



**Professionals
Australia**

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Senate Standing Committee on Economics
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Automotive Transformation Scheme Amendment Bill 2014

Via e-mail: economics.sen@aph.gov.au

It is perhaps emblematic of the negligence in the management of advanced manufacturing in this country that this Bill, which amounts to the abandonment of the automotive manufacturing industry in Australia, is being considered at a time when unemployment in South Australia and Victoria, the most automotive industry dependent States, tops seven percent – the only mainland States to hold such a dubious honour¹.

If this legislation is passed, we face the prospect of generational recession in both South Australia and Victoria, with 125,000 jobs disappearing in those States as a result of the closure of the automotive industry, forcing unemployment to double digits and consigning entire communities to a cycle of poverty which will require massive future government expense to address².

Surely, if the departure of automotive manufacturing from Australia proves that we cannot compete with low-wage, low-cost economies, then we must transition to becoming a smarter economy with diverse outputs across a range of industries so that we have a high-wage, high-skill economy able to compete in knowledge industries which are unimpeded by the tyranny of distance. Key to that transition will be Australia's engineers – the innovators who bring scientific discovery to practical reality.

Engineers create design and manufacture innovative products, processes and systems that contribute to the world's prosperity, security, health, culture and environment. They are a key yet little understood profession.

¹ Sydney Morning Herald, *Unemployment jumps to near ten year high*, <http://www.smh.com.au/business/the-economy/unemployment-jumps-to-more-than-10year-high-20140807-101a9n.html>

² ABC Four Corners, *Car crash: Huge hit to jobs and growth as automotive manufacturing ends in Australia, warns new study*, <http://www.abc.net.au/news/2014-04-14/study-warns-carmakers-exit-could-see-200000-jobs-lost/5389682>

Industry as we stand

Processed mineral exports are in substantial decline. Our importation of manufactured products is booming, with imports at four times the levels of exports³. We have seen our domestic manufacturing sector reduce in size and importance⁴ to the Australian economy. Imported manufactures are now 72 per cent of total imports and growing year on year⁵.

We are at a precarious point in Australia's economic story and it is time for careful management of transition. As is outlined in detail in our submissions to the Productivity Commission and the Victorian and South Australian Governments' Economic Reviews (attached), Australia's engineers will play a critical role in advanced manufacturing in this country and without skilled engineers in adequate supply, efforts to build new advanced manufacturing sectors are doomed to failure.

As has been outlined in our previous submissions to government and in our advocacy over many years, the automotive industry has been the cornerstone of advanced manufacturing in Australia. At a time when our currency exchange rate has started to dip against some of our largest trading partners, now more than ever we need the Automotive Transformation Scheme to run its full course so that we can transition into new advanced manufacturing industries to take full advantage of an improved market for Australian value-add exports.

When our currency was a further 25 per cent lower against the USD than it is currently in the late 1990s⁶, elaborately transformed manufactures "such as cars, machinery or clothing", played a pivotal role in "the success story of the 1990s"⁷, when sales of the Falcon and Commodore neared 200,000.

Our currency is losing value while commodity prices have slumped and much like the 1990s, we now face the challenge of rebuilding industry in Australia so that we can prevent unemployment becoming an everyday reality like it was then. We commend the government in commencing rebuilding of industry with its decision to "invest \$188.5 million in Industry Growth Centres to pursue global excellence in areas of competitive strength" to "provide the infrastructure needed to drive growth and jobs creation in five key sectors of the Australian economy", including "advanced manufacturing"⁸.

³ Ibid.

⁴ T Conley (2009). *The Vulnerable Country*, p116.

⁵ Department of Foreign Affairs and Trade (2013). *Trade in Primary and Manufactured Products Australia*, p21.

⁶ XE.com, *Current and historical rate tables*, <http://www.xe.com/currencytables/?from=USD&date=1999-10-01>

⁷ T Conley (2009). *The Vulnerable Country. Australia and the global economy*, p139.

⁸ Minister for Industry, *Growth Centres to boost competitiveness*, <http://www.minister.industry.gov.au/ministers/macfarlane/media-releases/growth-centres-boost-competitiveness>

As consultation on these Industry Growth Centres is set to commence shortly, it seems strange that the government would strip funding from the Automotive Transformation Scheme at a time when it could most usefully be used to support a transition which maintains engineering capacity for later use in new advanced manufacturing industries.

Demand and supply: engineers

Figures released by the Department of Foreign Affairs and Trade show a near doubling in the importation of engineering services between 2009-2011 from \$1.2 to \$2.3 billion and a five year growth trend of 42.5%⁹. The Internet Vacancy Index is showing a plummet in the count of new advertised online for engineers¹⁰ of more than 39 per cent. It appears we are now importing services at the expense of fostering local employment and industry opportunities.

Australia is becoming more complacent and intellectually lazy, content to wait again for the next boom. There can be no better example of this than our performance in engineering and its enabling studies:

- The percentage of students who do advanced maths is now at 9.6%, down from 14.1% in 1996, while just 18 % do chemistry and below 15 % for physics;
- Australia produces 7.3% engineering graduates compared to 13.1% OECD mean; and
- 18,500 – the total engineering migration figure for 2011-12 was double our domestic engineering student output for that year, meaning we produce a third of our engineering needs domestically.

If we allow our engineering capacity to further erode in this country, we allow our capacity to build, innovate and prosper to diminish too. We cannot let what is already a poor state of affairs in Australian engineering capacity decline further.

The future of advanced manufacturing

Other resource-rich countries around the world have vastly better performances in innovation. Half of the US' economic growth in the last 50 years can be attributed to scientific innovation. Yet happily we watch as State Governments allow unfettered access to our natural resources with the vain hope that proponents may employ skilled Australia workers in construction or maintenance. Platforms to access our natural resources are designed thousands of kilometres away in high-wage economies and towed to our shores with no investment in the key Australian jobs which drive innovation.

⁹ Department of Foreign Affairs and Trade. *Trade in Services Australia 2011*. <http://www.dfat.gov.au/publications/stats-pubs/trade-in-services-australia-2011.pdf>. Last accessed 21 August 2012.

¹⁰ Department of Education, Employment and Workplace Relations. *Vacancy Report*. <http://lmip.gov.au/default.aspx?LMIP/VacancyReport>. Last accessed July 15, 2014.

The engineering skills base of the source countries for these projects are enhanced, while there is little lasting dividend for us.

Yet Australian engineering expertise is world class. It is only by dint of this expertise that we have been able to maintain any competitiveness in advanced manufacturing as we suffer under the burden of an over-valued currency and inconsistent government policy. It is because of this expertise that General Motors has sought to employ hundreds of Australian engineers in Detroit. It is the same expertise which has seen Ford maintain its Product Development Centre, designing cars across global markets.

This remaining advanced manufacturing capacity is at risk in Australia, if the government walks away from its commitment to industry prior to having other pathways in place for our highly skilled engineers. Without opportunities in Australia, engineers will depart our shores for other opportunities.

Given the proximity to a burgeoning vehicle manufacturing industry in Asia, it is possible to imagine Australia becoming an engineering hub for this region. Our highly skilled engineers, supported by world-class research and engineering infrastructure, could achieve breakthrough innovation in vehicle features, materials and technologies. In turn, these advancements will flow to the broader high-value add manufacturing sector.

The integration of our vehicle and infrastructure engineers could also see great advancement in road safety and efficient use of existing infrastructure.

Yet for any of this to occur, we must maintain the financial commitment in the current ATS funding until 2017. We oppose this legislation which aims to reduce funding for the automotive manufacturing industry and with it, Australia's advanced manufacturing capacity.

Product Development

Professionals Australia urges you to acknowledge Ford Australia's Product Development operations continued presence in Australia as distinct to the automotive manufacturing.

Ford is truly a modern Australian success story, and it is important that any decisions made in relation to automotive manufacturing, specifically, to the Automotive Transformation Scheme (ATS), does not jeopardise this.

Despite the shutdown of the automotive manufacturing industry, there is still a real opportunity to capitalise on the research and innovation capacity of Australia's automotive engineers.

Ford is proving this to be true by committing to remain in Australia and by increasing investment in the innovative and design capabilities of its Australian operations. This commitment has been voiced by Ford both globally and locally:

"We are committing to Australia being one of our product development centres of excellence, where designers and engineers (develop) vehicles and technologies for the world"

- Ford Motor Company Chief Executive and President, Alan Mulally.

"As the industry transitions, we expect to become the country's largest auto employer by 2018 - something we take great pride in considering this will include about 1500 highly skilled employees across professions such as engineering and design."

- Ford Australia CEO, Bob Graziano.

It is critical that these ambitions are not stifled, but realised.

Recently, in a move that shows the seriousness of Ford's intentions, the company announced that it is upgrading the Ford Virtual Reality Centre in Melbourne. This investment will ensure Ford can continue designing vehicles, such as the wildly successful Ranger Ute and Everest SUV, in Australia, using Australian employees.

One of the key factors to Ford's continued growth in this space is access to government concessions – mainly, through the Automotive Transformation Scheme (ATS). ATS applicants, including Ford, are currently eligible to claim a concession for eligible investment in research and innovation (caps apply).

Access to the ATS increases the global competitiveness of Ford Australia's Productive Development operations (currently employing over 1,100 Australians); meaning it is more likely to be awarded new design and engineering projects.

We urge you to give serious consideration to any changes to the Scheme which may impact negatively on Ford's ambitions in this country. Our entire automotive manufacturing industry has left our shores – we now need to ensure that our research, design and innovation capacities do not leave with it. These capacities have documented flow on to high value add manufacturing.

By 2017, Ford Australia will no longer be a Motor Vehicle Producer (MVP). It is crucial that the organisation's transition to an R&D focused future be secured.

Specifically we recommend:

- Changes to the legislation be made that would that would facilitate Ford's access to the ATS to support its product engineering and product development operations; or
- Some alternate government co-investment in auto R&D be established; and
- No action should be taken that will deter Ford's ambition to remain in Australia. We need to maintain Ford as a Centre of Excellence in Australia. The same consideration should be made for other Research and design automotive centres.

We would gladly provide further material for the committee at request.

Yours sincerely,

Chris Walton, CEO

Attachments:

Professionals Australia's submission to the Productivity Commission's Inquiry into the Automotive Sector
http://www.professionalsaustralia.org.au/newsviews/latest/Professionals_Australia_PC_Auto_industry_submission.pdf

Professionals Australia's submission to the Victorian and South Australian Governments' Economic Reviews into the Automotive Sector
http://www.professionalsaustralia.org.au/newsviews/latest/Automotive_industry_submission_%28economic_review%29.pdf