

Senate Economics References  
Committee  
Inquiry into the future of Australia's  
automotive industry  
Initial consideration of manufacturing and  
supply chain transition issues

Victorian Government interim  
submission

March 2015

# Inquiry into the future of Australia's automotive industry

## Victorian Government interim submission

### Executive Summary

#### Key issues for the automotive sector

The automotive sector is of great importance to Victoria and the confirmed exit of the three major passenger car manufacturers in 2016-17 will have a severe and geographically-concentrated impact on the State economy and employment.

The Productivity Commission has estimated Victorian job losses of 24,150 by 2016-17 and a further 13,400 in the following three years.<sup>1</sup> Other modelling suggests significantly greater impacts. For example, economic modelling by the Australian Workplace Innovation and Social Research Centre (WISeR) indicates the decline in automotive manufacturing may result in an estimated decline of close to 100,000 jobs.<sup>2</sup> WISeR estimates that the greatest job loss by place of work in terms of numbers will occur in the Local Government Area (LGA) of Melbourne, with close to 15,000 jobs expected to be lost. This is the biggest decline in actual numbers not only in Victoria, but for all LGAs across Australia by the end of 2017.<sup>3</sup>

The automotive sector is currently under pressure, with many parts and component supply businesses reporting operating difficulties. There is a risk that these businesses may exit the sector earlier than expected, impacting the stability of the sector and leaving it struggling to function. This scenario would accelerate the predicted economic and employment impacts on Victoria.

Government support for the automotive sector is predominantly administered through the Automotive Transformation Scheme (ATS). Government support plays an important role in ensuring that the sector remains stable and continues to operate until 2016-17.

Legislation to reduce available funding under the ATS and terminate the scheme after 2017 has been introduced by the Federal Government and is currently before the Senate. The Federal Government seeks to reduce the amount of ATS funding by \$500 million between 2015 and 2017 and terminate the program at the end of 2017, reducing the total amount of capped funding available by \$900 million.

This legislation has been the subject of a Senate inquiry. Submissions to the Senate inquiry were unanimously opposed to reducing ATS assistance and stated that the proposed changes risk precipitating the early closure of car manufacturers and critical suppliers, which has the potential to destabilise the entire supply chain.

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<sup>1</sup> Productivity Commission 2014, Australia's Automotive Manufacturing Industry: Supplement to Inquiry Report, p. 18 and 22 <http://www.pc.gov.au/inquiries/completed/automotive/supplement/automotive-supplement.pdf>

<sup>2</sup> WISeR 2014, Closing the Motor Vehicle Industry: The Impact on Australia, p. Productivity Commission 2014, Australia's Automotive Manufacturing Industry: Supplement to Inquiry Report, p. XII and 9, [http://www.adelaide.edu.au/wiser/research/development/automotive%20industry/Closing\\_the\\_Motor\\_Vehicle\\_Industry\\_-\\_The\\_impact\\_in\\_Australia.pdf](http://www.adelaide.edu.au/wiser/research/development/automotive%20industry/Closing_the_Motor_Vehicle_Industry_-_The_impact_in_Australia.pdf)

<sup>3</sup> Ibid

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While the sector continues to operate up until 2017, many businesses in its supply chain must prepare to transition into the global automotive sector or to diversify into wider non-automotive sectors in order to survive after 2017. Ongoing ATS funding will be a critical factor in supporting the sector to transition.

Some businesses are not well equipped to make this transition. If these businesses close, many workers currently employed in the sector are likely to face significant challenges in finding new employment.

Commonwealth and State governments have a vital role to play in facilitating the orderly transition of automotive sector businesses and workers by supporting their diversification into new sectors, attracting new sources of investment, as well as supporting automotive workers retraining for new jobs.

### Recommendations to the Committee

The Victorian Government makes the following recommendations to the Committee for its consideration.

#### **Recommendation 1**

The Commonwealth Government should not proceed with the proposed cuts to the ATS, which will negatively impact the stability of the Victorian automotive sector prior to the scheduled exit of vehicle producers in 2016-17. The reduction of ATS support to the sector would further exacerbate pressures on businesses operating in the sector.

#### **Recommendation 2**

Commonwealth Government support for the automotive sector should be extended and increased to assist businesses transition into the global automotive sector or diversify into non-automotive sectors. Support provided for these activities should be delivered through structural adjustment programs or by broadening the criteria of the ATS. Program guidelines, funding levels and metrics for current Commonwealth programs need to be reviewed to ensure they are effective in assisting the sector to transition.

#### **Recommendation 3**

Changes to ATS funding arrangements should only be considered in close consultation with the sector, particularly supply chain manufacturers, to ensure the scheme is effective in assisting the supply chain to transition between now and 2017, as well as to ensure that the scheme is utilised in order to attract future investment in key industry sectors that have the potential to create advanced manufacturing jobs post 2017.

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### Victorian Automotive Sector – Manufacturing and Supply Chain Transition

#### Context

In November 2014, the Senate requested that the Senate Economics References Committee conduct an inquiry and report into the future of Australia's automotive industry. The Victorian Government welcomes the opportunity to provide a submission to the inquiry.

The Committee is due to report to the Senate by the first sitting day in November 2015. The Committee would like to receive submissions to the broader inquiry by 29 May 2015. As its first order of business, however, the Committee intends to inquire into automotive manufacturing and supply chain transition. The Committee is considering producing an interim report in the first half of 2015 and has requested that submissions for this part of the inquiry be received as soon as possible.

This interim submission responds to the initial part of the inquiry into automotive manufacturing and supply chain transition. A further submission will respond to the full terms of reference of the inquiry.

#### Introduction

Significant parts of Victoria's economy continue to face challenges in adapting to structural economic changes, having been impacted by recent high exchange rates, the emergence of lower-cost international competition, increasing interdependence of global supply chains, high business costs and shifting patterns of consumption and investment.

Recent announcements from the three major passenger car manufacturers to cease production in Australia by 2016-17 highlights that further significant structural economic dislocation lies ahead, with severe impacts on businesses, employment and economic performance.

Last year, the Productivity Commission conducted a review of the likely impacts arising from the exit of the three major passenger car manufacturers from Australia. It predicted a reduction in long-run Victorian GSP of 1.9 per cent and a severe negative impact on employment.<sup>4</sup>

The Productivity Commission estimated Victorian job losses of 24,150 by 2016-17 and a further 13,400 in the following three years.<sup>5</sup> Other modelling suggests significantly greater impacts. For example, economic modelling by the Australian Workplace Innovation and Social Research Centre (WISeR) indicates the decline in automotive manufacturing may result in a decline of close to 100,000 jobs.<sup>6</sup>

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<sup>4</sup> Productivity Commission 2014, Australia's Automotive Manufacturing Industry: Supplement to Inquiry Report, p. 18 and 22 <http://www.pc.gov.au/inquiries/completed/automotive/supplement/automotive-supplement.pdf>

<sup>5</sup> Ibid

<sup>6</sup> WISeR 2014, Closing the Motor Vehicle Industry: The Impact on Australia, p. Productivity Commission 2014, Australia's Automotive Manufacturing Industry: Supplement to Inquiry Report, p. XII and 9. [http://www.adelaide.edu.au/wiser/research/development/automotive%20industry/Closing\\_the\\_Motor\\_Vehicle\\_Industry\\_-\\_The\\_impact\\_in\\_Australia.pdf](http://www.adelaide.edu.au/wiser/research/development/automotive%20industry/Closing_the_Motor_Vehicle_Industry_-_The_impact_in_Australia.pdf)

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WISeR estimates that the greatest job loss by place of work in terms of numbers will occur in the Local Government Area (LGA) of Melbourne, with close to 15,000 jobs expected to be lost. This is the biggest decline in actual numbers not only in Victoria, but for all LGAs across Australia by the end of 2017.<sup>7</sup>

WISeR estimates that in Hume in the outer north-western suburbs of Melbourne there will be a large impact both on the number of jobs lost as well as the percentage change, with a decline of 8,815 jobs and a decrease of 9 per cent in local employment. WISeR also forecasts that other Victorian LGAs projected to suffer high employment impacts are Greater Dandenong, Monash and Hobsons Bay.<sup>8</sup>

### Economic contribution of the automotive sector

#### **Victoria's automotive sector makes a significant national economic and employment contribution**

Automotive manufacturing continues to comprise a large segment of the Australian manufacturing sector despite the impending exit of passenger car manufacturers from Australia by 2016-17. Australia's automotive sector is predominantly located in Victoria, which contained almost a third of vehicle production related businesses, and over 55 per cent of its employment in 2013. During 2013, the sector comprised over 980 businesses<sup>9</sup> directly employing over 25,000 workers in Victoria<sup>10</sup>, and supporting a much larger number of jobs indirectly throughout the supply chain.

Automotive vehicle manufacturers generate relatively high demand for goods and services inputs from across the economy. In Victoria and nationally, over 80 per cent of businesses in the sector are involved in body, parts and component manufacturing.<sup>11</sup>

In addition, sector interdependencies generate spill-over benefits to other sectors, which can draw on skilled workers from the automotive sector. Technical and commercial knowledge held within the automotive sector workforce embody significant private and government investment in the sector.

#### **CASE STUDY**

##### **SPECIAL CASE: AUTOMOTIVE AND DEFENCE SECTOR INTERDEPENDENCIES**

A recent Victorian Government survey indicated that 50 per cent of Victoria's defence manufacturing industry uses automotive manufacturing as its base industry to fill defence manufacturing demand troughs. It is estimated that 20 per cent of Victoria's defence manufacturers will be adversely affected by a contraction in the automotive industry. In 2012, Victoria's total defence manufacturing industry employed 6,000 people with annual revenue of \$1.56 billion and exports of \$170 million. Such close interconnection between the automotive and defence industries leaves these firms and their employees at risk.

<sup>7</sup> WISeR 2014, *op. cit.*, p. XII and 9.

<sup>8</sup> Ibid

<sup>9</sup> ABS 8165.0, 30 May 2014

<sup>10</sup> ABS 6291.055.003, Nov 2014

<sup>11</sup> ABS 8165.0, 30 May 2014

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### **The automotive sector invests significantly in research and development**

Internationally, the automotive sector is a creator and an early adopter of new technologies. In the Australian automotive sector, research and development (R&D) investment is around three times higher than for the broader manufacturing sector.<sup>12</sup>

Around 70 per cent of the automotive sector's R&D is carried out by vehicle manufacturers, with the remainder carried out by automotive part and component manufacturers. The exit of these companies is likely to have a significant adverse impact on Australia's manufacturing R&D investment.

Empirical studies demonstrate a strong link between spending on R&D and productivity improvements, both for the business that undertakes the R&D and in associated businesses.<sup>13</sup> The benefits of automotive industry spill-overs extend beyond technology transfer and worker skills to include further benefits such as the management of production processes and the general business process discipline that arises from working to tight margins.

Despite the impending cessation of passenger car manufacturing in Australia, both Ford and Holden are continuing their Victorian-based product design activities, including the development of new vehicle models. Toyota will establish a Centre of Excellence, including training facilities, to be based in Altona.

An increasing focus on product development in the sector illustrates a move towards growing its advanced services activities in Victoria and reflects the sector's increasingly globalised supply chain. The use of Australia's domestic automotive design and engineering capabilities by multi-national automotive producers reflects the global reputation built up by the local industry. This reputation could be lost if the transition is not well managed.

#### **CASESTUDY**

##### Victorian automotive sector advanced product development

General Motors continues to utilise Holden's design and engineering facilities at Port Melbourne, in their recent development of the Buick Avenir concept car. The Buick was jointly developed between Holden Port Melbourne and GM Detroit.

Development of the Buick Avenir follows Ford's development of the 2015 Everest SUV at Ford Australia's Broadmeadows plant. Ford has announced that the Everest SUV will be produced in China.

<sup>12</sup> Relative to both its Industry Value Added and Sales in 2011-12. Victorian Government submission to Productivity Commission Inquiry, Review of the Australian Automotive Manufacturing Industry, 2013, ABS 8104.0, ABS 8155.0.

<sup>13</sup> Hall B. and Rosenbery N. (eds) Elsevier; Handbook of the Economics of Innovation, 2010. Hall, B. Mairesse, J. Mohnen P. Chapter 24; "Measuring the Returns to R&D"

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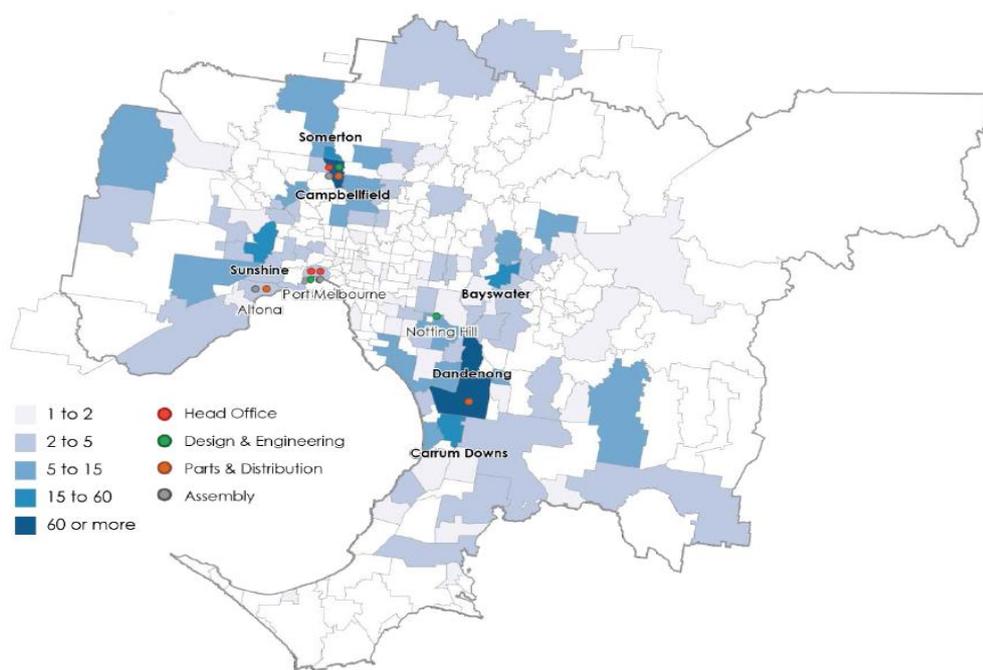
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### An estimated \$2 billion worth of annual exports will be lost as a result of passenger car production ceasing by 2016-17

The decision to end passenger car manufacturing in Australia will have a significant negative impact on Victoria's exports, with an estimated \$2 billion of exports to be lost by 2016-17.<sup>14</sup> Victoria's automotive sector generated \$1.7 billion of exports in 2013-14, contributing 58 per cent of national automotive sector exports.<sup>15</sup> Automotive exports from the sector account for over 7 per cent of Victoria's total goods exports, which is over six times higher than the sector's contribution to total goods exports at the national level (1.1 per cent). Over 80 per cent of the sector's Victorian exports are vehicles.

### The automotive sector is geographically concentrated and these areas will be most affected

Victorian automotive sector businesses are geographically concentrated in north and south east metropolitan Melbourne (Map 1) and in the regional centres of Geelong, Ballarat, Shepparton, Wodonga and Horsham (Map 2). The geographical concentration of the sector will intensify the challenges for businesses and workers in these areas.



Source: Worksafe Victoria, unpublished data

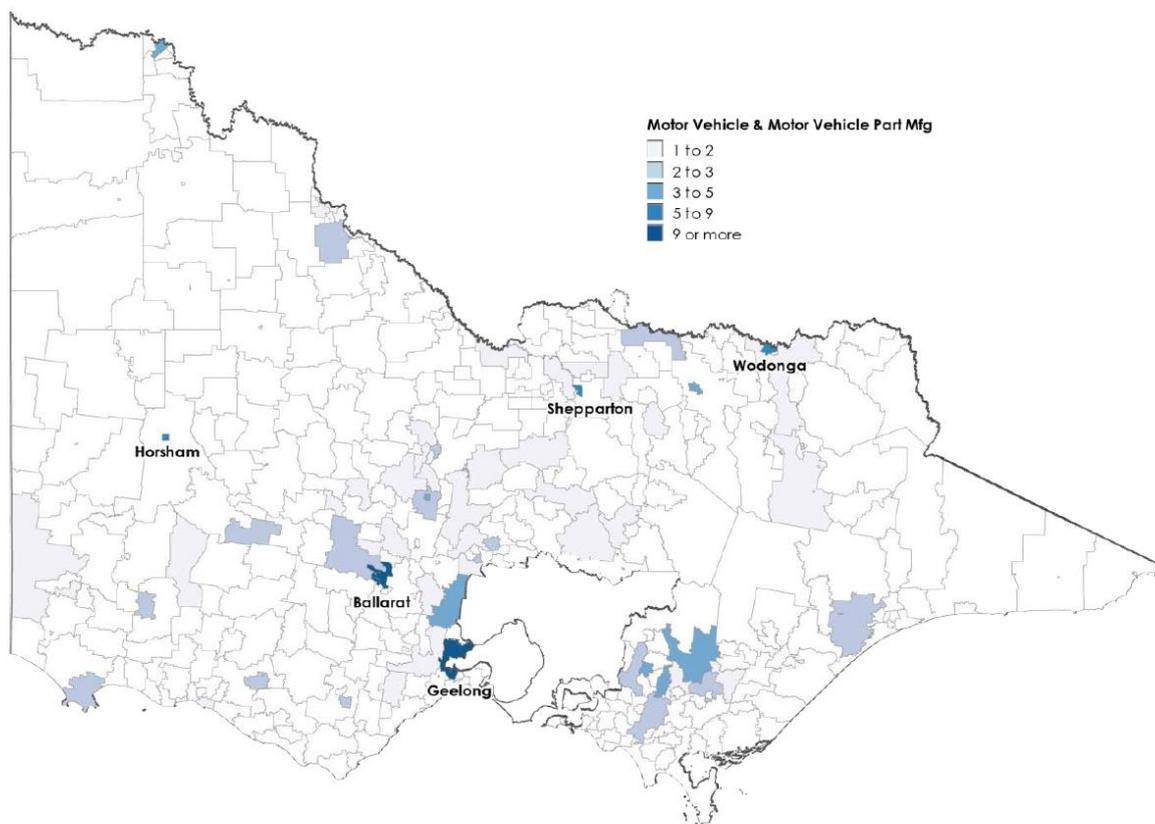
Map 1: Metropolitan Melbourne, Location of motor vehicle and motor vehicle parts manufacturing business establishments, 2011-12

<sup>14</sup> Victorian Government analysis, DFAT STARS Database, based on ABS Cat No. 5368.0, November 2014

<sup>15</sup> DFAT STARS Database, based on ABS Cat No. 5368.0, November 2014

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Source: Worksafe data, unpublished.

Map 2: Regional Victoria, Location of motor vehicle and motor vehicle parts manufacturing business establishments, 2011-12

### Challenges facing the automotive sector

#### **Victorian automotive sector businesses are currently operating under pressure, which threatens sector stability**

The Victorian automotive sector currently faces a significant challenge to maintain stability in the lead up to 2017. Victorian Government consultation with industry found that businesses in the sector are experiencing significant pressure to continue their existing operations, while also having to prepare to diversify into new sectors and markets. At the same time, there is a risk that legislated support schemes under the ATS could be dramatically reduced and terminated early, further eroding business confidence throughout the sector.

There is a risk that these combined pressures could lead to an early closure of one of the three car manufacturers or a critical supplier. This would cause significant job losses over a short period of time in a geographically concentrated area. It would also destabilise the entire supply chain.

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The socio-economic impacts of an early closure, particularly in key automotive regions in Victoria, would be severe.

### **Businesses in Victoria's automotive sector must diversify into global markets and new sectors to survive beyond 2017**

Victorian Government industry consultation has identified that many automotive sector businesses have begun experiencing difficulties in operating since the announcements from the three major passenger car manufacturers to cease production in Australia.

While it is important to maintain stability in the sector so that it can continue to operate up until 2016-17, it is also important that businesses are appropriately supported to transition into new sectors and markets beyond 2017.

Victoria's automotive sector currently holds a significant amount of knowledge and skills that it has built up over time through its R&D, product development and production activities. The combined technical and commercial knowledge held in the sector is a significant asset to Victoria and it is critical that this knowledge base is captured and redeployed to Victoria's growing advanced manufacturing and services sectors.

There is evidence that some Victorian businesses are already beginning to transition into new activities, however for many businesses the transition will demand strategic management skills that they have not previously been required to develop.

#### **VICTORIAN AUTOMOTIVE SECTOR CONSULTATION – KEY RESPONSES AND FINDINGS**

Some businesses are experiencing difficulties in accessing finance due to lender perceptions that the sector has a limited future.

As businesses financial and management resources remain committed to their operation within the automotive sector – for many businesses there is little or no capacity to business plan towards transition or diversification.

There is a lack of sufficiently robust and detailed business planning towards transition occurring across the sector.

Many businesses are not well equipped to manage retrenchment processes, or to finance statutory employee retrenchment liabilities.

Source: Victorian Government, Automotive sector survey, 2014

Industry consultation indicates that many businesses have not started planning for a transition into different sectors or new markets. It is likely that a significant number of small or medium sized businesses in the sector will require support in carrying out the level of strategic business planning required to successfully diversify into other activities and markets.

Despite these challenges, many of the technical and commercial skills and knowledge held within the automotive sector are transferable to other sectors. This is reflected in industry consultation, which has identified some examples of businesses that are already successfully diversifying outside of the automotive sector.

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### CASE STUDY

#### COMPOSITE MATERIAL ENGINEERING AUSTRALIA

Composite Material Engineering Australia (CME) is Australia's leading provider of compression moulded composite products. CME has achieved great success in light-weighting applications in the automotive original equipment sector using advanced technology materials and processes.

CME recently diversified by developing a range of proprietary lightweight products for the building industry, such as AKRIL. This lightweight and cost effective alternative to coloured glass is popular for domestic kitchen splashbacks and shower recess walls as well as commercial interiors. CME also manufacture products that are exported to the global Food industry. CME is connected to a global network of composites technology companies and continues to develop innovative products for new markets.

### CASE STUDY

#### VENTURE

Venture is an international company specialising in the manufacture of decorative trim components and highly complex assemblies for the automotive sector. Venture's automotive products include injection and blow moulding, fully assembled instrument panels, bumper bars and various decorative trim interior and exterior components. Non-automotive components include blow moulded fuel cans, jerry cans, caravan water tanks, kayaks, plastic shopping trolleys, underground rainwater storage and the Milena brand of laundry tub and cabinets and inset troughs.

Venture has now diversified into fabrication of composite aluminium cladding and associated fabricated steelwork. It has used lean manufacturing and project management capabilities learnt as an automotive supplier to capitalise on this market.

## **Workers must transition into activities serving new markets or sectors – or face retrenchment and possible unemployment**

Assisting businesses and workers to prepare for diversification and transition into other sectors and markets will be vital to minimise the projected risks of economic and social dislocation that are caused by large-scale employment losses.

When the car manufacturers cease local production, some workers may be suitable for redeployment within their businesses. However, a significant number will be retrenched. Additionally, automotive sector parts and supply businesses that are not able to successfully transition into new sectors or markets are likely to close, leaving their workers facing retrenchment.

The capacity for workers to be redeployed within their businesses or to transition into different sectors will be influenced by the success of their employer, the employees' age and skill levels and their geographical access to businesses that require their skills. While the three car manufacturers have made commitments to funding statutory entitlements for retrenched employees, the Commonwealth Government may incur significant welfare costs associated with providing these entitlements for some

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retrenched employees of parts and component supply businesses. It may also incur further longer term welfare costs for a proportion of retrenched employees that are not able to secure new employment.

The sector contains a relatively high level of lower skilled occupations with over double the proportion of machinery operators and drivers, and of labourers, than the broader Victorian workforce. It also contains 50 per cent higher level of technicians and trade workers and 30 per cent lower level professional workers.<sup>16</sup> Demographically, the sector contains a high proportion of older workers with over a fifth of its employees over the age of 55 years.<sup>17</sup>

The capacity for automotive workers to transition into different sectors will also be compounded by the geographical concentration of automotive sector businesses and consequent risks of localised workforce mobility issues, skills mismatches and inadequate access to retraining. Workers in regional areas are likely to be particularly impacted and more likely to be forced to find alternative employment opportunities in smaller employment markets. This may generate an increased requirement for regional workers to undertake further training. Regional communities may be particularly impacted if workers are required to move further away to find new employment.

### Strengthening government support for the sector

#### **The Commonwealth and Victorian Governments should maintain their support for the sector to ensure its stability until 2017 and assist businesses to prepare for transition into new markets and sectors**

The 2013-14 announcements of the three major car manufacturers to cease production in Australia created a significant shock throughout the Australian automotive sector. The announcements immediately changed the outlook for businesses supplying the car manufacturers and allow businesses and workers relatively little time to prepare for their future after 2017. These pressures are compounded by resources in the sector being largely committed to supplying the car manufacturers up until the end of vehicle production in 2017.

It is critical for Victoria that the sector remains stable until 2017 and that businesses and workers are supported to diversify and transition into new activities, sectors and markets.

#### **Commonwealth Government support through the ATS is critical to the stability of the sector**

Current government support for the sector is predominantly delivered through the ATS. The scheme was introduced in 2011 to encourage competitive investment and innovation and to support production of vehicles and engines within the Australian automotive sector. Despite the subsequent announcements of vehicle manufacturers to exit the sector, the ATS remains a vital support mechanism for many businesses in the sector.

<sup>16</sup> ABS, Census of Population and Housing, 2011

<sup>17</sup> State Review Report – Victorian Government submission to the review of the Victorian economy by the Commonwealth Government, 2014.

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The Commonwealth Government's proposals to cut the ATS would reduce the period of the scheme by three years (from 2020 to 2017), and the total amount of capped funding available by \$900 million. This would place additional pressure on parts and component manufacturers during a time that they are already facing significant operational challenges.

Reducing ATS support to the sector would place further pressure on many businesses and may force them to exit the sector earlier than 2017. Maintaining the stability of the sector is crucial to avoid any significant exit of businesses prior to 2017, which would risk bringing forward the projected severe economic and employment impacts that Victoria faces. At worst, it would generate an even greater economic and employment impact than has been projected.

### **RECOMMENDATION 1**

The Commonwealth Government should not proceed with proposed cuts to the ATS which will negatively impact the stability of the Victorian automotive sector prior to the scheduled exit of vehicle producers in 2016-17. The reduction of ATS support to the sector would further exacerbate pressures on businesses operating in the sector.

### **Commonwealth Government investment in the Growth Fund is relatively small despite challenges facing the automotive industry**

The \$155 million Growth Fund is jointly funded by the Commonwealth, Victorian and South Australian Governments. The fund includes the \$20 million Automotive Diversification Programme and the \$60 million Next Generation Manufacturing Programme. The Victorian Government continues to provide support to automotive sector businesses and workers through a \$12 million contribution to the Growth Fund.

Despite the predicted severe economic and employment impact following the scheduled exit of the passenger car manufacturers from the automotive sector, the Commonwealth Government's funding commitment to structural adjustment in the Growth Fund is relatively small. The total funding allocated in the Growth Fund is less than 20 per cent of the amount that it proposes to cut from the ATS.

### **The Victorian Government is committed to improving training outcomes for workers impacted by structural adjustment**

The Growth Fund, including the \$30 million Skills and Training Initiative, is providing important support to the manufacturing sector. However, the focus of skills and training funding on displaced employees and their supply chain workers is limited, and fails to capture displaced workers in the broader supply chain.

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The Victorian Government has sought to meet this gap by expanding access to its training services. It has also committed \$320 million to a TAFE Rescue Fund to re-open campuses, upgrade learning facilities and provide cash support where necessary. To receive this funding, TAFEs will need to demonstrate how they are meeting local community needs. As part of this fund, \$140 million has been allocated to investing in infrastructure, ensuring that the focus of TAFE work is on meeting training needs important to strategically important industries where emerging skills shortages need to be addressed.

### **The Victorian Government is supporting structural adjustment and economic development**

Commonwealth and State governments need to determine the strategic industries in which they should invest so that volume automotive manufacturing is replaced by an industry or industries that utilise the skills and capabilities of the automotive workforce.

In Victoria, the \$200 million Future Industries Fund will support businesses specialising in high-growth sectors, including several that operate in advanced manufacturing markets: medical technology and pharmaceuticals, new energy technology, food and fibre, transport, defence and construction technology, international education, and professional services. A further \$200 million has been committed to support jobs and economic growth in regional Victoria.

The Victorian Government is establishing the Premier's Jobs and Investment Panel that will draw on the expertise and insight of business and industry leaders to provide strategic advice directly to the Premier. The Panel will guide expenditure of up to \$500 million over four years.

In addition, the Victorian Government has committed to support the Geelong Regional Innovation and Investment Fund (GRIIF) and the Melbourne's North Innovation and Investment Fund (MNIIF) by providing an additional \$7.5 million and \$10.5 million to the funds respectively.

GRIIF and MNIIF support innovative job creation projects in locations directly affected by the closure of Ford. The funds are open to all industries and additional weighting is given to projects that provide employment opportunities for former automotive supply chain workers.

The Victorian Minister for Industry wrote to the Federal Industry Minister seeking his cooperation to invest the additional money into the funds. The Commonwealth Government has rejected Victoria's additional funding contribution and is seeking to close the funds once the remaining funds are allocated. The Victorian Minister for Industry will lead work to deliver the commitment to invest the additional \$18 million and take over administration of the funds.

The Victorian Government is also committing additional funding to infrastructure development and increasing access to international markets through trade missions and the international Victorian Government Business Office network.

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### **The Commonwealth Government should provide additional support for the sector's growing role in product development**

In the automotive industry, there is an opportunity to strategically pivot towards manufacturing advanced componentry and complex systems as passenger car manufacturing ceases. Australia's neighbours in the region are still behind global best practice and do not have Australia's 100 years of automotive knowledge and expertise.

Australia could become a world class hub for automotive innovation in areas such as telematics, low emissions vehicles, driver aids and advanced materials (i.e. carbon fibre). These are areas where there are no clear global winners and with the right collaboration between design, R&D, engineering and manufacturing, Australian can still compete.

Australia is the regional subject matter expert, with a more mature industry than Thailand, Malaysia, Indonesia or China. These neighbours are seeking Australia's expertise and, with innovative business models that ensure intellectual property and expertise is maintained in Australia, there are opportunities to support their needs. For example, revenue sharing, IP trailing commissions and technology agreements are all potential business models that should be explored.

Commonwealth Government support through the ATS does not currently directly address the opportunity for a future global product development role for the sector. The decisions of GM to develop the Buick Avenir and Ford to develop the Everest SUV in Victoria reflect the global reputation built up by the local sector. This reputation could be lost if the transition is not well managed. The sector's increasing focus on product development is a significant opportunity to transition its design and engineering capabilities to a global role servicing the international automotive sector. Due to its focus on domestic production, the ATS does not specifically provide support for global product development activities.

### **Potential under-subscription of the ATS funding may reduce Commonwealth Government support for the sector**

There is a risk that some of the ATS funding will not be allocated to the sector due to the inability of businesses to meet its criteria, which require that businesses are supplying domestic automotive production at levels that pre-date the vehicle manufacturers announcements to cease production. The ATS criteria are based around production volumes, which may become increasingly difficult for businesses to demonstrate. Under-subscription of the ATS due to the inability of businesses to meet its eligibility criteria would reduce the Commonwealth Government's support for the sector.

As noted by the Federation of Automotive Product Manufacturers and acknowledged by the Productivity Commission, ATS eligibility requirements could inhibit component producers from diversifying in the future as the volume of automotive production decreases.

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To address this issue, the Victorian Government is supportive of South Australia's proposal that the:

*ATS guidelines are expanded to enable companies to use the funds for diversification strategies, so that they can enter new markets for a sustainable future.*

(South Australian Government 2015, p.2)

### RECOMMENDATION 2

Commonwealth Government support for the automotive sector should be extended and increased to assist businesses transition into the global automotive sector or diversify into non-automotive sectors. Support provided for these activities should be delivered through structural adjustment programs or by broadening the criteria of the ATS. Program guidelines, funding levels and metrics for current Commonwealth programs need to be reviewed to ensure they are effective in assisting the sector to transition.

### **The Commonwealth and Victorian Governments should ensure that skills and training support is provided from an early stage**

Early intervention is critical to achieving optimal outcomes for employees in transition. Affected workers will be best placed to reskill and secure continuing or alternative employment if they can access reskilling and job search assistance from an early stage, and if possible from the time that retrenchment becomes a significant risk.

The Commonwealth Government should strengthen employment support services for automotive workers and expand case management support services. Any package of support should ensure immediate access to the highest level of employment assistance, tailored to individual needs and focused on finding new employment that is best suited to their specific circumstances. This could be similar to the support that existed under the Automotive Industry Structural Adjustment Program. The Commonwealth's approach should complement the Victorian Government's already substantial commitment to vocational training subsidies for automotive supply chain workers.

### **Changes to ATS funding arrangements should only be considered in close consultation with the automotive sector**

The ATS funding arrangements were established by legislation. It will be critical that any changes to ATS funding arrangements be considered in consultation with the automotive sector. In particular, supply chain manufacturers should be engaged throughout any process to change ATS funding arrangements.

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### RECOMMENDATION 3

Changes to ATS funding arrangements should only be considered in close consultation with the sector, particularly supply chain manufacturers, to ensure the scheme is effective in assisting the supply chain to transition between now and 2017, as well as to ensure that the scheme is utilised in order to attract future investment in key industry sectors that have the potential to create advanced manufacturing jobs post 2017

### Conclusion

The closure of passenger car manufacturing in Victoria will have a significant impact on the Victorian economy. There is a limited window to support the automotive industry to transition so that the economic and social costs of structural adjustment are minimised.

The Commonwealth Government's proposed funding cuts to the ATS risk precipitating the early closure of a major car manufacturer or a critical supplier, which has the potential to destabilise the entire supply chain.

The Victorian Government is opposed to the proposed funding cuts to the ATS. It should instead broaden the scheme's scope to support automotive businesses to transition their activities within the global automotive industry or diversify into other industries. The Commonwealth should strengthen employment support services for automotive workers and expand case management support services through the Department of Employment.

Finally, the Victorian Government recommends that changes to ATS funding arrangements should only be considered in close consultation with the sector.