

Chapter 2

Automotive manufacturing and government support

2.1 This chapter provides an overview of Australia's automotive manufacturing industry and some of the main government assistance programs, particularly the Automotive Transformation Scheme (ATS). It also explores some of the challenges facing automotive components manufacturers and considers the future of the sector.

The Australian automotive manufacturing industry

2.2 Australia has a long and proud history of automotive manufacturing and has built a capability that is the envy of many nations. According to the Federal Chamber of Automotive Industries:

Australia is one of only a relatively small number of nations in the world with the capability to produce a car from concept to delivery.

The Australian automotive industry is able to take a vehicle, its component systems and sub-systems from a design concept through prototype safety and durability testing, to production, final delivery, whole of life service and materials recycling.¹

2.3 At its peak in 1974, local vehicle manufacturers produced almost a half a million vehicles. However a long-term decline ensued until the early 1990s, when production fell to under 300,000 vehicles per year. Following this there was modest revival until just before the full effects of the global financial crisis were experienced in 2009 from which demand for locally produced motor vehicles has not recovered.²

2.4 Automotive vehicle production in Australia is undertaken by three subsidiaries of global multinationals—Toyota, Ford and Holden. These companies assemble six models in two states (Victoria and South Australia), manufacture engines, and undertake vehicle design and engineering in specialty centres in Victoria.

2.5 Vehicle production is supported by a complex logistical supply chain of about 160 businesses involved in the engineering, design, tooling and manufacturing of automotive components. Many of these businesses are located close to assembly plants in Victoria and South Australia; however, component production also occurs in other states and territories (particularly in New South Wales and Queensland).

2.6 The interconnected nature of automotive production relies on component manufacturers being able to continue to supply parts to vehicle producers while they are engaged in domestic production. If any of these businesses were to stop trading before vehicle production ceases, it could be a catalyst for the premature cessation of vehicle production and early closure for other component manufacturers. In turn, this would severely compromise an orderly transition to a manufacturing sector without

1 *Supplementary Submission 9*, p. 5.

2 Australian Motor Trades Association and Australian Motor Industry Federation, *Answers to Questions on Notice No. 5*, p. [10].

vehicle production activity. The Federation of Automotive Products Manufacturers highlighted that:

As the industry operates on a just-in-time basis, continuity of production fundamentally depends upon all members of the supply chain continuing to operate right up to the finalisation of local vehicle production, so certainty of funding provides a fundamental cornerstone of this requirement.³

2.7 Component manufacturers also supply parts to vehicle producers internationally, the automotive aftermarket and other manufacturing industries. There are at least 260 businesses located in Australia that manufacture automotive components and accessories.⁴

2.8 The automotive manufacturing industry (including component manufacture) represents approximately 5 per cent of the total Australian manufacturing industry in terms of value added, employment, hours worked, and capital expenditure.⁵

2.9 Over 48,000 people in Australia are employed in automotive manufacturing—including assembly of cars, trucks and buses and component manufacture for vehicle production and the automotive aftermarket—and employment has been falling in line with the wind-down in vehicle production.⁶

Government assistance to automotive manufacturing

2.10 There are a number of government policies (at both the Commonwealth and state and territory level) designed to support the continuation of automotive manufacturing in Australia and assist component manufacturers to diversify their activities and continue to operate beyond the cessation of vehicle production in 2017.

2.11 The automotive industry has been receiving government assistance in one form or another since 1907, when tariffs were introduced in order to foster automotive manufacturing capacity.⁷

2.12 Like many local manufacturing industries, the automotive industry continued to be protected through tariff and non-tariff barriers (including import quotas) until

3 *Submission 17*, p. 10.

4 There are approximately 260 members of the Australian Automotive Aftermarket Association and there is an additional, but unquantified, number of businesses that provide original equipment solely to vehicle manufacturers. Australian Automotive Aftermarket Association, *Committee Hansard*, 10 March 2015, p. 20.

5 Department of Industry and Science, 'Automotive Industry Data Card: June 2014 Automotive Update', <http://industry.gov.au/industry/IndustrySectors/automotive/Statistics/Pages/automotivedatacard.aspx> (accessed 17 August 2015).

6 Department of Industry and Science, 'Automotive Industry Data Card: June 2014 Automotive Update', <http://industry.gov.au/industry/IndustrySectors/automotive/Statistics/Pages/automotivedatacard.aspx> (accessed 17 August 2015).

7 Productivity Commission, *Review of Automotive Assistance*, Inquiry Report No. 25, August 2002, p. 277.

the 1980s. As tariffs were progressively reduced, assistance was provided through co-investment measures, production subsidies and grants. The automotive industry has also benefitted from government purchasing policies and, to some extent, from taxation arrangements such as the luxury car tax.

2.13 Australian governments at both the federal and state level—like governments in other automotive manufacturing nations—have supported the automotive industry in recognition of the spillover benefits it delivers in technological and manufacturing know-how and its significance to regional economies. In addition to the industry-specific measures described above, many companies have also been able to access skills and employment programs, export market facilitation, support for investment in research and development, and targeted regional assistance measures.

The Australian Competitiveness Investment Scheme

2.14 The Australian Competitiveness and Investment Scheme (ACIS) was initially introduced in 2001 for a period of 5 years as part of the government's post-2000 assistance package for the automotive industry. The aim of the ACIS was to provide transitional assistance to the automotive manufacturing industry to open the market through the provision of import credits linked to investment levels, production and research and development.⁸ The import credits could be used to offset the duty payable on certain imports or traded with other ACIS participants.

2.15 The ACIS was open to motor vehicle producers and to businesses in the automotive supply chain, including component manufacturers, automotive machine tooling producers and automotive service producers.⁹

2.16 In anticipation of further tariff reductions, the ACIS was extended in 2005 to run until 2015 so that the industry could 'achieve sustainable growth as tariffs are reduced'.¹⁰ Up to \$7 billion worth of import credits were expected to be provided over the life of the ACIS.¹¹

A New Car Plan for a Greener Future

2.17 In 2008, the Australian Government announced a \$6.2 billion suite of programs ('A New Car Plan for a Greener Future') intended to 'make the automotive industry more economically and environmentally sustainable by 2020'.¹² As part of

8 Federal Chamber of Automotive Industries, Report by the Allen Consulting Group, *Submission 9.1*, p. 34.

9 Australian National Audit Office, *Administration of the Automotive Competitiveness and Investment Scheme*, Audit Report No. 19, 2007–08, p. 13.

10 Productivity Commission, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, 31 March 2014, p. 109.

11 Australian National Audit Office, *Administration of the Automotive Competitiveness and Investment Scheme*, Audit Report No. 19, 2007–08, p. 14.

12 The Hon. Kevin Rudd, MP, Prime Minister of the Commonwealth of Australia, and Senator the Hon. Kim Carr, Minister for Innovation, Industry, Science and Research, 'A New Car Plan for a Greener Future', Media release, 10 November 2008.

this plan, the ACIS was replaced by the Automotive Transformation Scheme (ATS), with assistance worth \$3.4 billion.¹³ Other key initiatives included:

- an expanded \$1.3 billion Green Car Innovation Fund to provide co-investment grants for the production of environmentally friendly cars;
- the Automotive Industry Structural Adjustment Program, which included both a structural adjustment component and a labour adjustment component to provide training and assistance to redundant workers;
- the Automotive Supply Chain Development Program, which provided \$20 million to strengthen the component manufacturing sector in the four years to 30 June 2013;
- the Automotive Market Access Program, which provided \$6.3 million from July 2009 to 30 June 2012 to boost component manufacturers' access to global supply chains; and
- the LPG vehicle scheme enhancement, which was a \$10.5 million expansion to the existing LPG vehicle scheme, doubling payments to purchasers of private use vehicles factory fitted with LPG technology.¹⁴

2.18 The Automotive Transformation Scheme (ATS) is the largest single support measure for automotive manufacturing by total value and is designed to 'encourage competitive investment and innovation in the Australian automotive industry and place it on an economically sustainable footing'.¹⁵

2.19 The ATS commenced on 1 January 2011 and is legislated to operate through to 31 December 2021. Participants can claim payments for eligible investments in research and development activities, plant and equipment and vehicle production (including engines and engine components).¹⁶

2.20 The ATS is open to motor vehicle producers and to businesses in the automotive supply chain, including component manufacturers, automotive machine tooling producers and automotive service producers. To be eligible, component manufacturers, machine tool producers and automotive service providers must

13 The Hon. Kevin Rudd, MP, Prime Minister of the Commonwealth of Australia, and Senator the Hon. Kim Carr, Minister for Innovation, Industry, Science and Research, 'A New Car Plan for a Greener Future', Media release, 10 November 2008.

14 The Hon. Kevin Rudd, MP, Prime Minister of the Commonwealth of Australia, and the Senator the Hon. Kim Carr Minister for Innovation, Industry, Science and Research, 'A New Car Plan for a Greener Future', Media release, 10 November 2008; the Department of Industry and Science, *Submission 16*, p. 35.

15 Department of Industry, *ATS Fact Sheet*, <http://www.business.gov.au/grants-and-assistance/manufacturing/ats/Pages/Fact-Sheet.aspx> (accessed 5 March 2015).

16 Productivity Commission, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, 31 March 2014, p. 132.

demonstrate that their components, tools and services are related to producing motor vehicles or engines in Australia.¹⁷

2.21 The ATS is composed of both capped and uncapped funding; motor vehicle producers can claim up to 55 per cent of each annual cap, with the remaining 45 per cent available to other ATS participants.¹⁸

2.22 More information about potential reforms to the ATS to better support automotive manufacturers, including component makers, is explored in the next chapter.

The Automotive New Markets Initiative

2.23 The Automotive New Markets Initiative (ANMI) provided \$35 million for four years from 2012–13 to Australian automotive supply chain companies to broaden their customer and product base, both domestically and through exports. The ANMI was a joint initiative of the Australian Government, Victorian Government and South Australian Government. Additional Australian Government and Victorian Government funding of \$12 million was provided in May 2013 in response to Ford's announcement that it would cease manufacturing motor vehicles in Australia in 2016.¹⁹ The ANMI included:

- the \$30 million Automotive New Markets Program, which provided merit-based grants to businesses to enhance their ability to access new markets;
- the Business Capability Support Program, which funded a capability development organisation to support automotive businesses to develop new capabilities;
- the Automotive Envoy, who helped automotive businesses to connect to new markets in the automotive and non-automotive sectors, including global automotive supply chains; and
- the Automotive Supplier Advocate, who helped provide strategic leadership to assist automotive firms in identifying new customers, including through fleet purchases.²⁰

17 Productivity Commission, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, 31 March 2014, p. 132.

18 *Automotive Transformation Scheme Regulations 2010*, Regulation 3.10.

19 Senator the Hon. Kim Carr, Minister for Innovation, Industry, Science and Research, the Hon. David Hodggett, MP, Victorian Minister for Manufacturing and the Hon. Tom Kenyon, MP, South Australian Minister for Manufacturing, 'Helping auto suppliers diversify and thrive', Media release, 5 August 2013.

20 The Hon. Greg Combet AM, MP, Minister for Industry and Innovation, the Hon. Richard Dalla-Riva, MP, Victorian Minister for Manufacturing, Exports and Trade, and the Hon. Jack Snelling, MP, South Australian Acting Minister for Manufacturing, Innovation and Trade, 'Creating new opportunities for auto suppliers', Media release GC 225/12, 8 August 2012.

2.24 In launching the ANMI, the Victorian Minister for Manufacturing, Exports and Trade, Mr Richard Dalla-Riva observed that:

At a time of significant structural pressures on the car industry, local components suppliers must look to transform themselves into companies that can compete not only in selling parts into local production but also into global auto industry markets and into other sectors like defence, rail, aerospace and mining. We will stand by the industry during this period of transformation.²¹

2.25 Under the Automotive New Markets Program, of 30 approved projects (with investment totalling \$18,100,189): 15 have been completed, 12 are in progress, two have been withdrawn and one has been voluntarily terminated (as at 31 March 2015).²²

2.26 The \$30 million Automotive New Markets Program was replaced by the \$20 million Automotive Diversification Program, announced in May 2014, as one of the elements under the current government's Growth Fund program.

Growth Fund program

2.27 In December 2013, following the announcement by Holden that it would cease local manufacturing in 2017, the federal government announced that it would establish a \$100 million growth fund to help mitigate the economic fallout in South Australia and Victoria. This comprises \$60 million in Commonwealth funding, with remaining funds being contributed by the South Australian and Victorian state governments and Holden.

2.28 In May 2014, following the announcement that Toyota would also cease local manufacturing in 2017, the government announced it would increase its contribution to the Growth Fund by \$40 million. With contributions from Toyota, Holden and the South Australian and Victorian state governments, this brings the total value of the fund to \$155 million.

2.29 The Growth Fund comprises five elements:

- A \$15 million increase to the Automotive Industry Structural Adjustment Programme (AISAP) to extend the programme until 30 June 2018. This program provides retrenched automotive workers with immediate access to intensive employment support.
- A \$30 million Skills and Training Initiative to assist Holden and Toyota workers recognise their skills and train for new jobs, while they are still

21 The Hon. Greg Combet AM, MP, Minister for Industry and Innovation, the Hon. Richard Dalla-Riva, MP, Victorian Minister for Manufacturing, Exports and Trade, and the Hon. Jack Snelling, MP, South Australian Acting Minister for Manufacturing, Innovation and Trade, 'Creating new opportunities for auto suppliers', Media release GC 225/12, 8 August 2012.

22 Department of Industry and Science, *Submission 16*, pp. 12–13.

employed. The \$30 million is composed solely of contributions from Holden and Toyota, which each contributed \$15 million to this initiative.

- A \$20 million Automotive Diversification Programme to help automotive supply chain firms capable of diversifying to find new markets (replacing the previous government's \$30 million Automotive New Markets Program).
- A \$60 million Next Generation Manufacturing and Investment Programme to accelerate private sector investment in high value manufacturing sectors in Victoria and South Australia.
- A \$30 million Regional Investment Programme to support investment in non-manufacturing opportunities in regions affected by the closure of the car manufacturing industry.²³

Component manufacturers face the biggest challenges

2.30 The component sector of the automotive manufacturing industry has been, and will continue to be, most affected by the wind-down in vehicle production.

2.31 In recent years, Australia's automotive component manufacturers have faced significant challenges due to relatively high production costs, increased global competition and (until recently) a relatively high exchange rate. Global car manufacturing trends, which seek to integrate component suppliers through rationalisation and co-location, have added to these challenges.

2.32 The cessation of automotive vehicle production in Australia will place the local component manufacturing industry under extreme pressure, potentially leading to the closure of many local component manufacturers.

2.33 Given the advance notice provided by the vehicle producers, it is likely that most, if not all, component manufacturers will have explored their options and determined whether they are able to continue to operate following the cessation of domestic vehicle production.

2.34 Many local subsidiaries of global car manufacturers and component suppliers were explicitly set up to service local automotive production and are likely no longer to have operations in Australia after 2017.

2.35 That is not to say that all local subsidiaries will cease manufacturing in Australia. For example, even though Nissan has not been manufacturing vehicles in Australia for a number of years, its Australian operations continue to provide components for 39 models of vehicles which are assembled around the world.²⁴

23 The Hon. Ian MacFarlane, MP, Minister for Industry, '\$155 million growth fund to drive state's future growth', Media release, 6 May 2014.

24 *Nissan Casting Australia announces it will continue making parts for Nissan Leaf and other models beyond 2020*, news.com.au, 21 April 2015, <http://www.news.com.au/finance/business/nissan-casting-australia-announces-it-will-continue-making-parts-for-nissan-leaf-and-other-models-beyond-2020/story-fnkgdhrc-1227313469385> (accessed 23 April 2015).

2.36 Some component manufacturers have successfully managed to diversify their activities to be less reliant on supplying local vehicle production. These businesses are less susceptible to the cessation of local vehicle production but may benefit from government assistance to further broaden their product offering and markets, and maximise any opportunities that may arise.

2.37 In addition, aftermarket component manufacturers will continue to build on their success and have the potential to expand quickly if opportunities arise and assistance were to be made available.²⁵

Opportunities for automotive component manufacturers to adapt

2.38 While the cessation of production was announced in 2013, domestic automotive production volumes have been declining for some time. Recognising this trend, many component manufacturers have been actively exploring options to develop sustainable business models that do not rely solely on domestic motor vehicle production.

2.39 In the absence of domestic motor vehicle production, the future for local component manufacturing depends on the ability of businesses to be able to:

- supply components (including pre-assembled parts) to production facilities internationally;
- supply components to the automotive aftermarket; and/or
- diversify their activities to supply other non-automotive industries.

2.40 In addition, there may be opportunities to attract new investment and establish low-volume, niche vehicle producers in Australia. New vehicle producers could work with existing component manufacturers to ensure that, where possible, components are sourced locally.

Supplying components for global automotive production

2.41 Opportunities for supplying global automotive producers depend on the capacity of component manufacturers to address trends in rationalisation and co-location. Producers are seeking to limit the number of tier 1 suppliers and develop facilities that co-locate component manufacturers and production lines to improve efficiency.²⁶

2.42 Some component suppliers could continue manufacturing within Australia as part of supplying international tier 1 operations or vehicle production plants directly. The relatively recent fall in the exchange rate may assist domestic component manufacturers to become more internationally competitive.

25 Australian Automotive Aftermarket Association, *Supplementary Submission 5*, p. 3.

26 Component manufacturers are often described in terms of tiers, with tier 1 suppliers supplying directly to the producers, tier 2 suppliers supplying tier 1 suppliers and so on. Component manufacturers can be a tier 1 supplier for one producer but also a tier 2 supplier for another.

2.43 Robert Bosch Australia indicated that it is one of the few diversified Australian manufacturers supplying the automotive industry and produces 92 million automotive diodes for the Bosch group globally.²⁷

2.44 Australian component manufacturers may also be able to supply niche markets where other component suppliers do not want to produce. For example, SMR Automotive has recently started shipping a highly technical product to Honda in Japan. Not only has this opened up a new export market but has also developed an innovative design approach and significant intellectual property.²⁸

2.45 Where Australia retains a role in automotive design, there may also be opportunities during the new vehicle design phase for early collaboration between designers and domestic component manufacturers. For example, the development of the Holden Zeta global platform in Australia allowed Diver Consolidated Industries to design and manufacture export door hinges and a transmission tunnel insulator.

Supplying components to the automotive aftermarket

2.46 Given the mature nature of the automotive aftermarket in Australia, it may be challenging for original equipment components manufacturers to restructure their operations to competitively supply the domestic aftermarket. And, indeed, such an outcome may not be in the best interests of the economy if assistance undermines existing manufacturers.

2.47 However, there may be opportunities for existing aftermarket component manufacturers to increase production to serve additional export markets. According to the Australian Automotive Aftermarket Association (AAAA):

The global demand for specialty components is growing in line with higher SUV sales and the ageing of the population is supporting demand for specialised vehicle retrofit components. The rise of global platforms, while representing a threat to local OE component producers, is generating opportunities for the development of accessories and modification products, first developed for local use and then exported.²⁹

2.48 The AAAA considers that the future of the sector in Australia will depend on moving up the value chain by developing and manufacturing high-value speciality products with a technological advantage. These types of products are sought after and purchased on innovation, performance and features, rather than price.³⁰

Diversifying activities to supply non-automotive industries

2.49 Opportunities may also exist for some component manufacturers to use their expertise and equipment to manufacture components for use in other industries and/or non-automotive final products. For example, MHG Asia Pacific is using the

27 *Submission 14*, p. 2.

28 *Committee Hansard*, 13 March 2015, p. 11.

29 *Submission 5*, p. 3.

30 *Submission 5*, p. 3.

knowledge and techniques it has developed in supplying the domestic automotive industry to expand its manufacturing operations into non-automotive industries. It designs and produces specialised demisting glass for the local bus manufacturing industry and is also seeking new opportunities to supply specialised glass for train windows. In addition, MHG's expertise in manufacturing light weight plastic components may have relevance in the rail industry and electric vehicle industry.

2.50 There may also be opportunities for existing aftermarket manufacturers to expand their diversification activities. The AAAA reported that:

The Australian aftermarket has also been successful in branching out into non-automotive industry sectors, such as rail, defence, mining, marine and industrial, creating further opportunities for volume growth through diversification.³¹

2.51 A combination of these strategies may be necessary to create a viable business model. For example, MtM Automotive has been manufacturing in Australia for the past 50 years and in 1992 started looking at the export market. While it was not until 1997 that the company actually won business in the export market, today 40 per cent of the company's manufactured products are produced either for the export market or aftermarket. MtM Automotive has continued to look for new opportunities to diversify into non-automotive sectors across a variety of products, including manufacturing the all-terrain, off-road Tomcar vehicle and the SteelSafe Immobilizer for trucks and trailers.³²

31 *Submission 5*, p. 3.

32 *Committee Hansard*, 10 March 2015, p. 35.