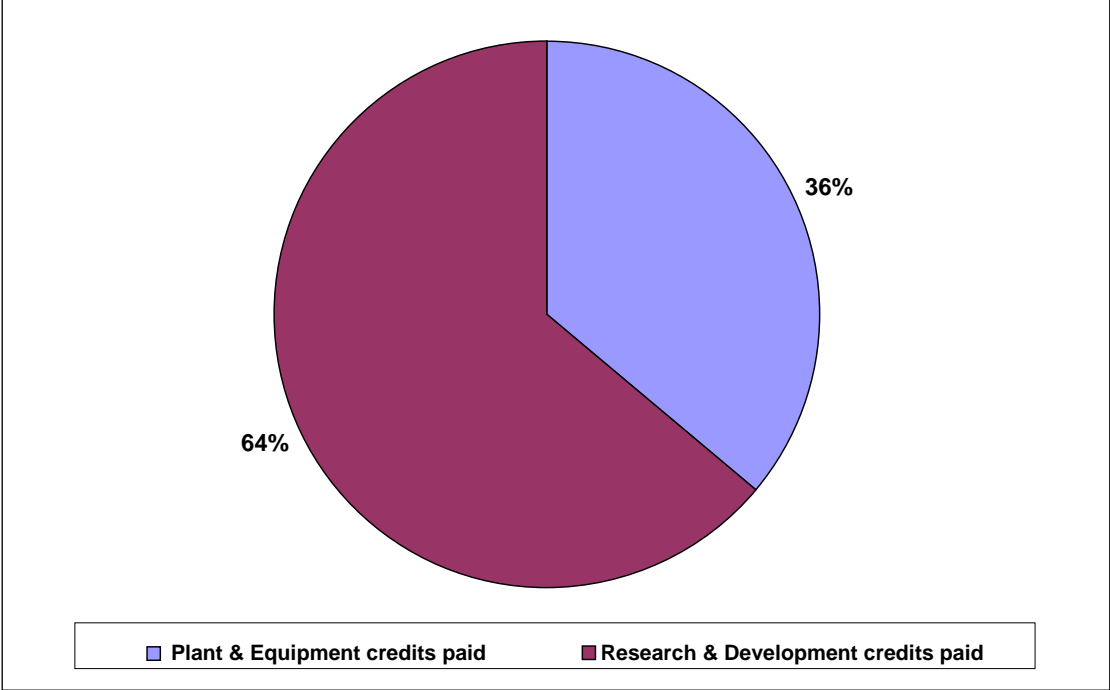
Major Project Facilitation (MPF) – Through the MPF service, Invest Australia provides project proponents with information, advice and support to assist with necessary government approvals. Invest Australia also identifies the sequence and timings for key approvals and relevant government programs that may assist the project.

Investors can apply to the Minister for ITR for MPF status, after initial discussions with Invest Australia, if their project is of strategic significance to Australia, needs Commonwealth Government approval(s), and is commercially ready to proceed through government approvals processes.

ATTACHMENT C

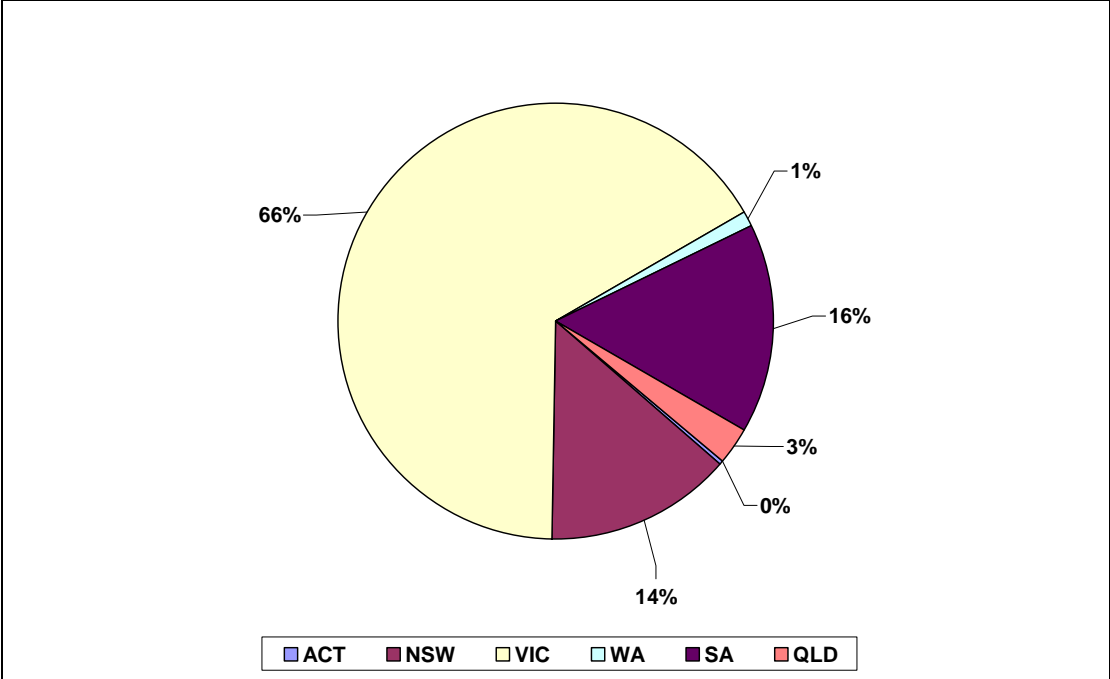
Charts on Automotive Competitiveness and Investment Scheme (ACIS) recipients

ACIS assistance provided to automotive component producers



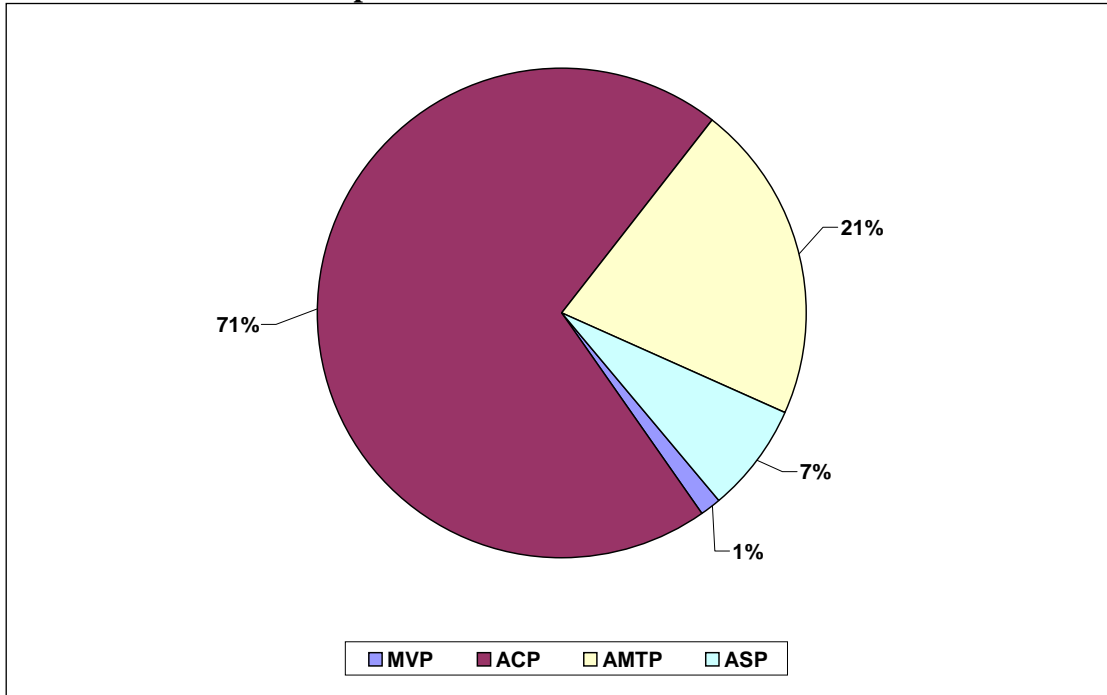
Source: DITR

Geographic location of ACIS recipients



Source: DITR

Break-down of ACIS recipients⁵



Source: DITR

BREAK-DOWN OF ACIS RECIPIENTS

ACIS Classification	Number
MVP	4
ACP	203
AMTP	61
ASP	21

Source: DITR

⁵ MVP = Motor Vehicle Producer; ACP = Automotive Component Producer; AMTP = Automotive Machine Tool Provider; ASP = Automotive Service Provider

ATTACHMENT D

Table of Job Losses by Component Supplier Firm (compiled by DITR)⁶

Current Australian Supplier	Commodity	Location	Current Employees	Announced job losses	Major Customers
Ion		Albury - NSW Plympton - SA Wingfield - SA Altona - VIC	1,750 Australian total	1000 approximate	Ford, Holden
AutoLiv	Seat Belts & Air Bags	Campbellfield - VIC	700	560 approximate	Ford, Holden, Mitsubishi, Toyota
Dana	Axles, rear differentials	NSW	1,000	100	Holden
Pilkington	Glass - Fixed and Drop	North Geelong - VIC	400	120	Holden, Mitsubishi, Toyota
Trico	Wiper System	Springvale - VIC	260	160	Ford, Holden, Mitsubishi, Toyota
Gates Rubber	Hoses – Coolant and Brake Vacuum	Nowra – NSW	162	142	Ford, Holden, Mitsubishi, Toyota
Silcraft	Automotive trim, hinges and bracketry	Mount Waverley - VIC	560	460	Ford, Holden, Mitsubishi, Toyota
Air International	Seats, seat frames and steering columns	SA VIC	1080	230	Ford, Holden, Mitsubishi
Coopers Standard	Pipes and Hoses	SA – Woodville North	260	50	Holden, Toyota
Kemalex Plastics	Plastic mouldings	SA, VIC	100	85	Holden
TI Automotive	Brake and fluid delivery systems	SA - Kilburn	170	50	Holden
Icon Automotive	Air intake assemblies	VIC - Hallam	n/a	140	Toyota, Ford
Calsonic	CRFM Assembly	Port Melbourne - VIC	180	170	Ford, Holden, Mitsubishi
Tristar	Steering Gear	NSW – Marrickville	220		Holden
Nylex	Automotive plastics	VIC – Mentone	140	120	
Viscount Plastics	Bumper bars, dash boards and console components	SA – Woodville	115app	38	Holden, Mitsubishi
Tenneco	Exhaust systems, shock absorbers	SA – O’Sullivans Beach SA – Clovelly Park	1,000app	70	Ford, Holden, Mitsubishi, Toyota
Total ACP				3,495 approximate	

⁶ This table has been compiled from media reports over the past 12 months. Some of the announced losses may not yet have occurred, but are likely to occur by the end of 2006.



MITSUBISHI - \$50 MILLION FEDERAL ASSISTANCE PACKAGE

The Mitsubishi Motor Corporation today outlined a new global business plan affecting its manufacturing operations in North America, Japan and Australia.

Mitsubishi has announced that it will continue to manufacture vehicles in Australia and confirmed its intention to proceed with a \$600 million investment to build a new, locally produced model at the Tonsley Park plant from October 2005.

Regrettably, Mitsubishi has decided to phase out engine production at its Lonsdale plant. Further reductions in Mitsubishi's Australian workforce will be realised through a voluntary redundancy programme.

While Mitsubishi's commitment to the new locally produced model is a very welcome development, the decision on the Lonsdale plant and the workforce reductions will come as a great blow to many of Mitsubishi's workers and their families.

The Australian Government will be putting in place an extensive \$50 million package of assistance measures in response to Mitsubishi Motor Corporation's announcement.

The Australian Government package will involve a combination of labour market programme assistance tailored to meet the needs of displaced workers as well as a range of industry facilitation measures that will seek to attract new investment and create job opportunities in South Australia.

Specifically, the Australian Government package will involve:

- Around \$10 million for labour market programme assistance that will involve intensive, customised support for workers at both the Tonsley Park and Lonsdale plants with immediate assistance eligibility for all displaced workers.
- This support will include access to an individual consultant who will provide a range of specialised advice including: job search training and advice; access to job vacancies; access to the Job Seeker Account and the Training Account for mature age and Indigenous job seekers. There will also be access to the New Enterprise Incentive Scheme (NEIS) to provide assistance to displaced workers to take up attractive small business opportunities.

A further \$40 million will be available for various investment facilitation and structural adjustment measures designed to boost investment in South Australia and create new job opportunities.

- This will involve funding for Invest Australia to work with the South Australian Government and Mitsubishi Australia to find new business opportunities for the Lonsdale site which may involve new business partners or the complete sale of Lonsdale given its commercial potential.

- Invest Australia will also be funded to intensify its efforts in identifying viable commercial opportunities for South Australia using its international networks to promote and facilitate new investment opportunities.
- The proposed establishment of a South Australia Structural Adjustment Fund that will seek to create sustainable private sector employment opportunities. It is proposed that up to 50 per cent of funding for projects under this measure will come from the Australian Government - consistent with the Newcastle Structural Adjustment Fund that was established following the decommissioning of the BHP Newcastle steelworks in 1999.

I have today discussed the matter with the South Australian Premier and we are both resolved to continue the concerted bipartisan effort by our governments to secure the future of Mitsubishi's Australian manufacturing operations. I pay tribute to the hard work of both the Federal Industry Minister, the Hon Ian Macfarlane, and the South Australian Treasurer, the Hon Kevin Foley.

In addition to the Australian Government's \$50 million package, the South Australian Government will also be offering support. The Premier, Mr Rann will outline a number of initiatives which will provide further TAFE and training assistance to affected workers.

A Task Force of Australian Government officials, led by the Department of Industry, Tourism and Resources and comprising officials from the Departments of the Prime Minister & Cabinet; Employment and Workplace Relations; Defence; Transport and Regional Services and Education, Science and Training will be established to co-ordinate a whole of government implementation of these assistance measures.

The Australian Government expects that Mitsubishi will fully honour its employee entitlement obligations and strongly encourages Mitsubishi to do all it can to assist its workers.

I have enormous sympathy for those workers and their families who will be adversely affected by Mitsubishi's announcement today. However, this package will provide a solid basis for meeting the needs of the displaced workers from Mitsubishi and their families.

Mitsubishi's restructuring plan is in response to financial difficulties which have plagued the company's worldwide operations in recent times. Mitsubishi Motors is also taking action to reduce capacity at a number of other locations in its global manufacturing network.

Over recent weeks, the Australian Government, in conjunction with the South Australian Government, has emphasised to Mitsubishi Motor Corporation the value we place on its contribution to the Australian automotive industry and we have urged it to continue its operations in Australia.

The Australian Government will continue to work closely with the company and the South Australian Government to ensure that the pain and disruption to workers and their families is minimised.

21 May 2004



GENERAL MOTORS HOLDEN

The Australian Government regrets that General Motors Holden has decided for its own operational reasons to eliminate the third shift at the Elizabeth plant in South Australia.

Unfortunately this will mean up to 1400 positions will be lost by the middle of 2006. The Government understands that the company, in the first instance, will be seeking to reduce staff by voluntary redundancy.

Last night I spoke to Premier Rann and we agreed to establish a \$10 million labour adjustment fund to assist displaced workers.

The Australian Government will contribute \$7.5 million to the labour adjustment fund and the South Australian Government will contribute \$2.5 million to the fund.

The package will involve labour market programmes to provide intensive assistance to displaced workers. The support will include access to individual consultants who will provide a range of specialised advice including: job search training and advice; access to job vacancies; access to Job Seeker Accounts and the Training Accounts for mature age and indigenous job seekers.

The package will operate in a similar fashion to the successful adjustment package that was offered to the Mitsubishi workers following the closure of the Tonsley engine plant in 2004.

In addition, funds remaining from the \$40 million South Australian Structural Adjustment Fund, established at the time of the Tonsley plant closure, will help create suitable private sector employment opportunities for displaced workers.

While Holden's decision is regrettable, it comes at a time when the Australian economy is very strong, delivering South Australia one of the best employment positions in its history. The unemployment rate in South Australia is 4.6 per cent, in line with the 30-year lows of the national economy.

The labour adjustment fund will complement entitlements the workers receive from their employer.

The Australian Government understands that General Motors Holden has said it will honour all worker entitlements. The Government fully expects it to meet this commitment.

26 August 2005

ATTACHMENT F

Media Release

The Hon Ian Macfarlane, MP

12 August 2005

'TEAM AUSTRALIA' STRATEGY TO SECURE AUTO FUTURE

Australian Industry Minister, Ian Macfarlane, has today announced the formation of an Auto Industry Strategic Group and will lead a delegation of vehicle and car components makers to Detroit and Tokyo later this year.

The Auto Industry Strategic Group will herald the start to a 'Team Australia' campaign, outlined by Mr Macfarlane this morning in a meeting with the nation's automotive and parts manufacturing sector in Melbourne.

"This is a strategy to build the on record results in the local sector and to ensure the position of our local components and car makers in the global supply chains of the international automotive industry," said Mr Macfarlane.

"I believe this manufacturing sector has a viable and competitive future in Australia but to realise that we must regularly remind the decision makers in overseas head offices that Australia means quality and on-time parts and vehicles."

"There is no substitute for quality and we can beat most of the world on technology and quality. That message needs to be reinforced in Detroit and Tokyo where the major supply decisions are made," he said.

The Team Australia strategy has already been used by the Australian Government and defence industry companies, securing more than \$60 million worth of work for local companies on design stage of the Joint Strike Fighter.

"Australia's auto sector is enjoying record sales, record export numbers and record investment levels. So now is the time to secure and expand our niche in the global supply chains," said Mr Macfarlane.

"Vehicle production is a just-in-time process and the greatest internal threat to producing on time and budget is industrial action. In a global market, stop works or strikes will simply cause companies to seek contracts in another country."

"If the unions are serious about putting Australian manufacturing jobs ahead of stunts to increase their membership they will support Team Australia and learn to work with the industry to plan for its future, rather than wave placards for TV cameras," said Mr Macfarlane.

The Australian Government supports the local automotive and components manufacturing sector with industry assistance packages worth \$7 billion to 2015.

Media Release

The Hon Ian Macfarlane, MP

13 December 2002

A DECADE OF CERTAINTY FOR THE AUTOMOTIVE INDUSTRY

Australian car and component manufacturers have been delivered the long-term security to continue building on their record production and export levels for 2002.

Federal Industry Minister, Ian Macfarlane, today welcomed the Prime Minister's announcement of the Government's post-2005 assistance package which will deliver \$4.2 billion through the Automotive Competitiveness and Investment Scheme (ACIS) to the industry over 10 years.

After falling from 15% to 10% on 1 January 2005, tariffs on passenger motor vehicles and related components will remain at 10% until 31 December 2009. On 1 January 2010, the tariff will be reduced to 5%.

"This more-than-generous decade of support will give the industry the time and resources it needs to cement its future as an international competitor," said Mr Macfarlane.

"Since 1996 vehicle exports have trebled and production has increased by more than 35,000 vehicles. That's a clear testimony to the success and value of the Automotive Competitiveness and Investment Scheme (ACIS) provided to the industry," he said.

A [comparison of the export and employment figures](#) shows the industry's significant growth under the Coalition's sensible combination of tariff reduction and production assistance over the last six years.

In 1995, with a tariff of 27.5%, the Australian manufacturers produced 312,908 vehicles and exports totalled 23,940 vehicles. In 2001, with a tariff of 15%, the figures were 349,940 vehicles and exports of 111,844 vehicles.

The new-look ACIS package goes far beyond what was recommended by the Productivity Commission Review, adding an extra 50% or \$1.4 billion over the 10 year continuation of the scheme. The package is also aimed squarely at innovation, it has a greater emphasis on R&D, rather than production, subsidies.

"The post-2005 package will deliver more than \$1 billion to car and component research and development. A new feature will be a \$150 million R&D fund specifically for vehicle manufacturers investing in new and innovative technologies," he said.

Summary of Automotive Assistance Arrangements applying after 2005

Post-2005 ACIS

Similar to its predecessor, the post-2005 Automotive Competitiveness and Investment Scheme will be a transitional assistance scheme that will encourage competitive investments by firms in the automotive industry in order to achieve sustainable growth. The Scheme has been announced well before its implementation date of 1 January 2006 to provide certainty for the industry in its planning for the next decade. It will run for ten years with all industry specific support ceasing on 31 December 2015.

ACIS capped incentives

During the 2006-2010 period, ACIS capped incentives will be limited to \$2 billion. Over 2011 to 2015, ACIS capped payments will be limited to \$1 billion, with assistance declining progressively over this period.

From the first quarter of 2003, capped payments will be divided into two funding pools in a ratio of 55:45, one for MVPs and one for the supply chain respectively.

ACIS uncapped production credits

MVP uncapped production credits will continue as at present, but will conclude in 2015. They will continue to be tied to the tariff applying to PMVs and related components.

R&D fund for car producers

A \$150 million R&D Fund will be created to encourage vehicle producers to invest in high-end R&D activities. The Fund will be conducted on a competitive grants basis with three annual rounds of applications to be held over 2006, 2007 and 2008. Up to \$50 million will be allocated for each round, with unallocated funds returned to the MVP funding pool.

Automotive tariffs

From 1 January 2005, the tariff for passenger motor vehicles (PMVs) and automotive components will be 10%. From 1 January 2010, it will be 5%.

Productivity Commission Report

The Productivity Commission's Review of Automotive Assistance Inquiry Report may be purchased from the Commission's bookshop, Government Info Shop or viewed on the Commission's website at www.pc.gov.au

Government Response to Productivity Commission Review

The Government response to the Productivity Commission's review can be found at: www.treasurer.gov.au