



SUBMISSION TO

**THE SENATE ECONOMICS LEGISLATION
COMMITTEE**

Regarding the

AUTOMOTIVE TRANSFORMATION SCHEME

Submission by Geelong Manufacturing Council

October 2014

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1. Background

The Geelong Manufacturing Council(GMC) has a strong history over 15 years as the peak manufacturing and processing body in the Geelong Region. Industry funded and governed, the GMC works with the 550 industry members in the region to progress this important sector. The GMC has support across major industry and SME's in Geelong including companies such as Alcoa, Ford, Shell, Marand, Air Radiators, Lyondellbasell, Chemring, Downer EDI, Worley Parsons, Godfrey Hirst, Winchester and Backwell IXI. Manufacturing accounts for 42% of regional output.

Geelong continues to experience significant transitioning arising from a number of factors including the announcements in May 2013 by Ford Australia of their intention to cease manufacturing in Australia by October 2016, and February 2014 by Alcoa to cease operations at Point Henry in 2014. This will adversely impact on the economic base of the region and necessitates a significant response as evidenced through the creation of the Geelong Region Innovation and Investment Fund announced in 2013.

Automotive has long been a strategic industry with a significant component sector and research and development investment and capability. The GMC understands the importance of retaining the skills and expertise provided by the automotive industry.

On a broader level, manufacturing in a high cost country relies on productivity, innovation and export markets to survive. These areas require constant review and improvement to provide a basis for industry survival, sustainability and growth.

2. Challenges facing manufacturing

While many of the forces impacting on manufacturing in Australia are national and global the Geelong Manufacturing Council (GMC) works to have an impact at the level where it can be effective in delivering value to regional industry.

Programs conducted to date have delivered value-add to industry and better position industry to improve its competitive position. These include programs in : Innovation, Leadership, Building greater supplier penetration, sustainability, business improvement and excellence.

The GMC is a partner organisation with the Commonwealth Government's Entrepreneurs' Infrastructure Programme which has delivered very important business strategic reviews to regional manufacturing and engineering companies.

The GMC has also worked closely with the Victorian Government on a range of projects and initiatives to support and assist manufacturers become more innovative and utilise best practice.

The convergence of a number of closure announcements has presented significant challenges to the regional economy and in order to rebuild confidence new investment decisions are needed.

3. Regional Conditions

The manufacturing sector is a key driver of Geelong's economy and this is evidenced by the following data extracted from the City of Greater Geelong's Economic Indicators Bulletin (2012).

It also follows that the impact of a downturn in manufacturing will be felt across the regional economy.

In the past two years a number of announcements have reduced confidence in the industry which if left unchanged has the potential to reduce future investment and employment.

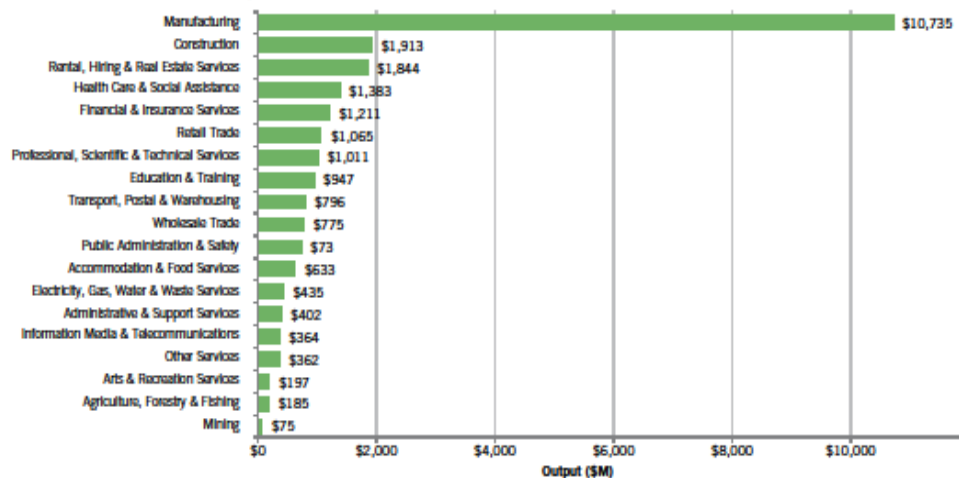
In view of the above, it is vital that all is done to inject a positive outlook to the industry at this difficult time of transition.

TABLE 7: GROSS REGIONAL PRODUCT (GRP), CITY OF GREATER GEELONG 2012

Expenditure	\$m
Household Consumption	\$8,098
Government Consumption	\$2,400
Private Gross Fixed Capital Expenditure	\$3,074
Public Gross Fixed Capital Expenditure	\$730
Gross Regional Expenses	\$14,302
plus Exports	\$9,322
minus Domestic Imports	-\$9,637
minus Overseas Imports	-\$3,876
Gross Regional Product	\$10,112

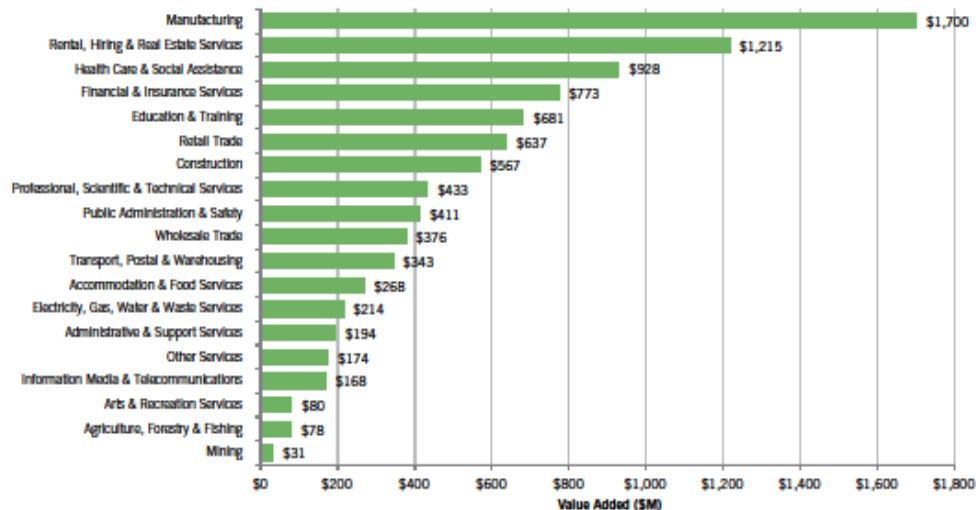
Source: REMPLAN, Economic Modelling and Planning System, Compiling Economics. Latest data update as at December 2012.

GRAPH 3: OUTPUT BY INDUSTRY, CITY OF GREATER GEELONG 2012



Source: REMPLAN, Economic Modelling and Planning System, Compiling Economics. Latest data update as at December 2012.

GRAPH 4: VALUE ADDED BY INDUSTRY, CITY OF GREATER GEELONG 2012



Source: REMPLAN, Economic Modelling and Planning System, Compiling Economics. Latest data update as at December 2012.



More REMPLAN data is available at www.geelongaustralia.com.au/business, click on 'City Statistics' then 'Geelong's Economic Profile'.

4. Strategic Industry Analysis

The Geelong region has been significantly impacted by recent announcements in relation to strategic industries such as the automotive and aluminium sectors.

Economic analysis regarding the discontinuance of car manufacturing in Australia from 2016 indicates the following.

Impact Analysis

Industry Sector: Motor Vehicle and Motor Vehicle Parts Manufacturing

Change: Loss of 520 jobs

Region: **City of Greater Geelong** (impact of closure of Geelong operations on the local economy)

Impact Summary	Direct Effect	Industrial Effect	Consumption Effect	Total Effect	Type 1 Multiplier	Type 2 Multiplier
Output (\$M)	-\$324.723	-\$141.711	-\$57.012	-\$523.446	1.436	1.612
Employment (Jobs)	-520	-390	-244	-1,154	1.750	2.219
Wages and Salaries (\$M)	-\$24.973	-\$26.007	-\$13.811	-\$64.791	2.041	2.594
Value-added (\$M)	-\$36.665	-\$42.938	-\$29.921	-\$109.525	2.171	2.987

Key Points

It is estimated that the closure of Ford's Geelong manufacturing operations in 2016 will:

- Decrease local output by \$523.4m (\$324.7m of direct output and another \$198.7m due to the industrial and consumption flow on effects).
- Reduce local employment by 1,154 jobs (520 direct jobs and a further 634 indirect jobs due to the flow on effects). This equates to a type 2 employment multiplier of 2.2, meaning that for every job lost another 1.2 jobs are lost elsewhere in the local economy).
- Reduce local wages and salaries by \$64.8m.
- Decrease value-added by \$109.5m, which equates to a reduction in Gross Regional Product of 1.1%. This represents a type 2 multiplier of 3.0, meaning that for every \$1 of value-added lost another \$2 is lost elsewhere in the local economy.

Source: REMPLAN

The impact on manufacturing across Australia and in particular across the Geelong economy will be of enormous significance and impact on the community of Geelong, such that a significant commitment to structural adjustment from all levels of Government will be necessary in order to mitigate against the more damaging impacts of this transition of our economic base.

5. Response to the Bill

The Geelong Manufacturing Council (GMC) advocates on behalf of members who are auto manufacturers and automotive supply chain members and offers the following submission to the Senate Economics Legislation Committee.

We note that the bill proposes to amend the *Automotive Transformation Scheme Act 2009* (ATS) to reduce the total amount of capped assistance under the Automotive Transformation

Scheme by \$500 million over the financial years 2014-15 to 2017-18. The bill also proposes to amend the Act to terminate the Automotive Transformation Scheme earlier than planned - by 1 January 2018.

These amendments have the potential to greatly negatively impact members of the Geelong Manufacturing Council.

Research and Development:

In particular, while Ford Motor Company of Australia has announced it will maintain a Centre of Excellence for designing and engineering vehicles for global markets, it is vitally important that ongoing Government co-investment continues to ensure the global competitiveness of this automotive product development operation.

Reductions in funding and the early termination of ATS would reduce the global competitiveness of Ford Australia's Product Development operations and could impact the volume of future work awarded to the Australian team.

Manufacturing:

Governments over many years have encouraged component suppliers to take a longer term strategic and more global approach to business-encouragement to which many are responding positively.

The ATS has allowed local manufacturers to be competitive against firms in other parts of the world and provides an incentive to maintain a local manufacturing base. The GMC members currently supplying original equipment parts are making progress towards diversifying more of their sales in other markets. Reduction to the ATS is an unnecessary blow to these companies at this critical time of transition.

We are particularly concerned that one aspect of the proposed reductions means that significant funding will be cut in 2015 leaving both the automotive manufacturers and their supply base without the support they require as part of the industry's transition and consolidation. We urge the Committee to review the phasing of any proposed reduction to avoid triggering reassessment/cessation of any supplier's investment plans as the ROI would be less than planned and less than that considered to be reasonable by successive governments.

Summary:

The Automotive Transformation Scheme was established to provide stable assistance to the automotive industry through support for production, R&D and new plant and equipment.

Rather than cutting the ATS, amending the Regulations to facilitate ongoing investment in research and development activities and encourage further investment would nurture complex design and engineering work in Australia and provide significant technical skills for the country. The ATS program is now more important than ever.

The GMC urges the Senate Economics Legislation Committee to recommend no change to the ATS capped funding in order to allow automotive engineering and manufacturing companies to continue operations in Australia.