



GOVERNMENT OF SOUTH AUSTRALIA SUBMISSION

SENATE ECONOMICS LEGISLATION COMMITTEE

INQUIRY INTO THE AUTOMOTIVE TRANSFORMATION SCHEME

AMENDMENT BILL 2014

Prepared by

Automotive Transformation Taskforce

Department of State Development

South Australian Government

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Mr Phil Tyler

Director, Automotive Transformation Taskforce

Department of State Development

GPO Box 320

Adelaide, South Australia 5001

Level 9, 131 – 139 Grenfell Street, Adelaide, 5000

www.statedevelopment.sa.gov.au



On 25 September 2014, the Senate referred the provisions of the Automotive Transformation Scheme Amendment Bill 2014 to the Senate Economics Legislation Committee for inquiry and report. The South Australian Government was invited to provide a submission to the inquiry.

This submission provides the South Australian Government's comments on the provisions of the Bill, which would:

- implement the Australian Government *Mid-Year Economic and Fiscal Outlook 2013-14* savings measures, reducing the total amount of capped assistance under the Automotive Transformation Scheme (ATS) by \$500 million from 2014-15 to 2017-18; and
- implement the *Budget 2014-15* savings measures, bringing forward the ATS end date from 1 January 2021 to 1 January 2018, further reducing the funding assistance available by \$400 million.

In summary, the proposed amendments to the ATS would reduce financial assistance to the Australian automotive industry by \$900 million, and terminate the scheme three years earlier than originally scheduled.

South Australian Scenario

The announcements by GM Holden, Toyota and Ford that they will cease automotive manufacturing within a year of each other, combined with the effect of these closures on firms supplying them with automotive components, will have an impact on Australia's automotive industry that is almost without precedent in our nation's history. These announcements bring an end to the automotive manufacturing industry in Australia, and will impact thousands of workers, hundreds of businesses and the communities in Adelaide's northern, western and southern suburbs.

In 2013, the former South Australian Department for Manufacturing, Innovation, Trade, Resources and Energy (now the Department of State Development) undertook a detailed mapping exercise of the automotive supply chain in South Australia. The mapping exercise established that there are 33 Tier 1 suppliers employing around 3,700 people. A significant number of these suppliers are foreign owned and are expected to exit Australia following closure of GM Holden, Toyota and Ford. There are a further 719 Tier 2, 3 and 4 companies employing 28,000 to 32,000 people (with 2,800 to 4,100 of those being automotive specific), supplying a range of services and products to the Tier 1 companies.

It is estimated that job losses across GM Holden and the automotive supply companies in South Australia may be as high as 7,500, and up to 13,000 if flow-on effects across the state are taken into consideration.

The automotive industry is concentrated in Adelaide's northern suburbs, which are already experiencing high levels of economic and social disadvantage, and are heavily dependent



on local manufacturing. Closures in the automotive industry pose a substantial risk of ongoing long-term unemployment, adverse social consequences, regionalised damage to communities and increased costs to government. This risk is heightened by the profound disadvantage in the City of Playford area in particular, which has an unemployment rate of 15.5 per cent and is in the second to bottom percentile of disadvantage for all suburbs in the nation, as measured by the Socio-Economic Index for Areas¹.

In a recent submission to the Productivity Commission's review of the Australian Automotive Manufacturing Industry, the South Australian Government extensively outlined the positive spillover benefits and externalities of the automotive industry, including its critical importance to manufacturing overall because of its transmission of new technologies and enterprise-based innovations. These capabilities also provide platforms for diversification into new high-value manufacturing opportunities. The full submission is provided at Attachment 1.

The decisions of the three car manufacturing companies will have significant consequences for South Australia, but by taking early and strong supportive action we can ensure the state has a positive economic future. However, that action requires a realistic measure of financial support.

Given the scale, nature and location of the pressures created by the closure of Australia's automotive manufacturing industry, and the consequential industry and labour market adjustment, additional assistance measures on top of those generally available through existing government programs will be required.

Impacts on Enterprises

The ATS has been a significant contributor to local automotive manufacturing supply chain enterprises, including many family-owned and operated small and medium-size enterprises, being able to expand their capacity and capability, and build manufacturing businesses underpinned by design excellence and innovation.

ATS support is now more important than ever in assisting automotive supply chain companies for the following reasons:

- Reducing the ATS support during the period that the Original Equipment Manufacturers (OEMs) are closing down their vehicle manufacturing activities will hinder the ability of the automotive supply chain and its workforce to continue building capability and capacity, and to consolidate and transition to alternative markets and employment. It will also threaten the survival of manufacturing in South Australia and Australia.

¹ <http://www.abs.gov.au/websitedbs/censushome.nsf/home/seifa>



- ATS funding will be needed to assist firms to continue to provide vital components and services to OEMs. Reducing the ATS funding will intensify financial pressures on the automotive supply chain and hinder its ability to continue operations through to 2017.
- While a number of automotive supply chain companies have less exposure to the three domestic vehicle manufacturers, many hold significant automotive sector contracts within the global marketplace. A reduction to ATS assistance for companies to undertake research and development activities is likely to adversely affect their ability, and the ability of other automotive supply chain companies, to enter, and participate, in future global vehicle programs and supply chains.

The South Australian Government recognises the need for staged reductions in funding support to the automotive industry, but also recognises the importance of providing policy and program support to automotive supply chain companies prior to the OEM closures.

The magnitude and timing of the required adjustment process relating to the closure of the OEMs are important policy questions requiring further exploration. As illustrated by the results of several modelling studies, the allocative efficiency gains at the national level are small, but the economic and social costs at the regional level in South Australia and Victoria are large and cannot be ignored.

The South Australian Government therefore requests that the Commonwealth Government does not remove \$500 million from the ATS, per the *Mid-Year Economic and Fiscal Outlook 2013-14* savings measures, retains the original ATS end date of 1 January 2021, and considers expanding the ATS guidelines to enable automotive enterprises to use the fund to develop and implement diversification strategies.

South Australian Government Support

The South Australian Government has responded to the ending of its automotive vehicle manufacturing industry with the *Building a Stronger South Australia: Our Jobs Plan (Our Jobs Plan)*, committing \$60 million over four years to provide an integrated package of initiatives and programs.

Our Jobs Plan contains six key actions aimed at securing the future of the state's manufacturing sector and strengthening our economy, including supporting displaced workers, supporting affected communities, assisting the automotive industry to diversify, accelerating advanced manufacturing, creating new jobs and accelerating infrastructure projects to create employment.

Our Jobs Plan delivers the type of strategic response required to build productive capacity, to upskill the labour force, and to diversify the Australian economic base into industries able to sustain a global competitive advantage. However, a task of this magnitude cannot be achieved by state governments alone. Improving productivity, diversifying our nation's industry base, and developing a highly-adaptable workforce with skills that meet the



increasingly-complex needs of industry, requires support and financial investment from all levels of government.

Industry Views

There is an urgent need for government to assist the orderly transition of the automotive supply chain into global supply chains, or other parts of the economy. In considering amendments to the existing support mechanisms, careful consideration must be given to the impacts and implications of closing down an entire industry, and the likely periods of substantive loss within a region, including regions with persistently high unemployment and broader disadvantage.

Additionally, automotive workers possess specific skill sets, and the fact that there will be no remaining automotive industry to absorb the excess labour creates a unique situation that requires careful analysis and consideration.

It is imperative that the time from now until the OEM closures is used to support the automotive supply chain to diversify and enter new markets, and remain operational with continued employment of its workforce, through policy and program supports such as the ATS. This view is shared by the Australian Workplace Innovation and Social Research Centre (WISeR), which has stated the following:

The challenge, requiring investment rather than disinvestment by Government, is to exploit opportunities for accelerated industrial diversification, applying both individual skills and enterprise level and supply chain capabilities that would otherwise be lost permanently, once the highly complex, vertically integrated automotive industry closes down'.²

WISeR goes on to say:

‘At a time when the case for public investments in industry innovation and diversification is stronger than ever, the Commonwealth’s stance has been one of severe financial retrenchment or complete withdrawal. This includes not only decisions on automotive and naval shipbuilding, but also downgrading of commitment to a range of growth-promoting policies and programs’.

Contrary to industry requirements, the proposed amendments to the ATS would reduce available support and further undermine confidence within the automotive industry. The automotive industry has also indicated that the proposed amendments may jeopardise the supply of components to GM Holden, Ford and Toyota, and increase the risk of their early closure. Early closure of the OEMs would not only hinder efforts to transition the automotive supply chain, it would also adversely affect the employment retraining and reskilling opportunities available to workers, placing even greater pressure on employment and community infrastructure.

² Australian Workplace Innovation and Social Research Centre (WISeR). 2014. *Impacts of the 2014-15 Federal Budget measures on South Australia*. Adelaide: WISeR, The University of Adelaide



On 13 August 2014, Mr Gerry Dorizas, GM Holden Managing Director publicly warned³ that the local car industry could shut down earlier than expected, if the Commonwealth Government pushes ahead with its proposed cuts to the ATS.

Mr Dorizas commented that a sharp reduction in funding assistance would place more pressure on local car and component makers stating, 'We are very focussed on the supplier base because, if that happens, nobody will be able to produce cars that rely on parts made in Australia.'

Mr Dorizas also said he hoped that the cuts would be reconsidered and that, 'logic will prevail' because, 'The whole industry would like to see the decision (to cut \$500 million in industry assistance) reversed'.

Key industry organisations, including the Federation of Automotive Products Manufacturers (FAPM) have reiterated that the proposed amendments to the ATS will jeopardise jobs in the automotive components industry, and may lead to early closure of the supply chain.

The South Australian Government also notes the contents of the FAPM supplementary submission to the Productivity Commission review of the Australian Automotive Manufacturing Industry⁴. In particular, it notes the FAPM's statements that, '... government support for diversification activities by automotive suppliers should continue as a key industry strategy,' and, '... the ATS program must continue through to 2020 as planned. This will assist those suppliers who have managed to diversify their businesses or enter export markets'.

Mr Tony Weber, Chief Executive at the Federal Chamber of Automotive Industries⁵ comments that the Commonwealth Government has, 'undermined the job security of tens of thousands of automotive and supply chain workers ...,' and, 'If this cut passes Parliament, it will intensify the financial pressure on the supply chain, which has already factored ATS funding into their long-term business and investment decision-making process.'

In summary, the automotive industry has made it clear that if the Automotive Transformation Scheme Amendment Bill 2014 is approved by the Senate and goes on to receive assent, many Australian small-to-medium-sized enterprises in the automotive components sector will find it challenging to survive. This is likely to lead to early closure of the OEMs, and the permanent loss of individual skills and enterprise-level and supply chain capabilities.

³ <http://www.news.com.au/technology/design/holden-boss-gerry-dorizas-says-federal-government-must-step-in-to-prevent-job-losses-and-early-industry-shut-down/story-fnjwucvh-1227022876801>

⁴ <http://www.fapm.com.au/Portals/0/Website/FAPM%20Supplementary%20Submission%20Final.pdf>

⁵ <http://www.caradvice.com.au/286032/budget-2014-automotive-transformation-scheme-cuts-will-hurt-workers-say-politicians-industry/>



South Australian Government Recommendations

The South Australian Government urges the Senate to reject the Automotive Transformation Scheme Amendment Bill 2014, and recommends that:

1. The decision to remove \$500 million from the ATS from 2014-15 to 2017-18 per the *Mid-Year Economic and Fiscal Outlook 2013-14* is reversed, so that the funds are retained in the Scheme;
2. The original ATS end date of 1 January 2021 is retained; and
3. 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.

Attachments

- Government of South Australia Submission to the Productivity Commission on the Review of the Australian Automotive Manufacturing Industry, November 2013.