



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

ECONOMICS REFERENCES COMMITTEE

**Future of Australia's automotive industry**

FRIDAY, 13 MARCH 2015

ADELAIDE

BY AUTHORITY OF THE SENATE

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**SENATE**

**ECONOMICS REFERENCES COMMITTEE**

**Friday, 13 March 2015**

**Members in attendance:** Senators Kim Carr, Edwards, Ketter, Muir, Wright, Xenophon.

**Terms of Reference for the Inquiry:**

To inquire into and report on:

The future of Australia's automotive industry, with particular reference to:

- a. maintaining the capacity for Australia to engage in advanced manufacturing, by ensuring skills and industrial capabilities that have been sustained by the automotive industry are not lost;
- b. reducing Australia's dependency on commodity exports by diversifying the country's economic base, noting the importance of advanced manufacturing, including the automotive industry, in this diversification;
- c. the role of all sectors of the automotive industry, including, but not limited to, motor vehicle production, component making, after-market manufacturing, engineering, servicing, retail motor trades, other forms of sales support, and the training of apprentices, in supporting an advanced broad-based economy;
- d. the special difficulties faced by component makers in the transition to global supply chains and to other forms of manufacturing, especially as a result of the closure announcements made by the motor vehicle producers;
- e. new technologies influencing the automotive industry, both in Australia and internationally, especially new and developing forms of propulsion, such as hydrogen, electric engines and hybrid engines;
- f. new business models for the industry, including employee share models and attracting international venture capital and private investment;
- g. the possible effects of early closure of motor vehicle producers, including risks and consequences for the industry, skills, capabilities and the broader economy, including social consequences, and what policy actions could mitigate or exacerbate these risks and consequences;
- h. the need to synthesise and consolidate the findings, recommendations and knowledge of other reviews and inquiries pertinent to the automotive industry, in order to identify key policy inconsistencies, regulatory burdens and factors for growth and investment;
- i. the importance of long-term, stable employment for workers in the automotive industry, and the need for greater access to transitional training and career opportunities; and
- j. any other related matters.

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**MAHER, Mr Kyam, Minister for Automotive Transformation, South Australia**

**PIRO, Mr Len, Chief Executive, Automotive Transformation Taskforce, Department of State Development, South Australia**

**TYLER, Mr Phil, Director, Automotive Transformation Taskforce, Department of State Development, South Australia**

**Committee met at 13:14**

**ACTING CHAIR (Senator Ketter):** I declare open this hearing of the Senate Economics References Committee's inquiry into the future of Australia's automotive industry. The Senate referred this inquiry to the committee on 25 November 2014 for report by the first sitting day in November 2015. The committee has received 11 submissions so far, which are available on the committee's website. The closing date for submissions is 29 May 2015. These are public proceedings although the committee may determine or agree to a request to have evidence heard in camera.

I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to the committee.

If a witness objects to answering a question the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground that is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may also be made at any other time.

I welcome the Hon. Kayam Maher, South Australian Minister for Automotive Transformation, and Mr Len Piro and Mr Phil Tyler from the Automotive Transformation Taskforce. Thank you for appearing before the committee today. I invite you to make a brief opening statement, should you wish to do so.

**Mr Maher:** I open by thanking the committee for the opportunity to be here today. From the outset, I want to say we are disappointed that we have to be here today. If it were not for the current federal government chasing Holden out of Australia I do not think this committee would have been holding the inquiry they are holding and we would not all be here today.

The Automotive Transformation Scheme, in the South Australian government's view, needs the whole \$900 left in the scheme, and it needs to be spent. We have been very disappointed in South Australia from the announcements this week. They have done nothing but add to the confusion and uncertainty faced by the automotive industry, both in South Australia and across the country. Earlier in the week it appeared \$900 million in the scheme would be spent for the benefit of industry and possibly for diversification of the industry. A couple of hours later it looked like it was only going to be \$500 million, but by the end of that day it appeared somewhere between \$90 million and \$110 million, depending on which Liberal was leaking at the time.

I want to put on record and pay tribute to Senator Xenophon and Senator Muir for their stance—Senator Xenophon for his strong and continued support of manufacturing in South Australia, and Senator Muir for his support of the automotive industry—and note with Labor senators they have blocked the removal of funds from the Automotive Transformation Scheme, which the South Australian government and South Australia very much appreciates.

As I stated, it is our view that the whole \$900 million in the Automotive Transformation Scheme needs to be used. We think it should be opened up for diversification of industries currently in the automotive sector. In South Australia we have the capacity for our industry to diversify. I have visited many manufacturing companies and there is much skill and capacity in the industry and in their workforce. Along with the opening up of the ATS to allow this diversification, we desperately need a federal government that is on the side of South Australia and South Australian workers. We need the federal government to keep their promise to build 12 new submarines here and I thank Senator Edwards for, for what has seemed 24 hours, extracting a promise for that promise to be kept.

**Senator EDWARDS:** It was a very long discussion.

**Mr Maher:** We need that confusion to end from the federal government, not a competitive evaluation process. We simply need the promise that was made to be honoured for South Australia. We also need, in other areas, the federal government to be on the side of South Australia. We have a great capacity in the renewable-energy-sector industry to support that, but the uncertainty around the renewal-energy target means it is very difficult for those industries to properly invest.

I thank the committee for the opportunity to appear here today. I, and Len and Phil from the Automotive Transformation Taskforce, will be happy to answer questions that senators may have.

**Senator KIM CARR:** I am particularly interested in seeing how the role of the state government can be advanced and what level of coordination there is with the Commonwealth government. How do you see your role in this current crisis for the automotive industry and for the 200,000 Australians who may well have their employment affected by it? Have you been coordinating with Victoria at all?

**Mr Maher:** We have had a number of discussions with Victoria, particularly since I have been minister, which is just over a month now. The South Australian government has put various programs in place to tackle the decline and the closure of the automotive industry at the end of 2017. The Our Jobs Plan committed \$60 million of South Australian money. If it is helpful I could run through what that includes.

**Senator KIM CARR:** Yes, please.

**Mr Maher:** The \$60 million Our Jobs Plan includes six key actions aimed at securing the future of the state's manufacturing sector. It includes retraining displaced automotive workers, supporting the northern and southern suburbs communities that will be most adversely affected by Holden closing, assisting the transition of automotive supply businesses to new markets, accelerating the transition of our manufacturing sector into advanced manufacturing through supports for clusters, and creation of a new jobs accelerator fund to drive the growth in our key industry sectors. We have been having some success with some of these plans. At the time that the South Australian government announced the Our Jobs Plan, we called on the federal government to contribute \$333 million to this package. However, the federal government rejected the proposal and instead announced a much lesser amount of \$155 million for a growth fund to which Holden, Toyota and the South Australian and Victorian governments have also contributed.

**Senator KIM CARR:** In terms of cooperation with Victoria, are there any joint projects yet?

**Mr Maher:** We are in the first stages of talking about what we might do with Victoria.

**Senator KIM CARR:** I note that there is a \$12 million investment from the South Australian government to the \$60 million project known as the Next Generation Manufacturing Investment Program which, of course, is quite a significant part of the overall effort that the Abbott government has proposed in this area. From your perspective, could you tell us about how that program works and how effective you think it has been?

**Mr Maher:** I might let Len Piro answer that. Also, he might be able to expand on some of your previous questions in terms of the workforce programs that we are coordinating with Victoria.

**Mr Piro:** In terms of what we are collaborating with Victoria on, it is clearly around the Automotive Workers in Transition Program with the federal government, the Victorian government, us, Holden and Toyota designing a program that is trying to deliver a minimum level to all workers both in the OEMs and in the supply chain. I am also collaborating with Victoria on the Automotive Diversification Program for suppliers on the delivery of that as well. In terms of the next gen, that was part of the growth fund which had \$101 million from the Commonwealth. Two components were specific to South Australia. The next gen component was half of \$60 million. Victoria got \$30 million and we got \$30 million. Then the regional infrastructure program was \$30 million: \$15 million to each of the two states.

Next gen has gone out to market and closed. The applications are being assessed as we speak. It has been a fairly successful call in terms of the number of applications. The quality is still under review. In terms of adjustment programs, it is probably lower than we have had in the past. I have been involved in the Mitsubishi Tonsley Park closure and in the Mitsubishi Lonsdale closure and the amounts for single company closures were—

**Senator KIM CARR:** In excess of that for the whole industry.

**Mr Piro:** Correct.

**Senator KIM CARR:** My understanding is that at the point of closure, there were 265 applicants for the Next Generation Manufacturing Investment Program. There were requests for \$554 million. For projects that is a very small amount of money. It indicates to me that the program is grossly underfunded and oversubscribed.

**Mr Piro:** I would not want to make a comment on that but certainly the demand has been high. Those numbers are—

**Senator KIM CARR:** I ask the minister. It is an issue. Do you think the level of support that the Commonwealth is providing is adequate?

**Mr Maher:** No.

**Senator KIM CARR:** Is fit for purpose?

**Mr Maher:** No, it is not. That is why we very firmly call for the whole of the \$900 million in the ATS to be spent, and to be spent for the purposes of the automotive industry and transitioning to other industries. The amounts, so far, from the Commonwealth are entirely inadequate.

**Senator KIM CARR:** I have been involved in a number of these innovation investment funds in my time, in various roles, and I know they work. The evaluations are very clear about what has happened with the Mitsubishi fund, some other whitegoods factory closures, the Geelong fund, the Northern Tasmanian funds and the Illawarra fund. They have all worked incredibly well. But you have to invest in them to secure the new investment in manufacturing. It will not work if they are underfunded and oversubscribed. Given the limitations of the fund and given the fact that the South Australian government is a partner in these funds, what access do you have to applications and what part do you play in the selection process?

**Mr Piro:** That is easy to explain. Each state has a committee that is basically undertaking evaluations of the applications. They are done at an officer level with the South Australian government and the Commonwealth government, in the first instance, and then they go to an advisory panel made up of an independent chair, a Commonwealth representative, a state government representative and a South Australian business representative. It is ditto with Victoria. So we do have a recommending authority and that goes to the minister for the final authorisation, in conjunction with South Australia.

**Senator KIM CARR:** That is to your minister.

**Mr Piro:** That is to the federal minister—

**Senator KIM CARR:** As well.

**Mr Piro:** and he is required to consult with the South Australian—

**Senator KIM CARR:** These recommendations have to be unanimous, do they?

**Mr Piro:** Yes, generally they have to be or chairman authorised.

**Senator KIM CARR:** Your submission has called for a number of things, including the withdrawal of a bill. That has been successfully achieved. You also press for the removal of the cuts program, but that would appear to be—the third part of your submission calls for a revamp of the ATS guidelines. Could you enlarge, for the benefit of the committee, what you would like to see in regard to changes to the ATS guidelines?

**Mr Maher:** Very broadly, we would like to see the ATS available for diversification. It would be a pity and a pretty mean trick if the federal government announced that all the money was still on the ATS but they spend only a fraction of it. If that means guidelines change so that it can be used for diversification then that is what should be done.

**Senator KIM CARR:** Is it your advice, Minister, that—

**Mr Maher:** I would add that the original ATS went to 2021, whereas currently it is envisaged to only go until the end of 2017. So in addition to changing the guidelines of what it might be used for it would be very wise to go beyond the 2017 that, I understand, is currently in position.

**Senator KIM CARR:** When I was minister there was an automotive contingency fund, which was funded by underspends in the program. When production levels dropped off in any particular period, that money would go into the contingency fund. Would you support the recreation of such a fund? I understand this government has got rid of it. Secondly, do you believe there are mechanisms in place to attract new investment to the automotive industry?

**Mr Maher:** We would support anything that would help our automotive industries in South Australia. Just to be clear on your question, are you asking if there are sufficient mechanisms in place to attract new entrants to the automotive industry?

**Senator KIM CARR:** Yes, new entrants, but, specifically, new projects. The fact is that under the national interest provisions there can be new entrants that can be at ministerial discretion. But most of the big investments—engine plants; the major capital projects—were done as a result of direct discussions with government and often, it was my direct experience, with partnerships between the Commonwealth and state governments. On many of those projects, I contributed to those discussions directly. They are outside the program. They require a political will to talk to new investors about new projects.

Is there scope, do you think, in South Australia, for your government to talk to new entrants about new investment projects and is there a capacity to talk to the Commonwealth about building those investment partnerships?

**Mr Maher:** In a word, yes. We would welcome any proposal that seeks to engage in manufacturing, automotive or otherwise, in South Australia and across Australia. I think if there were proposals, there would be the capacity for South Australia and Victoria to talk to the Commonwealth about that.

**Senator KIM CARR:** Are you in the business of actually seeking out that investment?

**Mr Maher:** We are open to anyone who has a business case that stacks up that will—

**Senator KIM CARR:** Of course, you have to properly evaluate it. But are your officials actually talking to firms—I am aware of many, at least half a dozen, projects that people have. Are you actively seeking new entrants to the automotive industry?

**Mr Piro:** We are talking with companies. Some of those have been referred to us and others we have tried to identify. Obviously, that is part of the process of looking at any potential reuse of the assets that the industry might have in this state. Obviously, the industry itself—it needs to be a viable proposition as we are going through. That is the key to this issue. Is it a viable proposition? Is the investment from Indonesia, China or Malaysia looking at equipment or looking at manufacturing here? They are the sort of context issues that we have to go through. The answer is yes, we are talking with companies; but it is certainly hard.

**Senator KIM CARR:** Yes, of course it is hard. But are you actually interested in pursuing investment opportunities? That is the issue here. Is there a political will in this state to attract new investment?

**Mr Maher:** Yes.

**Senator KIM CARR:** Thank you.

**Senator EDWARDS:** The current climate that we are in—and thank you for your compliment earlier, Minister. That was very kind of you coming from the other side of the political spectrum. They are very rare.

**Mr Maher:** I am—

**Senator XENOPHON:** And the crossbenchers too.

**Senator EDWARDS:** Unfortunately, I enjoy—

**Senator KIM CARR:** The opposition is a bit slower off the mark.

**Senator EDWARDS:** a very robust party room environment which leaves me a little battered and bruised, unlike Senator Xenophon.

**Mr Maher:** We compliment anyone who supports South Australia.

**Senator EDWARDS:** I was going to pick you up earlier. You did compliment a number of other senators about their care and diligence with the South Australian manufacturing workers. I suggest to you that I am a great advocate and I have, I hope, shown people in the public that as well. The issue of the policy, which we said on Friday, on the Automotive Transformation Scheme—from the federal government point of view, is that the same as the one that was introduced by the former government in 2011? Isn't that the same policy and funding?

**Mr Maher:** I think there is a massive difference. I do not think we would be in the situation we are in now if we still had a federal Labor government. There was an absolute commitment to continuing manufacturing cars in Australia under federal Labor. I think it is a completely moot point—

**Senator KIM CARR:** I could not agree more.

**Mr Maher:** We would not be where we are today if we had a federal Labor government. It is just irrelevant.

**Senator EDWARDS:** So you believe that in the two months between the last federal election and December of that year General Motors Holden would have changed their business model around because there was a Labor government.

**Mr Maher:** I believe there was an absolute commitment from the federal Labor government—

**Senator KIM CARR:** There is no doubt about that.

**Mr Maher:** You were supporting the car industry.

**Senator KIM CARR:** That is right

**Senator EDWARDS:** Minister Maher, do you believe that if the Labor government were re-elected they would have poured enough money into the industry to entice General Motors Holden to stay?

**Mr Maher:** I am absolutely certain that if it were a Labor government, the federal minister responsible would have made sure the settings were right so that Holden would keep making cars in Australia.

**Senator EDWARDS:** Why?

**Mr Maher:** Because we were committed to do so. Whatever the settings necessary, we would have done that.



**Senator EDWARDS:** How would you get Holden, who made a decision two months after the election, to stay manufacturing cars beyond 2017?

**Mr Maher:** I think the answer is probably in your question. It was after the election. If they were determined to go—it would seem they did not do it before the election. It was after the election that they made that decision.

**Senator EDWARDS:** What is the difference in the policy as at 2011 and today? It is the same amount of money and the same policy.

**Mr Maher:** I think there is a world of difference.

**Senator EDWARDS:** Just tell me what the difference is.

**Mr Maher:** Just starting from the attitude of those involved. I do know that it was Joe Hockey and—

**Senator EDWARDS:** I just want to know—

**Mr Maher:** who goaded and dared Holden to leave in federal parliament. The day after that, Holden said they were going. I think that speaks everything about the attitudes about manufacturing in Australia.

**Senator KIM CARR:** Joe Hockey is to blame.

**Senator EDWARDS:** You mentioned that this is a very serious issue for the northern suburbs. You have been in your ministry for how long?

**Mr Maher:** It is a bit over a month now.

**Senator EDWARDS:** In that month, how many meetings have you had with the federal member for Wakefield?

**Mr Maher:** I talk to the federal member for Wakefield quite regularly. I am not sure whether it would have been—

**Senator EDWARDS:** Have you met with him?

**Mr Maher:** I have not had a formal meeting with him, but I talk to him regularly.

**Senator EDWARDS:** Have you met with the federal member for Makin?

**Mr Maher:** I would have had a discussion with the federal member for Makin in the last month, I would have thought, but I would have to check my diary.

**Senator EDWARDS:** But, on these specific turn around issues for employment in the northern suburbs, have you had a conversation with the federal member for Wakefield?

**Mr Maher:** I would not be able to tell you if I have had a specific conversation in the weeks that I have been a minister.

**Senator KIM CARR:** So what?

**Mr Maher:** But I talk regularly to the member for Makin, the member for Wakefield, other federal members and other state members on these issues. I congratulate the members for Makin and Wakefield for their very, very strong support—

**Senator EDWARDS:** It is a very important electorate.

**Mr Maher:** of the automotive industry in South Australia.

**Senator EDWARDS:** So how often do you meet with the six state members that are out there domiciled in that area about this very serious issue?

**Mr Maher:** I meet with my state colleagues exceptionally regularly.

**Senator EDWARDS:** Is it structured? Do you have a plan?

**Mr Maher:** Yes. In fact, I am glad that you asked me that question, because it gives me the opportunity to let you know about our northern economic plan that the state government is in the process of developing. The northern economic plan will involve—

**Senator EDWARDS:** I am interested to know if you have a strategic plan with the six state—

**Mr Maher:** You have asked the question. If you want an answer—

**Senator EDWARDS:** and the two federal members?

**Mr Maher:** I am very pleased that you have given me the opportunity to tell you about our northern—

**Senator EDWARDS:** Did you get a congratulation letter from at least one of those federal members about becoming the new minister?

**Mr Maher:** I can have my correspondence officers in my office check, if you think that that is the most important use of time and resources for the state government.

**Senator EDWARDS:** The big issue, and this is a massive issue: they have not come to see you yet, have they?

**Mr Maher:** I have spoken regularly to state members in the area. I have been at functions that are specifically looking at ways to diversify industry with state members in the area—

**Senator EDWARDS:** And federal members? Or are they asleep at the wheel, excuse the pun?

**Mr Maher:** No, they are not asleep at the wheel. They were part of a federal Labor government that supported the car industry. As I said, I do congratulate you for extracting the promise on submarines from the Prime Minister, which lasted for 12 or 24 hours.

**Senator EDWARDS:** What do you mean by that? You have shipbuilders in this state now able to compete in a process which will enable them to show themselves to be productive.

**Mr Maher:** Is that what the competitive—

**Senator EDWARDS:** I sought an assurance from the Prime Minister, and I got one. That assurance stands today. That is why you have—

**Mr Maher:** What really disappoints me, as I said before—

**Senator EDWARDS:** Do not be disappointed. This is an opportunity for the South Australian government.

**Mr Maher:** The submarine-building industry could provide a massive injection into South Australia's capacity in manufacturing.

**Senator EDWARDS:** Hear, hear!

**Mr Maher:** I note that the Prime Minister, at one stage in the very confused way that this has been handled, talked about something like 500 jobs.

**Senator EDWARDS:** Do not be confused.

**Mr Maher:** Professor Goran Roos, who does work for the South Australian government in the manufacturing area—

**Senator EDWARDS:** We will hear from him later.

**Mr Maher:** has, I think, estimated that there would be somewhere between 15,000 and 25,000 jobs nationally from building 12 submarines in Australia. That does not compare to the 500 jobs that the Prime Minister seems to be talking about. If the Prime Minister is talking about only 500 jobs, he must have in mind that very, very little work is going to be done in Australia.

**Senator EDWARDS:** I am very keen to see submarines built in this country. I think that I am fairly much on the public record for that. Let's get back to the activity—

**Mr Maher:** I appreciate your commitment to it. It is just a pity that the commitment isn't—

**Senator EDWARDS:** Let's get back to the activity of transforming the automotive industry into skilled jobs.

**Mr Maher:** Just on that point, I do acknowledge your strong support for submarine building, but I do also acknowledge the complete lack of support from some of your colleagues to make sure submarines are built in Australia.

**Senator EDWARDS:** I can only worry about what I can control, and that is myself. How are your federal members that are domiciled here and your state members dealing with you, as the minister, on a strategic basis to ensure that we do not get undue unemployment and that we handle the money that is coming towards this process from the federal government appropriately.

**Mr Maher:** We are in the start of the consultation on developing a northern economic plan; the federal members in the area and the state members will be heavily involved in that.

**Senator EDWARDS:** So you are at the start of the development of that plan?

**Mr Maher:** Absolutely.

**Senator EDWARDS:** You are just starting that?

**Mr Maher:** Yes, we are—

**Senator EDWARDS:** December 2013 was when GMH said that they were leaving, and you are just starting the strategic plan?

**Mr Maher:** We have been doing a lot of work on what will happen and a lot of preparatory work—

**Senator EDWARDS:** You have two fellows alongside of you who are very experienced. I have a great deal of regard for their previous work, and they know exactly what they are doing. You are a very fortunate minister, but it does not please me to hear that you are just embarking on a strategic plan—

**Mr Maher:** Over the last 12 months a lot of work has gone into the development of the Northern economic plan. We will have within the next couple of months a draft being released—

**Senator EDWARDS:** Without any input from the federal members?

**Mr Maher:** As you said, I have been the minister for a month now.

**Senator EDWARDS:** Sorry, these are robust environments. You had a minister before you and obviously they were not present in this space either.

**Mr Maher:** I am quite certain the minister before me in the preparation so far that has gone into putting together the draft of the Northern economic plan would have consulted very widely as well.

**Senator EDWARDS:** We do not know that that though, do we?

**Mr Maher:** I am certain it is the case. I can speak from my experience recently at a meeting of the Northern economic leaders forum. There were interested Labor members of parliament there with me.

**Senator EDWARDS:** Interested or engaged?

**Mr Maher:** Absolutely interested and very, very engaged.

**Senator EDWARDS:** What was their plan? Did they have a plan, or are you leading the charge here?

**Mr Maher:** The former minister conducted a forum that included Senator Kim Carr as part of the development process for the Northern economic plan.

**Senator EDWARDS:** Unfortunately, Senator Carr, despite his great capacity—and personally I am a good friend of Senator Carr—is not the government.

**Mr Maher:** No he is not. He was a minister who was part of the government, and the minister responsible for supporting automotive manufacturing in Australia.

**Senator EDWARDS:** I know. We are still trying to dig ourselves out of the debt.

**Senator XENOPHON:** I just want to go to your submission. You may wish to take some of these things on notice. I just want to get a definitive fix on the number of jobs at stake here. I just want to get some clarity in respect of that. Again, I am happy for it to be taken on notice. You say in your submission:

There are 33 automotive Tier 1 companies—

providing directly to the existing car manufacturers, with 3,719 jobs at stake there. You mention there are:

700 companies employing 28,000 to 32,000 people are estimated to supply a wide range of services and products to the Tier 1 ...

Again, I am very happy for this to be taken on notice so you can be definitive. If there is a collapse in the automotive sector in the sense that there is no transition plan and only \$100 million is spent, as was reported—which the Senate hopefully can do something about—how many of those 28,000 to 32,000 jobs are actually at risk, and do these figures take into account the multiplier effect—you know the local snack bar that is next to a components manufacturer or the bridal shop across the road from General Motors Holden at Elizabeth? Can you, on notice, provide some details on that, because there is a lot of conjecture about how many jobs are actually at stake.

**Mr Piro:** I would be happy, with the minister's permission, to run through what we have got, and this is our definitive—

**Senator XENOPHON:** Sure. And if you could take this in this context: at the hearing earlier this week—I think it was on Wednesday morning in Melbourne—there was evidence given by the Federation of Automotive Products Manufacturers by their president, Mr Griffin, that said on a best-case scenario, if all the money is spent wisely and effectively and in a targeted fashion, we are still looking at about a third of the 33,000 direct jobs in the sector going—and that is a best-case scenario. Presumably, there will be a multiplier effect on top of that.

**Mr Piro:** When Holden did make their announcement we did a couple of things. One was that we commissioned the university to do some modelling for us. That came out with theoretical numbers using I think an input-output model. We had Allen Consulting do something nationally for FAPM. That was fine, but they were models. What we wanted was a far more calibrated source. We did a survey, with input from Toyota and Holden, to look at the industry in South Australia in total. What we found out was that Holden work represents 58 per cent of the turnover of the industry's supply chain in South Australia, Toyota, 36 per cent and Ford, six per cent. We

found the industry in tier 1 terms at least was very lowly diversified—only 16 per cent diversified. We found 33 tier 1 suppliers, which you have just commented on, and interviewed all of those tier suppliers as well—and got off their general ledgers their list of suppliers as well. That cascaded down into about 719 other companies.

**Senator KIM CARR:** 719 companies in South Australia.

**Mr Piro:** Who supply 2s, 3s and 4s.

**Senator KIM CARR:** So there are 719 companies directly engaged in the automotive industry in the state of South Australia.

**Mr Piro:** Plus the 33 tier 1s, so it is about 750 companies that we have tracked. That represents approximately 7,500 direct jobs, and the university tells us the flow-on could be around the 13,000 mark in total.

**Senator XENOPHON:** Sorry, in addition to that, or 6,000 on top of the 7,500?

**Mr Piro:** On top of the 7,500.

**Senator XENOPHON:** So the multiplier effect is about two?

**Mr Piro:** Yes, roughly.

**Senator KIM CARR:** That is a fairly conservative number, I would think.

**Mr Piro:** That's right, it could well be.

**Senator XENOPHON:** So it is 20,500 jobs?

**Mr Piro:** No, it is 13,000 in total—7,500 direct jobs and then the flow-on jobs. Of course, that is using a very conservative multiplier. But then there is the after-market industry. I have just learnt that the Motor Traders Association in South Australia has 11,000 members, and they have about 12,000 employees. We are not counting those, but there could be some flow-on impact through those.

**Senator XENOPHON:** If we get to a worst-case scenario, how many jobs are actually at stake? If, as reported, only \$100 million of that ATS fund is spent—and this is something we hope the committee can reverse—

**Mr Piro:** What we are doing now is working through those numbers in an interview situation. We are well aware of the situation of all 33 tier 1 suppliers, and we figure that about 20 per cent of those may survive if they continue their diversification plans.

**Senator XENOPHON:** Is that 20 per cent survival rate based on the projected spend of \$100 million of the \$900 million of the ATS?

**Mr Piro:** No, it is projected on their diversification plans—whether they source the funds through ATS, ADP or whatever, they are planning to diversify. Some of those will need to drop down to diversify. Nevertheless, about 20 per cent that we are aware of are looking at diversification plans that could take them through to post 2017.

**Senator XENOPHON:** I appreciate what you are saying, and I do not question those figures, but FAPM said a couple of days ago that if all the money was spent wisely and in a targeted fashion, if the fund was amended by regulation or maybe by legislation, then two-thirds would survive. But, on your projections, you are saying only 20 per cent would survive?

**Mr Piro:** Our figures are not projections, they are from one-on-one interviews.

**Senator XENOPHON:** So it is actually more robust than a projection, it is based on those interviews?

**Mr Piro:** We have been into 68 companies in South Australia.

**Senator XENOPHON:** I appreciate the work you have done on that. So we are really at a tipping point?

**Mr Piro:** Absolutely. The impact is hard to project because you do not know what the absolute outcome is going to be. If you track down those tiers 2, 3 and 4—

**Senator XENOPHON:** Tiers 2, 3 and 4 is supplying components, it is cascading?

**Mr Piro:** Correct—sub-assemblies, assemblies, components. What we found, by the way, with the 700-odd companies is that half were non-manufacturers—they were distributors, IT consulting, logistics and training.

**Senator XENOPHON:** Does the figure of 13,000 jobs—plus there are the MTA jobs that could be at stake—include the snack bar that provides on the very basis of—

**Mr Piro:** We are saying 7,500 direct jobs and the balance between 7,500 and 13,000 is the flow-on impact, which would be snack bars and—

**ACTING CHAIR:** That includes takeaways.

**Senator XENOPHON:** Okay, the multiplier effect.

**Mr Piro:** That is the estimate we have got.

**Senator XENOPHON:** Without being critical, you have chosen a very conservative multiplier.

**Mr Piro:** Absolutely. I would agree with that estimate, too, but that is the number we have got.

**Senator KIM CARR:** None of the university models use that ratio.

**Mr Piro:** It is the conservative ratio.

**Senator KIM CARR:** None of the accountancy companies use that ratio.

**Senator WRIGHT:** I am pleased to see compliments flying around; it is not always the case on a committee like this! Minister, you would be pleased that the Australian Greens also stood up and voted against the legislation in the Senate, which stopped the defunding of the ATS. But, of course, as we are all discussing, unless the rules change, it looks like only about \$100 million of the available \$900 million will be able to be used. You were talking about the fact that it would be desirable to have more diversification, to change the guidelines. That is for component manufacturers—that is what I understood you to be saying at the time. What is the government view about changing the guidelines also to enable assistance to new makers coming into the market?

**Mr Maher:** New entrants into the automotive industry?

**Senator WRIGHT:** Yes, new automobile manufacturers.

**Mr Maher:** I think if there were changes to the scheme it should allow for diversification, but I cannot see any reason it should not also allow for new entrants to come into the market as well—appropriately, ones that have a business case that actually stacks up.

**Senator WRIGHT:** Yes, of course. I am thinking that the current rules restrict the R&D and the fund to be available only to the components manufacturers who are manufacturing for the three big auto manufacturers who are leaving. Is that right?

**Mr Maher:** Correct.

**Senator WRIGHT:** That is the crazy thing. We know that this fund, as you said, is going to 2017 and not longer.

**Mr Maher:** As we have talked about today, the even crazier thing is that you cannot access these funds to help diversify into other industries; you can only use the funds for what you are doing exactly as it is right now. As I understand it—it is rather confusing for most people—come 2017, no matter how little has been spent, that's it.

**Senator WRIGHT:** Yes, that's right. And that is obviously a concern because it is only the three auto makers, who we know are leaving.

**Mr Maher:** Indeed.

**Senator WRIGHT:** The figures I have been made aware of show that the electric- and low-pollution car market is predicted to be worth half a trillion dollars by 2025. So wouldn't it make sense to have a change to the guidelines to enable new markets so that we can actually get a piece of that action in the future?

**Senator KIM CARR:** We only sold 1,000 electric cars last year out of over one million cars sold.

**Mr Maher:** We would welcome anything that supports industry as long as it stacks up.

**Senator WRIGHT:** But we are looking to the future, aren't we? Figures by Professor Tony Seber, of Stanford University, show that, by 2030, petrol cars will be obsolete. He is saying Australia could be leaders in this. Certainly the trend is there, and the predictions are there, that we are going to be having electric- and low-pollution vehicles. Is that right?

**Mr Maher:** Yes. And, as you would be aware, the state government has targets in relation to low pollution. You would have heard the Governor's speech at the re-opening of the South Australian parliament, just a couple of rooms over, which set targets for that and for the Adelaide to become a zero-carbon CBD. If it stacked up, if it was actually viable, the South Australian government would welcome any manufacturing that would be able to utilise the quite substantial skills that this state has in advanced manufacturing.

**Senator WRIGHT:** Yes. Talking about diversification and the ability to access the fund—we have had some discussion about whether it is adequate or not, but certainly \$100 million is not going to be very useful at all—I imagine you would be very supportive of the fact that the Greens are going to be introducing legislation into federal parliament next week to change the rules so that component manufacturers can start to get access to the global market.

**Mr Maher:** As I said, we would support anything that would help build manufacturing in South Australia, and I am sure my federal colleagues will have a look at any proposed legislation.

**Senator WRIGHT:** That is really heartening, and we will certainly be wanting to speak to everybody in the parliament about that.

**Senator MUIR:** In your view is changing the guidelines to make the ATS more available to other manufacturers the best option to help them diversify?

**Mr Maher:** Yes, that is essential. If the reports we read are to be believed, there is speculation that by the end of 2017 the current system will see the ATS finish. If only \$100 million is spent, we think that would be completely unacceptable.

**Senator MUIR:** And if \$500 million is spent between now and the end of 2017?

**Mr Maher:** There would still be \$400 million to spend after 2017 to help those manufacturers.

**Senator MUIR:** [inaudible]

**Mr Maher:** That's exactly right. We would be very concerned if the guidelines were such that this money would not be spent for the benefit of manufacturing.

**Senator MUIR:** The after-market industry is already very successful. If the guidelines are amended, is that an industry you think could grow here in South Australia?

**Mr Maher:** Yes, absolutely. There are some—and I might let Len talk a bit more about it—of the current component suppliers, to Holden particularly, that are contemplating looking at the after-market industry, and that is certainly one that could pick up some of the capacity.

**Senator MUIR:** Are there any legislative changes that the South Australian government could actually make, or would consider making, to help actually encourage a growth in the after-market industry?

**Mr Maher:** We would be happy to look at any proposals that anyone has got to help that. Off the top of my head, I cannot think of a way we can do it. If we could, in South Australia, legislate for the Commonwealth government to spend their money, we would do that in an instant.

**Senator MUIR:** Thank you.

**Senator KIM CARR:** Minister, either you or your officers, are you familiar with the automotive industry road map that was developed under the new car plan?

**Mr Maher:** Yes.

**Senator KIM CARR:** And you are aware that that included gaseous fuels as well as electrification? Is there anything in the current legislation, the current ATS, that would prohibit people that wanted to invest in electrification or in gaseous fuels?

**Mr Piro:** Not that I am aware of, Senator, but I would need to go back and check that, but I am not aware.

**Senator KIM CARR:** So there is nothing to stop people who want to, and do currently, like Futuris, for instance—involved in the electric supply chain—all be done under the ATS as it is at the moment?

**Mr Piro:** I would need to check that, absolutely, as long as they are providing to an OEM, yes.

**Senator KIM CARR:** They could also do it internationally. They can engage the global supply chain and get support under the ATS for it—is that not the case?

**Mr Piro:** I believe so.

**Mr Maher:** One thing I should have said in relation to Senator Muir's question about legislative change to promote more manufacturing and the industry is the South Australian government is developing the regulatory framework to allow for driverless cars in South Australia. We see this as important and something that will happen in the future. Encouraging that new and advanced industry is something we are very keen to pursue in South Australia.

**CHAIR:** If there are no further questions, thank you very much, Minister. Thank you, gentlemen.

**KIWAN, Mr Mounir, General Manager, Federation of Automotive Products Manufacturers**

**LOWE, Mr Gregory Ross, President, Central Region, Federation of Automotive Products Manufacturers**

**REILLY, Mr Richard, Chief Executive, Federation of Automotive Products Manufacturers**

[13:58]

**CHAIR:** Welcome. Thank you for appearing before the committee today. I invite you to make a brief opening statement, should you wish to do so.

**Mr Lowe:** Thank you. Good afternoon. On behalf of the Federation of Automotive Products Manufacturers, I would like to thank the committee for the opportunity to appear before it today. FAPM was formed in 1958: it is the peak body representing Australia's automotive component producers. It is my privilege to be the president, here in South Australia. I am also the managing director of a multinational supplier with assembly operations in both South Australia and Victoria. The automotive industry has a long and significant history in Australia. At the end of 2013, there were 45,000 people engaged nationally in motor vehicle and parts manufacturing, with half the industry in Victoria and another third in the state of South Australia, according to Ai Group's figures.

Australia is, for now, one of about a dozen countries that is capable of taking a vehicle from concept on a clean sheet of paper into volume production. Last December, the publication *Manufacturers Monthly* released its list of the top 100 manufacturers in Australia—No. 7 was Toyota, No. 19 was GM Holden and Ford was No. 24. So automotive is a significant figure in the landscape of Australian manufacturing, and it has long been an incubator for applied R&D and the development of technical skills.

It is an industry that has brought challenge and fulfilment to generations of Australians. The automotive industry is, effectively, an ecosystem of OEMs, component suppliers and service providers around that. It represents, perhaps, the last large-scale, complex supply chain of highly engineered products remaining in this country.

In South Australia, in 2014, there were some 30 direct tier 1 automotive suppliers contributing over a billion dollars to economic activity in South Australia. Those were the numbers after the loss of significant employers such as Mitsubishi Motors, Bridgestone, Cooper Standard and Exacto Plastics. In recent years we have seen the merger and/or acquisition of Carr components, Plexicor, Controls, Fujilex and Multifoam.

We have already seen a reduction in the number of automotive companies operating in South Australia and a downsizing of those that remain as we move towards the end of domestic vehicle assembly in 2017. This represents a significant opportunity cost in lost employment, had governments, frankly—governments of both stripes over the last 20 years—had different policy settings that had allowed the industry to thrive, then our children would have opportunities for skilled jobs, apprentices and semi-skilled work that has sadly disappeared, given the state of the automotive industry.

Times have changed. Vehicle production is on a short road to closure and, with it, potentially, the greater portion of the original equipment supplier base. There are some positive signs: South Australian suppliers have made some early steps down the path of diversification in the search for a future for themselves and their employees. Some examples—SMR Automotive out at Lonsdale—has just this month started shipping components to Honda in Japan. The product in question was turned down by Japanese suppliers, because of the technical challenges involved in the product. So SMR in South Australia has successfully secured a new customer for their global group. They are using an innovative design approach and have developed significant intellectual property in the process.

Monroe Australia has just successfully secured federal funding under the Automotive Diversification Program to mass produce sintered metal components in Adelaide for export into their own global supply chain. Precision Components out of Beverley has developed heliostats for solar power generation in collaboration with the CSIRO—an example of an automotive component supplier moving completely out of the component space.

Despite these encouraging first steps, it is important that we do not overlook the challenges to successful diversification that are faced by automotive component manufacturers here in Australia. We must be cognisant that suppliers are great at what they do, which is essentially being a tiered participant in an automotive ecosystem where a small number of customers, specifically three, specify the product and its performance characteristics, and the component suppliers then go ahead and develop and manufacture that. So without those three key customers at the top, we are now asking suppliers with specific skillsets to identify new customers, to identify new products, to identify new industries and to bring these up to a sustainable scale within a few short years as their traditional business evaporates. And that is a big ask for the supplier industry.

We also need to be aware that suppliers fall into different categories. Many of the larger employers are multinationals with head offices offshore as were the car companies. As our three global customers withdraw from Australia, the multinational suppliers' parents are asking genuine questions about why they should continue their own operations in Australia.

For the smaller, local suppliers, they have different issues. There are significant costs looming for them in the form of employer redundancy entitlements and the costs of closing their businesses. These smaller local business owners need to preserve the cash required to meet their redundancy commitments on the one hand, if they are unable to adjust, while at the same time being asked to invest in risk-taking diversification activities. Hopefully, at some point, they can generate a return on the money that have invested into their businesses. We need to continue to engage the supply chain and we need to work to assess what could be done to best provide an opportunity for successful diversification of export activity.

Some of the key considerations from FAPM's point of view are determining whether alliances in the form of merger or acquisition activity can create the required scale to drive success; to continue to actively foster partnerships between CSIRO and our universities; to use the skills of the supplier base to bring new concepts into local production for domestic and export markets; a bias towards local sourcing on government contracts at state and federal levels; and a reassessment of ATS funding criteria to widen eligibility—for example, R&D activities for development of automotive components exported into offshore supply chains. We also need to look at the eligibility of ATS funding for remaining automotive suppliers, post 2017, should they continue to remain in Australia and export into international supply chains. Last is fair and equitable outcomes for obsolescence as the OEMs wind up. Their programs will end in 2016-17 and, as those models end production, we need to be sure that suppliers are not saddled with unreasonable cost burdens based on obsolete materials, equipment and tooling that limit their ability to invest in a future.

In summary, FAPM strongly recommends that government support for diversification activities continues as a key industry strategy. We are aware that there are voices in the public sector and the community that seem to feel that no support should be offered to industry in any form or at least any significant form, but, in a small domestic market with a sparse population spread over large distances and a long way from the rest of the world, I would like to close by quoting former South Australian Thinker in Residence Professor Goran Roos on the subject of a so-called level playing field. He said: 'The market will find a solution for everything, but it may not be the solution that we want.'

**Senator EDWARDS:** What has changed for your industry since the minister's announcement on Tuesday?

**Mr Lowe:** I guess what has changed is that we now know that there will be ATS funding available—at least that the full amount will be available. Frankly, the question for us is that ATS currently is centred around R&D activities for the three domestic OEMs. As I said in my opening statement, what we would really like to question now is whether there can be some broadening of the eligibility criteria to allow suppliers to diversify into global supply chains and access ATS funding.

**Senator EDWARDS:** And that is what has evolved, really, since 2011, when this policy and funding was first announced, isn't it? Things have evolved. There have been sequences of events in the actual market with the manufacturers and everything like that, and now we just see some changed circumstances which your federation would like to see some tweaking of. Correct?

**Mr Lowe:** That is correct, yes.

**Senator EDWARDS:** It does not quite fit in the square hole that the square peg was intended for; it is a little more rounded now.

**Mr Lowe:** The world has changed.

**Senator EDWARDS:** Have you or the federation generally met with the minister to discuss these nuances that you would like to make to the fund?

**Mr Lowe:** Yes, we have, and I will throw to Richard Reilly.

**Mr Reilly:** I have not met with the minister since Tuesday, but I have certainly spoken to his senior industry adviser on the announcement, the change in policy and the next steps. We will certainly be getting in front of the adviser in the first instance and, hopefully, the minister and the bureaucracy ASAP, quite frankly, to start getting some of our ideas through the system.

**Senator EDWARDS:** Do you have any sense of what the change or the nuance in the policy and funding might cost? There is a sensitive issue of costs for the government. We are trying to balance the budget. We would



all like to just put in money and transition the industry in a luxurious way or in a way which suits the model, but we are tight on cash, so how do we do that prudently and still achieve what we need to?

**Mr Reilly:** It is an interesting question and we are not quite there yet. What I would say, though, is that the change in policy puts the \$500 million that was proposed to be taken out back in, eligible to the automotive sector in ATS—car manufacturers, supply chain, status quo essentially. I know there was a lot of talk about reductions and things like that. It remains to be seen what they are, but it certainly appears there will be an underspend of funds. Modulation in the ATS at the moment is one; by definition, that means there is an underspend in the draw on the pool, both from the OEM perspective—

**Senator EDWARDS:** I think it has been a matter of public record over the last couple of days that it has being done.

**Mr Reilly:** That is correct.

**Senator EDWARDS:** Do you have an idea of what you need, though? Can I turn up to Minister Macfarlane with my South Australian hat on and say, 'I've spoken to these guys; they're a credible organisation; they know what they're doing; can you just tweak it to this?'

**Mr Reilly:** There are a couple of things to say on that. We are not there yet, but I hear what you are saying from your perspective of going to speak to the minister. We are doing work at the moment on trying to work out how much it is going to cost for these programs—for example, changing the scheme, increasing diversification, eligibility criteria, changing what it is going to cost for people doing work in Australia for overseas OEMs and whether that is going to increase the take on the pool. I do not have a solid answer for you today, but we are working on it and I am conscious of it. I am happy to liaise with you going forward and we will do the best we can to try and get you a credible answer in your discussions with your colleagues.

**Senator EDWARDS:** Sure, because that is what I need. I am not a car component maker. I am not a vehicle manufacturer. I do not work in that space, but I am a good listener and I can hear a credible argument, and I can always put that argument forward. Mr Lowe, you are a South Australian, and the minister was here earlier, a new minister, freshly minted, and he is a good guy, from all reports. Did it surprise you that he has now just started to work on a strategy with the state Labor government for a transition to a state without Holden manufacturing cars here?

**Senator KIM CARR:** That is not quite what he said.

**Mr Lowe:** I am keen to avoid getting into party politics. The South Australian government obviously wants to do whatever it can to try to save the supply base, and we had a good relationship with Minister Close. There has now just been a change of the deckchairs, if you like, and we will need to get to know the new minister better.

**Senator EDWARDS:** Have the federal members for Wakefield and Makin made any representations to either of you, or to you as the state president, Mr Lowe?

**Mr Lowe:** To me directly, no. But bear in mind that I serve as state president in a voluntary capacity while running a business, and our chief executive handles the political side of that.

**Mr Reilly:** We have certainly had discussions with the respective federal members in South Australia, over a number of years, on the status—

**Senator EDWARDS:** All of them?

**Mr Reilly:** No, the member for Wakefield, in particular on the issue of the \$500 million primarily over the journey. I would also say in response to your question to Mr Lowe that FAPM does sit on the South Australia Automotive Transformation Taskforce, so, notwithstanding your question to Mr Lowe, the South Australian government has done a lot of work over the last year, particularly in the task force that we sit on the board of, and I know there is a big bureaucratic effort to assist—

**Senator EDWARDS:** Now you are worrying me.

**Mr Reilly:** Why is that?

**Senator EDWARDS:** You mentioned a big bureaucratic effort. Can you tell me how that relates to rubber on the road?

**Mr Reilly:** You heard Mr Piro say that they have gone out to every one of the 33 tier 1 members. That takes effort and that takes time and money and people on the ground who know what they are doing going to speaking to companies, so there is a lot of work being done in South Australia to assist the South Australian tier 1 member factory.

**Senator EDWARDS:** This is not your fight to fight but I have been out to component manufacturers and I have written to those lists of names of people I have been able to get from people that are happy to disclose it to the car manufacturers. It is not a rowdy space. I have had very little response from those people looking for financial assistance, three I think; the others wanted to move on with their business here in South Australia. We heard this morning from Holden that they do not have a lot of tier 1 suppliers here but they do have quite a lot of tier 2 and 3 suppliers and really the problem is not so much in South Australia but in Victoria, so it seems Victoria is going to be more affected by the closure of Holden than South Australia from a tier 2 and 3 and 4 point of view.

**Mr Lowe:** If I may, I think there is an issue of scale involved. South Australia is much smaller than Victoria. As I said in my opening statement, about 50 per cent of the industry is in Victoria and about one third in South Australia, and South Australia is a smaller state economy, therefore it would be fair to say that the impact to the state could be relatively larger. We are talking about employment. I know everyone likes to consolidate this and look at macro numbers but when we are talking about 30-odd tier 1 suppliers in the state they could potentially be facing a brick wall in 2017. Those are real people with real jobs that are potentially going to lose their livelihoods.

**Senator EDWARDS:** I have been in the factories and I understand who they are and I know the minister was in one of them at least last Tuesday with some transition assistance. What else can we do? The policy from 2011 remains the policy today. You are going to work up a proposal for the minister to change the way in which this is shaped to better fit the circumstances of 2015 from when it was first introduced in Senator Carr's day. What else can we do?

**Mr Reilly:** We have put ideas on the table already, as you know from some of the documents that we have submitted to previous Senate inquiries. We will continue to pursue those and try to cost those as best we can as some ideas for the government to consider in the changes to the ATS. I think it is important to remember that there is still \$500 million. Forget the \$100 million; \$500 million is no longer going to be taken out and it is accessible by the vehicle manufacturers through their production credits and then their supply chain and so that is the status quo. Everything post that is a new conversation and a new journey that you are talking about. We are not there yet but we will get there. We will liaise as best we can. We are representing our side of the industry as best we can. The car manufacturers have their ideas as well. We will put those on the table, and we will work furiously to try and get that done, quite frankly.

**Senator EDWARDS:** Good luck with it.

**Mr Lowe:** If I can add to that, I think we are talking about two things. The first is the use of the ATS money to try and create a survival plan for the companies that are here. But, on a much broader philosophical basis, the Australian government needs to ask itself the question: why would a multinational company put money into Australia when it has the option to put the money into America, Europe, Southeast Asia, China or wherever it may be? That is a large question in my mind, speaking as an individual. The automotive industry has been built and driven by overseas capital which is now leaving the country. I think there is a bigger question as to what we are going to do in future to replace that industry that is lost with something else, and it is going to have to involve attracting a company—

**Senator EDWARDS:** We could probably start by getting rid of payroll tax and one of the world's highest electricity prices and a few things like that which are unique to the South Australia environment. It is a disincentive to invest here. I look forward to still working with you, Mr Lowe, and my door is always open to you fellows. You are good scouts.

**Mr Lowe:** Thank you.

**Senator KIM CARR:** You would be familiar with the differences between the Automotive New Markets Program and the Automotive Diversification Programme, would you not?

**Mr Reilly:** Yes.

**Senator KIM CARR:** Would you be able to enlighten me on whether I am correct or not on this matter. The new government has reduced the amount of money that is available via diversification and has limited the applications? Is that not the case?

**Mr Reilly:** In the Automotive Diversification Programme in round 1 there was more limited scope—essentially, you had new plant and equipment. In round 2, which has just been announced by Minister Macfarlane the other day, has proposed alterations to the diversification eligibility.

**Senator KIM CARR:** Let us go through round 1. Under the scheme that I was fortunate enough to administer, there was eligibility for funding for labour; external education and training; contractors, including payments for research organisations such as universities and the CRC centres; manufacturing machinery and equipment, including state-of-the-art second-hand manufacturing machinery and equipment; tooling; prototyping;

and IP protection. Under the new scheme, under this government, there is only one—new plant and equipment. Given that factories are full of plant and equipment that is under-utilised, it is a little surprising that companies are not able to draw upon that given all the other things they need, which were in the old scheme and which were removed by the government. Is that true or not?

**Mr Reilly:** Effective at round 1, certainly, that is correct.

**Senator KIM CARR:** It just seems an extraordinarily short-sighted view to take in round 1, given the state of the industry, which a competent government would have appreciated from day 1. What is round 2? Why is it different in round 2?

**Mr Kiwan:** One thing the FAPM is calling for is what we internally call a supercharged ADP. We agree with you in terms of the limited options in the current scheme, but I think it is a good start. We just have to make sure that a similar scheme with broader eligibility is offered to the supply chain.

**Mr Reilly:** We said publicly when the ADP was first announced that we thought the funding of the ADP was inadequate given the status of the industry. We also raised publicly at the time that we thought that the eligibility criteria was extremely constrained. We were not consulted on the content of the ADP, which was very disappointing to us, but that is how it works sometimes. That is fine, but I did not think that that program is being accessed as much as it could have been. We have already said that publicly.

**Senator KIM CARR:** I would agree with your criticism as I would with Mr Lowe's concern about investment attraction, particularly for international capital, given that the industry has been built upon the back of international capital. Mr Lowe, what actions have you observed that this government is following to attract new investors?

**Mr Lowe:** That is a big question. Again, from a personal perspective, we seem to have a modern political approach that says the best thing government can do is get out of the way and let business do what they want to do, which makes some kind of sense. But, on the other hand, we are a small and very scattered market, and I guess there is a question in my mind whether, in fact, we do not need government to be saying we are going to go after this industry and we are going to put something in place that makes it attractive for foreign capital to come into it. That is something that we seem to be a little scared to tackle, currently, given WTO and the current fetish for complete, open and unfettered access.

**Senator KIM CARR:** It has always been my observation in this state, the automotive industry is different. It is smaller, yes. It is obviously more important for the state's development as a whole. It is much more strategically vital. But there is another element, and that is the role of international capital here. There seem to be more multinationals that actually work using capabilities in South Australia. Would you agree with that? Is there a difference between the Victorian and the South Australian industry along those lines?

**Mr Lowe:** I think that is correct. I think the Victorian industry has a higher concentration of smaller local Australian companies, whereas South Australia tends to be characterised by some of the larger, multinational tier 1 suppliers.

**Senator KIM CARR:** So the issue of investment attraction is probably more important in South Australia than it might be in other places—would you agree?

**Mr Lowe:** Certainly would not disagree.

**Mr Reilly:** Yes, absolutely. The issues on the multinational—and Greg obviously represents a multinational. Multinationals by definition have entities scattered throughout the world. So the key challenge we face, by definition, is: with the car companies going, the status of those multinationals once their customers, the three vehicle manufacturers, cease making vehicles, will they stay or will they go? A number of multinationals have already publicly announced that they will service the customers until the end of 2017 and then they will exit Australia—that is continuing. There is employment—the big employment of those multinational.

**Senator KIM CARR:** I think your assessment is absolutely correct. However, there are some companies, international companies, that are going to stay. Bosch has made it clear that they want to stay. SMR—

**Mr Reilly:** SMR, correct.

**Senator KIM CARR:** It is an Indian based company, and we have attracted quite significant investment in this state, but they are diversifying and clearly want to stay. So it is not true to say that they will all go

**Mr Lowe:** Correct.

**Senator KIM CARR:** I put to you again: is the argument that we will have an automotive industry or we will not have an automotive industry? If it is, we will have an automotive industry, isn't the discussion then all about its scale and its scope?

**Mr Lowe:** If we define an automotive industry by the actual assembly of vehicles, at this stage we will not have an automotive industry—

**Senator KIM CARR:** It is a bit more than that. The automotive industry is much more than that.

**Mr Lowe:** So in the context of FAPM, if we say, the automotive industry is the remaining suppliers. Certainly some markets, such as ASEAN, offer tax breaks that are all around localisation. They very much want to have the local suppliers in their country supplying them locally. That makes it hard to export a product from South Australia, for example.

There are some different dimensions to this: so a supplier that is supplying into the automotive aftermarket certainly can stay; and a supplier that is supplying both OE and a large number of service parts can stay. Where it starts to become difficult is a supplier that is only supplying original equipment to the three car makers that may be a multinational. So the question for them then is: if we look at SMR, who falls directly into that category—just secured business in Japan; that is fantastic—how did they manage to do that when they have got such a range of terrific Japanese suppliers? It was all about being able to take on a technical challenge that the others could not. So where there is a special technical advantage or where it maybe be a volume that is not large enough to interest one of the other overseas subsidiaries, there are certainly niche opportunities there. I would be surprised if those niche opportunities would collectively allow a large scale similar to what we have at the moment. So there will certainly be a downsizing and shrinking.

**Senator KIM CARR:** Thank you.

**Senator XENOPHON:** Thank you. Can I just get some clarification? When the state government gave their evidence, there was a suggestion of 33—their survey—tier 1 component companies; 3,719 people employed; 719 companies employing 28,000 to 32,000 people. How many of those tier 2, 3 and 4 companies are members of yours?

**Mr Reilly:** FAPM is predominantly represents the tier 1, so we do not necessarily have transparency down to 2, 3, 4, 5, 6. We might have a few members at tier 2. They jump around a bit, as you know, because I might sell to Greg, Greg sells to Holden, but then Greg also might sell directly to Ford as a tier 1. The answer is: it is very difficult.

**Senator XENOPHON:** So it is difficult to say, but is it fair to say that unless the ATS is reformed to allow for a little transition of the sector, you will see a quite precipitous collapse of the sector in the next two to three years?

**Mr Reilly:** We think just about by definition it needs to be reformed, given the exit of the vehicle manufacturers, the comments by Minister Macfarlane, and the arguments that we and others are making, that we do want to try and expand it, potentially into the after-market, into some ineligible activities that we want to make eligible, to give our component manufacturers the best chance of diversification and survival, if they choose that is the way they want to go in the coming years.

**Senator XENOPHON:** I am just trying to understand this; this is by no means a criticism. When Mr Griffin gave evidence the other day in Melbourne, he said that on a best-case scenario, if that \$900 million was spent wisely and in a targeted fashion to allow that transition to other sectors—Precision is doing heliostats, that sort of thing—you would still lose a third of the jobs in the sector. That is the best-case scenario. The state government gave evidence earlier this afternoon of only 20 per cent of companies surviving—

**Mr Reilly:** They are South Australian companies; we were talking nationally, so there is a bit of discrepancy there.

**Senator XENOPHON:** So South Australia is more vulnerable than other states, than Victoria?

**Mr Reilly:** I think that is right. Different analyses—as you heard, the South Australians went out and interviewed the 33 companies, as you said, so that is their analysis. We were relying on our analysis, done in preparation for the Productivity Commission document that we put together in the hearings, et cetera, so they were our stats that we used nationally as well. Whether there is a discrepancy, which it appears there is, I think that is the explanation for it.

**Senator XENOPHON:** So it partly is we are more vulnerable, given what Mr Lowe said, because of the make-up of the companies here—

**Mr Reilly:** That is correct.

**Senator XENOPHON:** That is not a criticism of them, that is the way it is. How much time do we have to turn this around? I think it is fair to say that you welcome the government's announcement not to proceed with their bill to cut the funding, but in order for that to be effective, not to have the effect as though there was a de facto cut, you need to change either the regulations or the legislation.

**Mr Reilly:** That is correct. I think that is the conversation which was what Senator Edwards was alluding to. That is the big conversation we as an industry, and as governments, need to have sooner rather than later, because while we all have access now to the \$500 million, given that less R&D is being done, less investment is being made, less vehicles are being made, we need to ensure that we get maximum outcomes from those dollars.

**Senator XENOPHON:** Does the document you provided to the Automotive Transformation Scheme Amendment Bill provide a template of the sorts of things that need to be done to ensure the long-term survivability of most of the sector? That is right?

**Mr Kiwan:** Amongst other things, that is right.

**Senator XENOPHON:** If there are any other things, given the scope of this inquiry, can you please get back to the committee urgently, in addition to your previous submissions.

**Senator KIM CARR:** They have got another submission.

**Mr Reilly:** You were away, sorry. We have not finalised our submission yet, which we will, and we will get that to the committee. Obviously that is a template of where we are coming from.

**Senator XENOPHON:** Also, can you consider, in the context of Senator Edwards's line of questioning and Senator Carr's line of questioning—South Australia is more vulnerable than, say, Victoria, given the make-up of our sector, the figure of 20 per cent compared to two-thirds surviving, in terms of two different sets of evidence—how can we significantly improve on that twenty per cent survival rate in South Australia? Can you cast your mind to how could the fund be amended, altered, restructured so that it can maximise the benefits and minimise the job losses?

**Mr Reilly:** I understand.

**Senator MUIR:** If there were no changes made to the criteria of the ATS and it stays the way it is—we have just discussed how the funding is now available in 2017, and to continue on—would the ATS really be available then?

**Mr Reilly:** Be available post 2017 or pre 2017?

**Senator MUIR:** Pre 2017?

**Mr Reilly:** It is a very interesting point you make. The issue that Minister Macfarlane raised the other day, which I think, from a technicality perspective, is not quite right, is that the legislation will need to change. The scheme is legislated out to June of 2021. That is the status of it. The scheme finishing when the vehicle manufacturers leave is what the minister said, but don't forget that that is only one part of the industry—we represent the other part, and others as well, from the after-market for example. Legislation is going to have to change. Therefore, criteria will have to change. Given the state of where we are as an industry and what we have been talking about, if we are going to change the legislation, let us all get together and talk about it with the ideas that we have—and I know other organisations and car companies do too. So, yes, things will have to change by definition.

**Senator MUIR:** If things do not change, it is not really going to be available, especially after 2017.

**Mr Lowe:** It has to change.

**Mr Reilly:** It has to change, because it is legislated out to 2021. Components suppliers only do eligible activity through R&D and through making investments in new plant equipment. The car manufacturers, as you know, are only eligible when they make cars, and they are paid on a credit basis per vehicle made. Cars are going down. They are having less draw on the pool. Therefore, there is an underspend—and we are the same. We are doing less R&D because the programs are not there post-2017. All the pieces are coming together, and that is the situation we find ourselves in now.

**Mr Kiwan:** Hence the reason why expanding the eligibility could allow for immediate or short-term investment in some supply chains—for instance, work for international customers and other things that the committee has heard from us and from other witnesses basically.

**Senator MUIR:** Speaking of short-term, there was a little bit of confusion on Tuesday around \$900 million, \$500 million, \$100 million. Did that cause any confidence issues for investors, perhaps in the area of your clients?

**Mr Lowe:** I am an automotive manufacturer myself. The question is: how are we going to diversify, and what do we need to do that? The availability of support from the government is just an incremental risk factor that needs to be taken into account. Personally I do not think it would stop companies pursuing opportunities, but it is increasing the level of risk when there is uncertainty as to what support is available.

**Senator EDWARDS:** There is not now though, is there?

**Mr Lowe:** Not now, no—except, as we have said, we need to perhaps look at the eligibility criteria for auto suppliers looking to supply international markets.

**Mr Reilly:** A lot of things need to be talked about. This \$500 million that has been on the table from the government has created uncertainty and a lack of confidence as well. It is a very pleasing result for the industry that this has been changed—and you, as a South Australian, know that. There has been a lack of confidence over the last couple of years with this particular change. That is why it is a great result for the industry. How we use that change going forward, and the changes to the scheme, to better maximise the use of the money going forward remains to be seen. They are the conversations that we and others need to have.

**Senator MUIR:** Fantastic. I am happy with that. How do you think that the current underspend, as it is at the moment, would be best spent on helping components suppliers transition?

**Mr Reilly:** The government has confidential information. Companies like Greg's report on a quarterly basis to the government about the investments they are making in the R&D. We are not privy to that information. But assuming there is an underspend—and as I said, modulation of one, so just about by definition there is an underspend—we think as per our document—and we will get an updated document to you—we have some changes that we think can encourage firms to do more work. Diversification, we think, needs to be expanded to try and utilise these funds to encourage manufacturers—companies like Greg's and others—to diversify into other areas—getting into the supply chains—key areas and key thinking that we have been doing, and key arguments we have been making over quite a number of years now. If that pool is underspent, as an automotive representative, as you would expect, we would want to keep that money in the automotive industry—and look at whether the aftermarket can be brought in, and expand the ATS, so some aftermarket activity and R&D being done in Australia is eligible as well, because currently they are not. We are fully supportive of that. We are very open to having those discussions. They are one of the key components of the industry going forward as well.

**CHAIR:** Thank you very much gentlemen. We appreciate your evidence.

**SPOEHR, Associate Professor John Douglas, Executive Director, Australian Workplace Innovation and Social Research Centre, University of Adelaide**

[14:34]

**CHAIR:** Welcome. Thank you for appearing before the committee today. I invite you to make a brief opening statement, should you wish to do so.

**Prof. Spoehr:** Thank you. I would like to make a short statement covering a couple of areas. I will give a short overview of some of the work that we have done, which I think is of use to this committee, and some of it has been submitted to related inquiries. I will then make a few comments about the outlook here in South Australia. I think it is important to take into account the nature of the response and the level of the response that is required over the next five years. Then I will touch on a couple of issues which might be matters for further discussion.

I think senators would be well aware of the work that we have done which attempted to quantify the significance of the Australian auto industry. That work was done in collaboration with the National Institute of Economic and Industry Research. I hope you have access to that material. That modelling is designed not to suggest that the magnitude of the shock will be the numbers that we have indicated in the report but more to suggest that this is a critically important sector to the Australian economy and that it reaches very deep, indeed, into the South Australian and Victorian economies but also, as you would appreciate, into New South Wales and to some extent Queensland. So I regard this as a national question as I reflect on it—a national challenge, if you like.

But in terms of the aggregate numbers—and they have been well rehearsed, I think—we are looking at about 200,000 jobs across the nation, including about 24,000 here in South Australia and about 100,000 in Victoria. These are not insignificant numbers but what they do reflect is the significance of the OEMs and the complex supply network that surround them but going much deeper than that to the multitude of various suppliers that feed into the industry. I think evidence presented earlier indicated that there are about 700 different businesses here in South Australia that are in some way related to or feed off the existence of the auto industry. That is a very significant number of businesses.

We have wanted to go beyond the modelling because we think everybody accepts that modelling is imperfect and that it is assumption bound; nevertheless, it is a useful tool in trying to give us an understanding of the scale and complexity of an industry. In order to overcome the limitations of that, we did some work in northern Adelaide, in the City of Salisbury and the City of Playford, to understand what businesses were thinking about the likely impact of the imminent closure of the auto industry. What is useful about that particular work is that it gets to businesses that are outside of the supply chain to try and understand what they are thinking. What concerned us about our Workforce Futures survey, which focused on the auto industry, is that it suggests that there is a significant risk of a major confidence shock in the wholesale, retail and related areas. Retailers, in particular, were very concerned about the flow-on impacts of the closure of a large number of suppliers. About a third of the employers surveyed in this survey of about 600 companies in Playford and Salisbury indicated that they were concerned or very concerned about the potential shock that was to come over the next couple of years. We are going to follow up that work in another six months time to find out what those employers are thinking in light of new circumstances as they unfold, the availability of assistance and the scale of the intervention at a Commonwealth and state level.

I refer you also to some strategic work that has been done here in South Australia. The state government has presented on its own work, which involves detailed work with the supply chain. But in terms of the regional response in the northern part of Adelaide, my organisation has been working with the City of Playford and the City of Salisbury to identify what some of those strategies are that might best deal with the shock as it unfolds. I commend to you a document called *Strength in diversity*. I provided a two-page summary of it for your ease. It talks about the centrality of manufacturing to the South Australian economy. As you would appreciate, it has played a critically important role in South Australia's economic development over the post-war period, boosted by Playford's efforts and then by subsequent governments. It remains a very significant industry here, with about 70,000 employees still in the South Australian manufacturing sector. Far from being a dying industry, it is still one of South Australia's most significant industries.

What we are faced with and what I think local government acknowledges—and I know that my colleagues who are following me later on this afternoon will talk about it in more detail—is the need for an integrated state, local and federal response. *Strength in diversity* represents at least the beginnings of a strategy that has three or four different prongs. One is industrial diversification not only within the component supply chain but also beyond the

component supply chain where there are significant opportunities like medical devices, assisted technologies, horticulture and so on.

We have an enormous challenge with the closure of the auto industry. Enormous knowledge skills are embedded in the auto industry. It is important that strategies are put in place to retain as many of those skills as we possibly can over the next few years. To lose them, I think, would undermine our capacity over the short and medium term to effectively diversify. As you would appreciate, the existence of the auto industry has enabled us to be successful in many other sectors. The defence sector has fed off the existence of the auto industry in order for it to be able to successfully manufacture defence products here in South Australia. Medium term and longer term prospects of successful economic development in South Australia in many ways hinge on our ability to retain those critical automotive engineering skills and automotive design skills in Australia.

I will briefly touch on the outlook. We cannot compare this closure with previous closures. This is the collapse of an industry in this nation in a relatively short period of time. The scale of the shock is very substantial indeed. It is comparable perhaps to the difficulties we had in the steel industry years ago, but in many ways it is more problematic. The growth outlook is problematic for South Australia. We expect below trend growth in GSP over coming years. We are seeing a decline in hours worked. And we are seeing, as you have seen, in recent employment numbers from the ABS that the unemployment rate in trend terms is about seven per cent. This is a very difficult starting point relative to the Mitsubishi closure back in the mid-2000s. We recovered relatively well from the Mitsubishi closure, I have to say, but that was in a different period. That was pre GFC. Manufacturing was flattish. We are coming out of a very difficult period, off the back of a very high Australian dollar and a very difficult competitive environment in our east-Asian area.

There is a structural mismatch in South Australia's labour market. There is substantial growth in community services, ageing and health, but we cannot easily transition auto workers and component supplier workers into that sector. That is a very big ask. While we might have reasonably stable employment growth to this point in South Australia, I expect that will decline over the next few years. You have seen recent problems in our resources sector, with Santos announcing substantial job losses in that sector. So we cannot look to mining to provide the jobs that we might want as replacement jobs for auto workers. We can only look to health, ageing and community services to a limited extent. The diversification of the supply chain, securing as many of those companies as possible, is absolutely critical.

**CHAIR:** Associate Professor Spoehr, I do not want to interrupt you. It is very interesting, but we probably do have a few questions.

**Prof. Spoehr:** That is fine. I have just finished, actually. It is perfect timing.

**CHAIR:** I apologise for interrupting you.

**Senator KIM CARR:** Professor Spoehr, I really do thank you for your research in this area. It has been of great significance. Given that time is short, can I turn to your experience of the international automotive industry. I understand you have some knowledge of the way that the British industry has developed since the devastation of Margaret Thatcher. Could you enlighten us about what you call 'Phoenix industries', which have emerged, particularly in the British motor industry. What has happened there and why do you think it has happened?

**Prof. Spoehr:** There are a number of critical things. There has been a significant policy shift in terms of investment at a national level in the establishment of major research infrastructure linked to industry—in the form of the Catapult centres in the UK. They are very well funded, innovative centres that have provided a real kick-start to British manufacturing. They are very important, I think. As a specific example, I was recently in Birmingham as part of a study tour, looking at the experience of the MG Rover closure just outside of Birmingham.

**Senator XENOPHON:** When did they close down?

**Prof. Spoehr:** That was in 2005-06. It was a really major closure. They recovered relatively well from that. What occurred during that visit was that Jaguar and MG Landrovers announced that they were putting on 1,300 new jobs at their Solihull plant to manufacture a new Jaguar car. This is fairly commonplace, not only in Britain at the moment but also in Germany and other parts of Europe. It is true to say that it is possible to manufacture cars in high-cost countries so long as you have the formula right. It is about the balance between government support on the one hand and the industry's ability to pick where the demand is on the other. That has been done successfully in those countries. I think it is fair to say that the growth prospects for the auto industry in those other nations are very substantial.

**Senator KIM CARR:** In fact it has been a significant turnaround since Thatcher's time. What are the elements there and what lessons can we draw from that phoenix approach to the automotive industry in Britain?



**Prof. Spoehr:** In essence, no auto industry exists without substantial partnership and co-investment. That co-investment occurs in many different forms. It might be in the form of standards, compliance or environmental requirements. In every nation that I have looked at throughout the OECD that has a successful automotive manufacturing capability, I have seen a substantial partnership and co-investment from government. More than that, I think there is need look to the future—what sorts of cars do we want to be manufacturing in the 21st century and what sorts of disruptive technologies might we bring to bear in those vehicles to make them more sustainable?

**Ms Carroll:** Is it the case that the British have chosen high-end manufacturing and niche componentry? Are they the two elements that stand out?

**Prof. Spoehr:** It is fair to say that they have targeted niche, high-value vehicles and done so very successfully. I think that is a smart strategy wherever you might be. It is possible—and this might seem fanciful at this particular point in the debate about the future of the auto industry—to imagine that we might again do that in the future.

**Senator KIM CARR:** I do not think that it is fanciful. That is why I asked the question.

**Prof. Spoehr:** No.

**Senator KIM CARR:** I am firmly of the view that the Australian automotive industry will not only survive but can prosper if the right policy settings are in place.

**Prof. Spoehr:** Indeed.

**Senator KIM CARR:** Just because you get some setbacks because of government policy—I emphasis 'because of government policy'—it does not mean that other government policy cannot be brought to bear. In England we have the situation where Tory governments are investing in the automotive industry—having gone through the phase of neoliberalism to the point now where they have reversed that approach. They now understand how important the automotive industry is. Would you concur with that view?

**Prof. Spoehr:** I would concur that it is recognised in Britain, Germany and other nations that auto manufacturing is a key driver of innovation. It has foundational skills, capabilities and knowledge. Around it you can build other advanced manufacturing sectors. I concur with that, largely.

**Senator EDWARDS:** I am interested in knowing how, then, Mitsubishi and Ford—and now indeed Holden—under successive governments and government policies would actually do that, given the high-value marques that come out of England today. Given that they are not presently in that space and that England has a long history, since the evolution of the automobile, in high-end marques, how do they do that? How does Holden, Ford or Mitsubishi do that?

We are dealing with the real and now. We are not Rolls Royce, we are not Bentley, we are not Jaguar. We do not make those; we never have. We have made FJ Holdens and FX Holdens for the people—and Model T Fords.

**Senator KIM CARR:** Who owns those companies now?

**Senator EDWARDS:** How do you get a model like what you are talking about in Australia, where they have never had a model like that—a range model.

**Prof. Spoehr:** Inevitably it will be through a partnership, a joint venture, an international partnership. We have never had a domestic industry that has not had a global partner associated with it—either from Germany, Britain or wherever. I think we are looking at creating the conditions here in Australia for a foreign investor to partner with us. It might even be the Chinese, who have an interest in that as well.

**Senator EDWARDS:** What you are saying is that we should probably look to the group that owns Rolls Royce, Bentley or Range Rover—to partner with them to put out at Elizabeth?

**Prof. Spoehr:** I think we need to explore all opportunities in front of us. What are the conditions necessary to sustain a vibrant car industry? That does mean moving beyond the narrow models we have had available here in the past. It does mean being agile, but it does—as Senator Carr has indicated—mean we must focus on niche, high-value, premium vehicles.

**Senator EDWARDS:** But we do not make them here. We have to bring them here, so we have to encourage those marque car makers to come here and build their cars in Australia.

**Prof. Spoehr:** We do.

**Senator EDWARDS:** That is no small task, is it?

**Prof. Spoehr:** It is no small task.

**Senator EDWARDS:** In the discourse that was going on between you and Senator Carr, it seemed as if you could just go and have a chat with them and get them over here.

**Prof. Spoehr:** No.

**Senator KIM CARR:** No-one said that, but if you do not have a go, you will never know. That is the difference. It is fundamentally different from rejecting the automotive industry—losing letters from companies applying for assistance here. What has occurred here is fundamentally different from what, I am suggesting, has occurred in international environments—even from conservative governments. There is an outright hostility to the automotive industry here which you do not find, for instance, in England. Would you agree with that?

**Senator EDWARDS:** It is not hostile.

**Senator KIM CARR:** Of course it is hostile. You drove General Motors out of the country.

**Senator EDWARDS:** That is nonsense—and what happened to Ford and Mitsubishi?

**Senator KIM CARR:** You drove them out of the country. Mitsubishi collapsed under the conservative government. I picked up that collapse in the first week of a new Labor government. It occurred under a conservative government. Ford is an entirely different circumstance.

**Senator EDWARDS:** Where is the money tree?

**Senator KIM CARR:** There is \$900 million there that you are playing games with.

**Senator EDWARDS:** I am not playing games with it.

**Senator KIM CARR:** The disaster occurred when your party announced the removal of the \$500 million. That is when the rot set in—as soon as you announced that. As soon as Sophie Mirabella announced that, the uncertainty occurred.

**Senator EDWARDS:** So the answer is that we go and partner with Rolls Royce or Bentley to build—

**Senator KIM CARR:** Or Tata or any of the other international firms that are interested in investing overseas.

**Senator EDWARDS:** Why are they not here now?

**Senator KIM CARR:** Because you are bloody driving them out.

**Prof. Spoehr:** My answer to that is that we have to be careful about what sorts of investment conditions are necessary to attract these sorts of companies. We do need to sit down with them and look at co-investment. Co-investment is the necessary condition.

**Senator EDWARDS:** Why would Tata take up the vacant space left by Holden in 2017? Why would they not come here?

**Prof. Spoehr:** That might be a conversation the committee might want to have with them.

**Senator EDWARDS:** What would you see as an impediment to them coming here? Would it be payroll tax? Would it be the highest energy prices in the world? Would it be the highest state taxation regime in the country? What else could you add to that?

**Senator KIM CARR:** A hostile federal government?

**Senator EDWARDS:** You would add that, but I am talking about real things and not emotive issues.

**Prof. Spoehr:** One of the things that is enormously attractive about Australia at the moment—and it is a consequence of course of the closures we are about to experience—is the availability of a deep skills base. We have an accumulated knowledge, skills and capability base.

**Senator EDWARDS:** I get it. I want them here. I want them here to build submarines as well. I want them here to do all those things. Do not get me wrong. But let us not deal in fantasies here. We have one of the most unappealing state government regimes in the country—from the perspective of personal and business taxes. Why would Tata come here unless it were subsidised by the state government, which would be paid for by South Australian taxpayers, to set up shop? You talk about reinvestment in the industry—let us talk real. That is what we would have to do, isn't it?

**Prof. Spoehr:** My view on that would be that a decision like that would be largely influenced by national policy rather than state policy. State policy is marginal to these sorts of decisions. I do not think state governments actually have the capacity to be able to make a real difference.

**Senator EDWARDS:** We have a conducive federal environment. Would they come and fill the space at Elizabeth before they went to another state?

**Prof. Spoehr:** If the co-investment conditions were right, there is the possibility of international auto investment in South Australia.

**Senator EDWARDS:** In South Australia?

**Prof. Spoehr:** In South Australia.

**Senator EDWARDS:** Despite the fact that it has got the highest taxes and the worst—

**Prof. Spoehr:** I think those are marginal issues in terms of the investment decisions by these companies.

**Senator KIM CARR:** Professor Spoehr, what about the cost to the economy? We talk about the cost that it takes in terms of co-investment, and the Automotive Transformation Scheme has \$900 million left in it. What is it going to cost the Australian economy to have possibly more than 100,000 people lose their jobs? What is the cost in terms of state revenues? What is the cost in terms of social infrastructure by not actually having this industry in place? Do you have any assessment on that?

**Prof. Spoehr:** Our estimates were that a lower Australian dollar would have made it a much more attractive and suitable environment for auto manufacturing in Australia. Our thoughts about that have been confirmed by the reality that the Australian dollar has come down, and so it is a much easier environment to export in. Assuming that, we have estimated that the shock to the Australian economy four years after closure is around \$29 billion. So that is a not insubstantial estimate. Of course the actual outcome will be determined by the level and success of any intervention that we might implement over the next four to five years.

**Senator KIM CARR:** The auto companies would say to the Productivity Commission inquiry, for instance, that for every dollar they spent they were generating 30 throughout the economy. Have you had a look at that claim, and do you think that is valid?

**Prof. Spoehr:** Can you repeat that for me, please?

**Senator KIM CARR:** They said that for every dollar spent through public support they were generating \$30 throughout the economy in terms of suppliers, labour, taxation—a whole range of other factors. Do you think that was a reasonable estimate?

**Prof. Spoehr:** There is consensus that investment in the auto industry over the medium term is a very good investment. The evidence stacks up on that. Yes, I agree.

**Senator KIM CARR:** Thank you very much. If you do have anything further to add on this British experience, I would be really appreciative if you had the time to make a supplementary submission to the committee around phoenix industries, particularly automotive, in the United Kingdom.

**Prof. Spoehr:** I am happy to. I did not mention that I have copies of a paper that I recently presented called *Far from the car—the case for transformational change in response to the closure of the auto manufacturing industry*, and I have enough copies here for everyone here today.

**Senator KIM CARR:** Thank you very much. Can we take that as a supplementary submission?

**Prof. Spoehr:** It summarises many of the points that I have made today, and I hope it is useful for everyone. I will leave that for you.

**CHAIR:** Thanks very much for being here today, Associate Professor Spoehr. All the best.

**Proceedings suspended from 14:58 to 15:09**

**CAMILLO, Mr John, South Australia State Secretary, Australian Manufacturing Workers' Union**

**EVANS, Mr Tony, Australian Manufacturing Workers' Union**

**SKLADZIEN, Dr Tom, National Economic and Industry Adviser, Australian Manufacturing Workers' Union**

**SMITH, Mr David, Vehicle Division National Secretary, Australian Manufacturing Workers' Union**

[15:09]

**CHAIR:** Welcome. I invite you to make a brief opening statement should you wish to do so.

**Dr Skladzien:** I will make a very brief statement. Obviously the context that we find ourselves in right now with regard to the auto industry and in particular the ATS scheme is a little bit different from when we drafted our submission to this inquiry, as is the case when everybody drafted their submission. That submission was the preliminary submission rather than the full submission, which is not yet due. The very brief point that I would like to make is that, while we have seen the federal government back down from its intention to formally withdraw \$900 million from the ATS, we do not see that as being sufficient to address the problems with regard to a policy response to the closure of the motor vehicle producers. We think that there is a very strong and increasingly urgent need to reform the ATS itself so that it can move from being a program that supports the production and assembly of passenger motor vehicles to one that supports the diversification of the automotive supply chain and more broadly the growth and modernisation of the automotive manufacturing industry. Rather than go into any details now, I think I will turn to questions.

**CHAIR:** Thank you. Senator Carr.

**Senator KIM CARR:** Gentlemen, we have known each other for a very long time, so we will get to the point here. It has been alleged that General Motors were not serious about their efforts in terms of reinvestment. As minister, there was a proposal that they invest over \$1 billion. Can you enlighten the committee as to your direct experience of the efforts you and your members took to make the company ready for that billion-dollar investment? Can you confirm or otherwise if in your judgement the company were serious about seeking to reinvest in two new models?

**Mr Smith:** I was asked to come down and meet with Mike Devereux. Mike spent a couple of hours taking me through the issues General Motors faced going forward. He made it very clear to me at that meeting that they wanted to remain in Australia and were committed to remaining in Australia if we could meet certain things. After I met with him initially I asked John Camillo and two other colleagues from the vehicle division to come down and also meet with Mike Devereux. I think we had two more meetings, and other that period of time Mike said that they needed some changes to their workplace practices but they were not going to keep the engine plant in Melbourne open. The decision to send the contract to South America had already been made, so they did not want to change the working conditions at that particular site, but in Adelaide they certainly wanted to keep the manufacturing facility open.

After that, we went back to Adelaide. We spoke to all of our shop stewards, who endorsed that we get Professor Goran Roos in. The company opened up the books, and Goran came back and said there was a need to restructure this company. From that point on we entered into negotiations with the company around a variation to their workplace agreement.

I simply put to you that, if the company were not serious about staying in Australia, it would never have gone through that process. That took a couple of months. It was long, tedious and obviously very mentally draining for union officials to have to sit down and talk to a company about taking away certain conditions, freezing pay et cetera. That would never have occurred if the company did not want to say and was not serious about staying in Australia. I think it was Tim Lee who was the person in charge of making the decisions at that stage. Mike said to me that, if we could get agreement around the variation, Tim had agreed that the plant would stay open in Australia subject to the federal government lending the appropriate support or giving them the 10 years certainty that they required through the ATS.

**Senator KIM CARR:** Mr Camillo, do you have anything to add given your role as the secretary of the union in this state?

**Mr Camillo:** Yes, I would like to. First let me say that I started work at Holden on 18 July 1978. I worked on a production line for many years until I became a senior shop steward and have been a union official representing the workers at Holden for many years. I have had a very good working relationship with management at all levels and also with the CEO managing operations for many years. I understand how Holden works, and they do change

from time to time depending on the leadership in GM Detroit. So I know when you can trust someone and when you cannot trust someone. We build that relationship in getting things to move forward and so on.

I raise the issue of the global financial crisis, which hit us very hard. The company said, 'We have deep problems.' We sat down with the company. We said, 'What do you need?' They said, 'We need to get through this difficult time.' We sat down with the company with regard to getting workers to work one week on, one week off. They had an extremely difficult period of not being able to pay their bills and all that. We did it for one simple reason: those people were loyal to Holden. Those people wanted to see the company survive.

So we went through that process in the global financial crisis. A lot of people went through some difficult times. People had broken marriages and so on. We then came to the situation where I got invite to a meeting with Mike Devereux and Dave Smith where Mike sat down and said: 'We need this variation at Holden. We need to reduce the operation costs by roughly around \$20 million a year. If you can't do it, we'll close shop.' Dave and I sat down and worked out roughly how we were going to do this, what I know with regard to business and so on. We sat down with Tony Evans and decided to bring a person I have a lot of respect for: Professor Goran Roos. He came out, and Holden agreed to open the books. He came back and addressed the union officials and shop stewards and said, 'This company has major problems, and you seriously need to look at reducing the overall cost at the Elizabeth site.'

I addressed all the workers at Holden and said: 'We've got two options. We've got the option of reducing the costs—and it means some hard decisions—or saying no and folding our arms. The company's made it quite clear to us that, if we weren't going to make any moves, they were going to close General Motors operations in Australia.' That was made very clear to us. The workers made it quite clear to us at a mass meeting of workers I attended. They said: 'Don't touch our wages. We're prepared to look at everything else.' And we did. We sat down in a room, and Dave and I spent sometimes 18 hours a day because there was a cut-off period. Holden was genuine.

I did a bit of homework with regard to other GM plants around the world. There was a GM plant in Canada where they made the same sacrifice—the same variations with their manager—and, once the workers made the sacrifice, two months later that manager left and they closed the place down. So I said to Mike Devereux, 'We're not going to go through this period with regard to the variation and then you close the place down and be done with this; we want a commitment.' We got a commitment from the next one higher up—Tim Lees—saying that, if the workers go through this process of variation, if we go to the government and if the government helps us out, we will continue operations at Holden. Not only did I tell that to the workers; Mike Devereux said that to the workers as well. He said, 'If you're not going to do the variations, forget about us even talking to the government.' The company was very sincere from Mike Devereux to Richard Phillips with regard to keeping the operations here at Elizabeth.

The key issue for us was there was \$1 billion put aside—and we know there was \$1 billion—for two new models: a replacement of the Cruze and a replacement of the Commodore. The plans were already there; we saw the plans for the next 10 years. Companies do not spend that much money on forward planning if they do not have a future in the country.

Every day we talked with the main people and every day Dave and I sat down, we had Professor Goran Roos. Every time we got anywhere close with regard to what we were going to do—change the work patterns and how much money—we had Professor Goran Roos work out how much roughly. We had their bean counter and we had our bean counter until we got to the \$20 million saving at Elizabeth. What we did was fair dinkum. Some of the conditions that we agreed upon many years ago we traded off to make sure the company was going to be around. When we took the variation to the Elizabeth workers, 80 per cent of those workers voted for the variation. It meant changes to times of work. It meant that, if they needed cars because customers wanted the cars, they had to work during their lunch break. It meant staying back after work to do maybe 20 or 30 cars and not being able to pick up the kids. Workers were prepared to do that to save the company, and every day that we negotiated I knew that, when we finished negotiating, all our information went to Mike Devereux and Mike Devereux went to Detroit.

I say that because I go every year to GM International, where we meet with international unions in Detroit and then spend half a day with the GM senior executive. Mary Barra is there; I met her last year, and we sat down. I will be doing the same thing again at the end of next month. So we are very close not just in Australia but internationally, and they were always here for the long haul. They were full on. Even Mike Devereux went to the Productivity Commission, saying, yes, everything is rosy, we are going to go forward and so on, and all of a sudden Joe Hockey and a few others said certain things in parliament, and it was off.

I have done some homework behind that. The questions I raised and the answers I got back from some senior GM overseas was they could not allow the GM brand to be damaged any longer at Holden. That is what I have been told with regard to shutting up GM operations. You have to understand: with GM closing, they are going to make sure they keep bringing down the GM product into Australia. So I know they were fair dinkum.

The people I talked to will continue the operations. One billion dollars to keep Elizabeth going for 10 years—I can tell you where that \$1 billion has gone right now: it has gone to Germany. They have reasonable labour costs the same as Australia. The situation with regard to Germany is that they will be producing the Commodore front-wheel drive coming here. So the bullshit that I have been hearing about high wages and workers getting paid too much—come down to the shops and talk to some of these workers, and I will show you what we have done over the last 20 years with regard to flexibility. Workers have no choice about annual leave. Workers have no choice of PDOs. Workers work on a production line in 60-second cycles. Workers at Elizabeth three or four years ago had people from overseas coming to the Elizabeth operation to see how good we were because we were one of the most efficient car plants in the world, able to produce 20 or 30 different models down the production line, and we gave it all up because we had a government that I believe were not sincere about keeping the automotive industry going another 10 years.

**Senator KIM CARR:** So you are convinced that the company was not lying to you when you went through those processes and negotiations?

**Mr Smith:** I will go to my grave never doubting that they were not sincere about staying in Australia. In fact, I think they made the announcement in 2014—sorry, 2013—and the following year they had a very funny break calendar, and it was because they had scheduled in work to their body shop.

**Senator KIM CARR:** I can assure you that is true. There was an expectation that the contracts would be signed, and they were entirely dependent upon the attitude of the federal government. It was absolutely, entirely the case.

**Senator EDWARDS:** Are we just going to have a witch-hunt here for the next—

**Senator KIM CARR:** No, you cannot make—

**Mr Smith:** We are going to establish the truth.

**Senator EDWARDS:** Senator Carr and the union movement—goodness gracious, it is hardly good TV, is it? You guys come in here. You belt up the government: 'It's all your fault.' This is about jobs.

**Mr Smith:** Face up to the truth.

**Senator EDWARDS:** This is about jobs. Look, they have announced they are closing.

**ACTING CHAIR:** Senator Edwards, do you have a question?

**Senator EDWARDS:** I have a question. When are we going to talk about the transition? When are you people going to put forward something which all the workers you represent can transition to? Work with the state, the six local members that are up there in the northern suburbs and the two federal members that are up there. I heard in earlier evidence today that they are just forming some strategic plan now with the new minister, Minister Maher. Have you met with Minister Maher in the last day?

**Mr Smith:** First let me say—

**Senator EDWARDS:** No, I have asked a question.

**Mr Smith:** I am not going to apologise for answering Senator Carr's question.

**Senator EDWARDS:** I have asked a question.

**Mr Smith:** You made a statement before that.

**Senator EDWARDS:** Have you met with Minister Maher about the strategic plan that he has now embarked on for the redeployment of jobs for Holden workers in South Australia?

**Mr Camillo:** The situation is that the workers at Holden were told—

**Senator EDWARDS:** Mr Camillo, have you met with the minister?

**Mr Camillo:** that they would find good jobs and better jobs by the Prime Minister.

**Senator EDWARDS:** So you have not met with the minister yet?

**Mr Camillo:** Let me tell you that I am on the task force in South Australia.

**Senator EDWARDS:** Mr Camillo, have you met with the minister?

**Mr Camillo:** I am on the task force in South Australia.

**Senator EDWARDS:** You have not met with the minister.

**Mr Camillo:** Let me tell you that I have been on the task force in South Australia with Greg Combet—

**Senator EDWARDS:** He is a new minister.

**ACTING CHAIR:** Senator Edwards, can you allow the witness to answer the question.

**Senator EDWARDS:** We can come and have a stage show, but let us get down to you putting jobs back into the frame.

**Mr Camillo:** I can assure you that I am on the shop floor—

**Senator EDWARDS:** You do not need to lecture me—

**Mr Camillo:** more times than you are, listening to what workers and their families are going through right now.

**Senator EDWARDS:** I listen to it every day, Mr Camillo.

**Mr Camillo:** You are not on the shop floor.

**Senator EDWARDS:** You are not the only one who talks to South Australian workers.

**Mr Camillo:** You are not in the ivory tower. You go down on to the shop floor. I will give you the opportunity—

**Senator EDWARDS:** I have been on the shop floor.

**Mr Camillo:** to come and talk to the GMH workers, or the component sector—

**Senator EDWARDS:** I have been in component manufacturers.

**Mr Camillo:** because the component sector are the ones who are going to suffer out of all this.

**Senator EDWARDS:** Have you met with the new minister about your concerns?

**Mr Camillo:** I meet with ministers all the time in regard to our concerns.

**Senator EDWARDS:** Have you met with the new minister about your concerns?

**Mr Camillo:** I get brushed off every time I go anywhere near the coalition government.

**Senator EDWARDS:** No, the minister, the state minister, Minister Maher. Have you met with Minister Maher on this issue?

**Mr Camillo:** I am letting you know that Minister Kyam Maher—

**Senator EDWARDS:** It is a simple question.

**Mr Camillo:** I invited him to our shop stewards seminar a couple of weeks ago, and the day before I met with—

**Senator EDWARDS:** Don't get cross with me.

**Mr Camillo:** Let me tell you. I met with Kyam Maher and I said to Kyam Maher: 'I want you to address the shop stewards. The key issues are the automotive industry; the key issues are the ATS, and so on.' So I have met with Kyam Maher.

**Senator EDWARDS:** And has he got a plan?

**Mr Camillo:** I have explained to him. Of course he has.

**Senator EDWARDS:** What is the plan?

**ACTING CHAIR:** That is probably a question you should have addressed to the minister. Senator Xenophon has—

**Mr Camillo:** My response to you, Senator—

**Senator EDWARDS:** This is just a union—

**ACTING CHAIR:** Senator Xenophon, I think, has a follow-up question.

**Senator KIM CARR:** He is actually trying to answer my question.

**ACTING CHAIR:** All right.

**Mr Camillo:** Why would Dave and I have let our members go through some really horrendous emotional and financial difficulties going through the variation if we had never believed Holden was going to stay here? Do you reckon that Dave and I never sat down? Not once but twice before we went to the workers—we sat down with Mike Devereux when he told us; I went away, looked at everything and saw what was happening around the world, and we met with Mike Devereux the second time. So when we went to the workers we knew exactly what

was going on, and I can tell you now that they were 100 per cent committed to staying in Australia. They were 100 per cent committed. Every day when we negotiated that variation, they were committed to staying in Australia.

**Senator EDWARDS:** Until they announced that they were closing.

**ACTING CHAIR:** Senator Xenophon has the call.

**Senator XENOPHON:** I have a couple of questions in relation to Senator Carr's line of questioning. Firstly, Mr Camillo, you made a very interesting comment that a billion dollars for effectively what is the Commodore or the Commodore equivalent is now going to be spent in Germany. I am just trying to clarify. Are you saying that that is money that would have been spent in Australia?

**Mr Camillo:** What I am saying is that, with the \$1 billion for a 10-year plan, don't you think we asked, 'Show us a plan of what you're going to do'? As you know, \$200,000 was spent in trying to upgrade the body shop, getting ready to put the new model in place. They kept engineers in place. They could have retrenched them but they did not, because it was all about keeping those people in for the two new models. One billion dollars over 10 years was what Mike Devereux had. Detroit gave the okay to invest that money in Australia. My understanding is that that \$1 billion has been reinvested into Germany, who were producing a Commodore.

**Senator XENOPHON:** Perhaps the secretariat could get more information on that. You talked about productivity, and I know, having visited the plant on a number of occasions, that there have been leaps and bounds in productivity improvements. Can you tell us, on notice, what the comparison is in terms of productivity between a German plant and an Australian plant for General Motors? Again, you can take it on notice. My understanding is that we are up there with them in terms of reasonable comparisons.

**Mr Camillo:** I would like to take that on notice.

**Senator XENOPHON:** I think I have seen some figures from the Productivity Commission where they talk about manufacturing and the like, but I do not know if it actually gives a fair comparison of the levels of industry support in various countries, because it seems to me the Germans do have a fairly comprehensive framework of manufacturing support.

**Mr Camillo:** I would like to take that on notice and get back to you in regards to that. We have got some good details on that.

**Senator XENOPHON:** Thank you. They were my supplementaries, Chair.

**Senator KIM CARR:** If I could continue with my line of questioning, there is no doubt that the allegations concerning whether or not the industry would have gone are quite important to the deliberations of this committee. Given the government's claim that this was an automatic process, the dispute is whether or not this was a deliberate policy to actually force General Motors out of Australia. Having said that, I would be interested to know what, in the union's view, is now required to sustain the automotive industry in Australia, to attract new investment so that we have a continuing automotive industry in this country.

**Mr Camillo:** Firstly, in regards to helping workers retrain, re-educate and find new employment, there is not enough money to go around. Compared to what happened at Mitsubishi—and we made some failures, all of us, in regards to that—we work out roughly there is only about \$2,000 per worker for career counselling, financial advice and looking at career progression. We are way, way short of money. There is not enough money. The other key issue here is that there are a lot of people in the components sector who will get no money at all. The state government was putting in \$60 million in regards to diversifying the components, new business, and maybe about \$7 million retraining people. It is only those components with more than 40 per cent that provide products for the automotive industry that will get a bit of money. The rest, who will lose their jobs, will get no money at all in regards to retraining, career progression and so on. So we need a hell of a lot more money for these people to be able to be retrained and find other employment.

The key issues I am looking at from the union side of it include the submarines in South Australia. It is not just about building submarines; there are also the second-, third- and fourth-tier suppliers in regards to submarines. The other one is the L400. That is a huge possibility of us producing those L400s in Adelaide, in South Australia.

The other thing is that I do not want to see training providers come down and train people to become forklift drivers, to get a forklift driver's licence, when there are no forklift driver jobs available or truck driver jobs. I have seen too many Mitsubishi workers get a forklift certificate or a truck driver's licence and still not be able to find employment. These people have got to be trained, educated to find full-time employment. At this stage, there are the areas of aged care, agriculture, mining and so on, but it is still very, very difficult. It needs all players working together, and we are not all working together in regards to this.



**Dr Skladzien:** I would just like to add that there is a question of support for industry diversification—in terms of products they produce, in terms of markets and the rest of it. The government's response to the closure has been to announce a growth fund. In that growth fund, there is a \$20 million diversification program. If you read the fine print, \$17 million of that is from the previous government auto supply chain diversification program, the Automotive New Markets Program. In response to the potential closure of the entire supply chain, this government has announced \$3 million of new diversification support. That, in our view, is woefully inadequate and, quite frankly, an insult, really. How do you come to a conclusion that you should spend less money on industry diversification in response to one of the largest industry negative shocks we have seen in this country than you do on a single lawyer in the trade union royal commission?

**Senator KIM CARR:** On the difference between these two funds—this \$20 million that you talk about and \$17 million taken from the old Automotive New Markets Program—can you tell us what you understand to be the difference in the eligibility criteria? Has there been a narrowing of the eligibility criteria for that particular fund in your assessment?

**Dr Skladzien:** I believe that there has been—and this is based on, I would say, circumstantial evidence. So I would not—

**Senator KIM CARR:** I have the government guidelines in front of me.

**Dr Skladzien:** Well, there you go!

**Senator KIM CARR:** It is a bit more than circumstantial.

**Dr Skladzien:** Yes, I suspect that your familiarity with the guidelines of the new program is probably greater than mine. But I would say this: it is not a question of 'there is no money'. Last week, we had the government announce the pulling back of the bill to \$900 million of money in the ATS. The ATS is a program designed to support a motor vehicle production industry. It is not designed to support the diversification of the supply chain. It is not designed to support the aftermarket auto manufacturers. It is not designed to find new markets or to help firms find new products, upgrade their technology or any of these things. It is designed purely to produce cars. The prospect that we are facing is a closure of an entire supply chain—tens of thousands, or over 30,000, jobs in the supply chain. We have this money and we have this program, and the goal of that program has been abandoned.

We can argue about whether it was abandoned when and by whom. In my view, GM made it perfectly clear that they wanted to stay in Australian manufacturing. Mike Devereux made that perfectly clear on the very day that the Treasurer rose in parliament and, again, in my view, disgraced himself and Australia by goading a multinational into leaving the country. I was there in that room where Mike Devereux provided evidence to the Productivity Commission, and I was there standing just metres away from Mike Devereux when his advisors notified him of the Treasurer's performance just minutes earlier. There was a very clear and palpable look of shock on the man's face, as you would expect. It is an example that is unprecedented—at least in my knowledge. Putting that to one side, the question now is whether the government is serious about diversifying the supply chain, saving jobs, maintaining industrial capacity, maintaining skills and maintaining technology. We have absolutely no evidence that the government is committed to doing anything besides allocating \$3 million of new money. And I will put to you—

**Senator EDWARDS:** What have you put to them?

**Dr Skladzien:** Through various submissions and various processes, the latest one being a preliminary submission to this inquiry, we have put proposals as to the types of changes required in the ATS. The first and most urgent proposal is a change in the rule which means money in ATS stage 1 cannot be carried over to ATS stage 2, which begins at the next financial year. If that is not addressed, then the accumulated underspend of the ATS will be lost in returned to the budget.

**Senator EDWARDS:** I get it. But what are you going to do with the money?

**Dr Skladzien:** What am I going to do with the money?

**Senator EDWARDS:** What are you going to do with the money?

**Dr Skladzien:** I do not do anything with the money. It is the government's job to design a program to support the transition in the industry.

**Senator EDWARDS:** The government is a government that will rely on the unions, the industry—

**Dr Skladzien:** The unions will not receive any of this money.

**Senator EDWARDS:** No, no. I am talking about the broader industry. We have just heard from the component federation. They are sort of catching up. They are good guys, too. They are catching up with all of this

and they have not put anything to the minister. You are arguing that we need the carryover funds. I need to know what you are going to do with the money. You cannot say you want the money and then say you do not what to do with it when you get it.

**Dr Skladzien:** I understand your question and I apologise for the confusion. What we propose is outlined in our submission in some detail. First of all, we need to change the object of the ATS funding from a program that supports the production of a cars to a program that supports the production of cars until they leave and meanwhile and for longer supports diversification of the supply chain. We need to expand the eligibility criteria both in terms of firms and in terms of what activities are supported under the scheme.

We need to make sure that the scheme will support companies in diversifying into new products, into research and development and into things that are not automotive components, necessarily. They may be automotive components that do not necessarily go to Australian motor vehicles producers, because we all know that they will not be here forever. There is a whole list of proposals, ways and necessary reforms that we view as necessary to make the ATS work, to save jobs, to modernise the industry and to save as much of these firms and these jobs as possible.

**Senator EDWARDS:** When are you getting all of these suggestions to the minister? This is very good evidence, by the way. This is what we want to hear. We do not want to hear the political partisan rants.

**Dr Skladzien:** Yes. This has been provided in the submission in written form and in oral form to the legislative inquiry into the ATS amendment bill. It has been provided again to this inquiry verbally right now, obviously, and in written form in our submission. Again, this is a preliminary submission. I do note that the final submission is not due until May, so there will be further detail later. We have spoken to industry and other stakeholders and we are in fierce agreement about the need to reform the ATS. We are in fierce agreement about how you need to reform the ATS. I would also point you to the Australian Automotive Aftermarket Association. They have a very good point that they have essentially been ignored as part of the automotive manufacturing industry.

**Senator EDWARDS:** By their own evidence, they are quite profitable and going okay. I agree that they should be part of this whole thing, because they are also manufacturers. We want to have a manufacturing industry. I am with you. But the minister does not know about any of this yet, does he?

**Dr Skladzien:** Which minister? The federal minister?

**Senator EDWARDS:** Yes, of your plan. He certainly does not know anything from the new South Australian minister, because he is developing his strategic plan.

**Senator KIM CARR:** What happened to the Automotive Industry Innovation Council?

**Dr Skladzien:** Before I answer that, I will answer the previous question. As the Minister for Industry and Science, when there is an inquiry into his bill, I would assume that the minister is familiar—he makes himself familiar and his staff make him familiar—with the submissions into the inquiry into his bill. I would give the minister the benefit of the doubt and presume that he is familiar with our propositions. I find it a little bit odd that you say that he is not familiar with this.

**Senator EDWARDS:** I am not saying that he is not.

**Senator KIM CARR:** I thought that was exactly what you were saying. You ought to check the *Hansard* after this.

**Senator EDWARDS:** Was he aware of it?

**Dr Skladzien:** I do not know. I have not talked to the minister about whether he has read our submission or not, but I would assume so. It is a little bit that disturbing that you would not assume so.

**Senator EDWARDS:** Let's assume that you are right. But you should never assume anything in this business.

**Senator KIM CARR:** No, you should not! Now, the Automotive Industry Innovation Council, what was that for? How often did that meet with the minister? Do you remember those heady days?

**Mr Camillo:** I am not too sure whether it was quarterly or monthly, if I recall going back.

**Senator KIM CARR:** Did you meet regularly with the minister as part of the innovation council's deliberations?

**Mr Camillo:** Yes, we did. We got plenty of information and good feedback.

**Senator KIM CARR:** So there was a formal process. What has happened to that process?

**Dr Skladzien:** I believe 'has gone the way of the dodo' is the appropriate phrase.

**Senator KIM CARR:** That is right. It has been abolished by this government. Thank you.

**Senator MUIR:** An area that was nearly touched on several times, but it seemed to get quite political, was the AMWU recommendation to the committee to establish a bipartisan working group of senators working with industry and unions stakeholders to develop new guidelines for the reformed ATS. Do you want to elaborate on that a little bit more for the record?

**Dr Skladzien:** The AMWU have certain areas of expertise, and certain areas of expertise we do not have. We do not presume that we are experts on how to draft guidelines for programs or how to draft legislation or anything else of that nature, but we do recognise a big policy gap when we see one, and this is a big policy gap. So our proposition is that, since there is an existing program, the ATS, that program should be reformed, as we have discussed.

The process of how you decide exactly how to reform the ATS is a very important question. We would just make the proposition that that process should be as inclusive, should be as representative and should be as transparent as possible. It should include the AMWU, and it should include industry representatives, and it should include representatives from both federal and state governments. As long as everybody sitting around the table has the same goal in mind, and that goal is to design a program to assist in saving as much capacity, saving as many jobs and modernising as much of the industry both in South Australia and the rest of the country as possible—if we all agree with that goal, that purpose—then I think we can all make perfectly good propositions to reform the ATS without the need for fireworks and fanfare.

**Senator MUIR:** If we can achieve that! On a completely different topic: is it likely that international manufacturers are going to use their own product from within a close radius, which therefore may affect industries here that would want to try to expand and get into their market?

**Dr Skladzien:** Could you rephrase that? I am not quite sure what—

**Senator MUIR:** You seem to think it is likely that international manufacturers—somebody producing a car elsewhere, say the US—are likely to use parts from within their local vicinity. Does that have a chance of ruling us out of being competitive?

**Dr Skladzien:** I think the short answer is yes, and I will explain why I have that view. It is not only my view. What we have seen in terms of the evolution of a modern, advanced, industrial manufacturing industry in the last decades, quite frankly, is increased specialisation of capability and capacity and globalisation of supply chains. Of course, we hear 'globalised supply chain' all the time, but what does it mean? It means that a large multinational company are in a position where they can take the best of the best globally and put it into their supply chain.

It is a relatively simple thing. The transport and transactions costs of this type of supply chain have gone down, thanks to technology and the rest of it. So we are in a position now where a country that has very specialist capabilities in particular areas is able to have a global market for a local product. We see this not just in the auto supply chain, obviously; we see it all around the place. Australian wine, the wine that gets produced just down the road or up the road here in South Australia, is prized the world over, and it is prized the world over because we live in a global economy.

There is no reason why our capacity and our expertise in the auto supply chain—design, materials, fuels; the list goes on. If you want to read the list, it is explicitly given in our submission. There is no reason why these firms cannot use global supply chains and essentially have access to a global market for their products. More to the point, there is no reason why firms that are not there yet cannot be lifted up through a policy process to then enable them to access these global supply chains, build capacity, build skills, build technology and build jobs here. There is no reason.

As John outlined earlier, Germany have now had a billion-dollar investment in their auto industry. Germany are a hugely high wage and cost economy. The reason why Germany are an advanced manufacturing economy that exports more and more manufacturing goods to China every year is that they compete based on quality. They compete based on service. They do not compete based on a race to the bottom on wages. If they did, they would lose. If we do, we will lose. We have one option, and that option is quality technology innovation, and that is something that requires government support.

**Mr Smith:** Senator, if you read the Ford submission to this inquiry, part of that talks about Ford last year bringing in a number of their suppliers and talking to them about their global supply chain and also then taking them over to—I think—Shanghai to have a look at the Ford operations in China. And then later that year they took them over to Detroit to talk to people over there about their global supply chain. So there is an opportunity to get into those markets, and certainly, if you have a look at trading in US dollars at the moment, 76c this morning

makes you suddenly very competitive. The wages go from there to there when you measure it in US dollars. So there is an opportunity, but those opportunities need to be grasped.

The money that is in the ATS at the moment could be put to very good purpose to help those companies get into those markets. If you think that last year, I think, in the United States they produced 16 million cars, it is an enormous market, and they also have an enormous truck market which is quite attractive for Australian firms as well. If you can get in there and you can get a small chunk of that market, you can be a very large producer and a very large employer of Australian people, Australian workers.

**Senator MUIR:** Essentially, that ties back to the very first question, which was about the bipartisan working group—if we could get all those ideas together and try to create policy around it. Thirdly, on a totally different topic again, do you think states could play a part in reducing red tape to help prop up the aftermarket industry to fill the gap that we might not actually get from international sales, such as by a very clear national code of practice that all states can follow so everybody knows the rules and regulations around what they can do in automotive?

**Mr Smith:** Certainly from my perspective I have always believed in buying Australian, and there are things that you can do to help support the procurement of locally made vehicles. That has always been one of those areas. It is unfortunate, because not every state or even local government level in Australia had that sort of 'buy Australian' policy. It is unfortunate because it would have protected us somewhat against the fragmentation that went on within the local markets.

If you have a look at the submissions to the Productivity Commission and go through them, there are lots of examples that were given in the various submissions presented that talk about what you can do in terms of red tape and what you can do to try to get locally built product into the market in a competitive way. If you have a look at certainly some of the examples given in Korea—in Korea, if you ever bought an overseas or a foreign car, their tax office went through you like a dose of salts, and those sorts of things. So the behind-the-barrier protections are there. The classic example is when Ford tried to put a Territory into Thailand, and then almost overnight the car doubled in price because they put a tax on the engine capacity of that vehicle.

**Senator XENOPHON:** \$105,000—

**Mr Smith:** Yes, just crazy. My view of life is that it is not an equal playing field. We open up and we introduce free trade agreements, but it is still not fair. If your competitors are going to play like that then you have to play the game with them. So I agree. I think there are a lot of things that you could do. I am not in a position to tell you exactly what they are, but there are a lot of ideas out there to do that sort of thing.

**Dr Skladzien:** Can I add one small thing to that, just on the issue of behind-the-border barriers. If you look at Japan, the proportion of Japanese-made cars in the Japanese market is over 95 per cent, yet Japan has zero tariffs on car imports. And then you throw in the last bit of information, which is that Japan's wages are very high relatively. How do you square these three facts together? There is only one way. Of course, the answer is that, if you buy a foreign car in Japan, an imported car, you are guaranteed to be audited by the tax office, amongst other things.

**ACTING CHAIR:** As there are no further questions, gentlemen, thank you very much for coming in. The committee took the opportunity to visit the Elizabeth plant this morning. For my own part, I would like to formally put on the record that I commend your union and your members for their efforts, considerable as they were, to try to maintain the industry in South Australia and in fact in our country. I do appreciate what the union has done.

**Mr Smith:** Our members love the automotive industry. Once they get into it and they have been there a couple of years, they tend to stay for very long periods of time. I have spent a lot of time talking to them over the last 12 or 18 months. Other than the fact that they are very concerned about where their futures lie, they are just devastated that they are not going to be able to continue to work in the industry that they love.

Moving away from General Motors for a moment, at Toyota the Japanese are astounded at this point in time because of the quality and the efficiency; all of the measures that are coming out of the Altona plant as we speak are world-class. The Japanese are just shaking their heads. They cannot get their heads around the fact that it has been announced that that plant will be closed, yet all of those metrics are where they are. It is just a great shame—and I will be political again here, because it is true—that this current government did not back the industry in. It is a tragedy, because at US\$76c, it is in a position to make a lot of money again and to reinvest that money into Australia and into jobs.

**ACTING CHAIR:** Yes, it is a shame. Thank you very much, gentlemen.

**ROOS, Professor Nils Goran Arne, Private capacity**

[15:57]

**ACTING CHAIR:** Thank you for appearing before the committee today. I invite you to make a very brief opening statement, should you wish to do so.

**Prof. Roos:** Thank you, Chair. A country's ability to create wealth is directly a function of the complexity of its economy. This is well established in all academic and practical studies. That means that one of the key things you have to ensure as a country is that you have an existing and a constantly increasing economic complexity. 'Complexity' here means that you make things—services or products—that require many inputs, so something with five suppliers is only one-tenth as complex as something with 50 suppliers. So it is not about the knowledge itself—I can go out and consult as a private individual and have no input; that has zero complexity. So it is about the complexity of the interlinkages.

Different industries have different complexities. The automotive industry has a high level of complexity. Countries like Germany and Japan have extraordinarily high complexity. They have a complexity which is something like 200 per cent the complexity of Australia. That means that their ability to create wealth is substantially higher. Short term, this has an impact on our ability to have the wealth that we want to have. Long term, it means that if we do not change our economic complexity, our ability to generate future wealth will decline. You tend to see that, firstly, as a complete reduction in the tax base and then, over time, you see it by the inability to grow activities. Once you lose them, it is very difficult to get them back.

The relevance to automotive of this is that automotive is the largest chunk at the moment of the Australian industrial structure with the highest level of complexity. That means, when that disappears, Australia's complexity will be reduced by about 10 percentage points. That means that Australia's strategic ability to generate wealth, unless this is replaced, is reduced by about 10 per cent, and that has a direct impact on our ability into the future to get the revenue we need to pay for the good life we want to have.

So, I do think it is important to have, sometimes, a broader picture of what the implications of these things are and what one would have to do in order to replace their reduced capacity for economic complexity with new capacity for economic complexity, which is actually quite substantial in these terms. That was my introductory statement, Mr Chairman.

**ACTING CHAIR:** Thank you.

**Senator XENOPHON:** I will just ask a couple of preliminary questions and, Professor Roos, you may want to take them on notice. You may want to look at *Hansard* as the committee heard evidence earlier this week from the Federation of Automotive Products Manufacturers in Melbourne. The President, Mr Griffin, said that on the best case scenario, if the \$900 million was spent in the automotive transformation scheme wisely and in a targeted fashion, there would still be job losses in the order of one-third of those component manufacturers—that is 11,000 direct jobs. Earlier today we heard from the state government where their evidence was to the effect that, given the structure of the industry here the larger multinationals involved in the component sector were looking at a 20 per cent survival rate in terms of the number of jobs that could be saved. Can you reflect on that and maybe comment on that in a preliminary fashion, but also I am still trying to understand exactly how many jobs are at stake including the multiplier effect. The state government submission says:

... 33 automotive Tier 1 companies in South Australia, employing 3,719 people,

.....

In excess of 700 companies employing 28,000 to 32,000 people ... Tier 2, 3 or 4 ...

The state government says that we are looking at 13,000 job losses including, as I understand, the multiplier effect. Can you try to unravel all these figures and the short survival rates as well?

**Prof. Roos:** Thank you for the question. It is of course a wonderful question. Let me try to unravel it. When you are looking at the jobs that were lost, I think we have to differentiate within a couple of groups before we get down to the numbers. The first is you have to differentiate, let me call it, the physical supply chain, which are the made things that go up the supply chain, and the service supply chain, which is frequently forgotten. It goes from everything from the specialised account, to the lawyers, to the service industry and down to the person that tops up the vending machine on the shop floor. We must not forget the second bit, and that is actually quite large. The service industry is almost as large as the widget supply chain in these areas, and people tend to forget that. There is almost a one-to-one relationship.

The second issue we have to look at is around the categories of firms. The first category of firms are subsidiaries of multinational companies. Basically they fall into two groups: those that have a strategic reason to

stay here whether the automotive industry is here or not, and of course they will continue; and those who have been here—and I do apologise for the wording—under sufferance and will gratefully have the opportunity to disappear off because they will be elsewhere. The majority will be in the second category rather than in the first.

The next group we have are those companies that have already diversified. They are Australian firms and they are local suppliers. They have already diversified their business and have a diverse business up and running. They will be able to survive this transition, albeit they will probably have a new-looking shape, so they will lose some business and hopefully build up the other ones, but they do have a cash flow already on diversified activities. They are likely to survive. In statistical numbers they are round about 15 to 20 per cent of the existing suppliers, give or take.

The rest you have are firms that have not yet commenced diversification for many reasons and it is highly unlikely, if any funding stops at 2017, that they are going to be able to make it. The reason is the average duration of diversification is five to seven years. You have to come up with something, you have to develop it, you have to develop your market and you have to get your first sales. That is a really long period. In order to do that you need to have something to live on. So all the investments you have and all your ongoing costs have to be covered by something else, which is why it is called diversification. You have an ongoing business that funds the activities that you are developing. If that ongoing business disappears before you have achieved the probability of a positive cash flow on the side you will go under.

Without giving you the specific numbers, I would probably stand more closer to the state government's percentage number than I would stand to FAPM's percentage number.

**Senator XENOPHON:** What about overall job losses?

**Prof. Roos:** If you look at the industry it includes the service components. It is going to be somewhere in the vicinity, in round numbers, of 200,000 jobs, round about, across the country. Not all of those will be impacted, because if you are a lawyer, for example, if you have enough time and are told to go into another domain you may be able to use that. So you exit the automotive domain.

**Senator XENOPHON:** Not in South Australia. It is very groovy for you if you are in South Australia.

**Prof. Roos:** That's right! You may be able to then go into something else. So it depends a bit on your base capability; whereas, if you are a person who has only one task and that task is linked to something that disappears, your ability to find something else would be very low. So there is going to be a high level of job losses there. I would estimate in numbers that you are probably looking at saving, give or take, 40,000 to 50,000 jobs out of the 200,000 directly. You are looking at 150,000 who are going out of those areas and who may or may not find jobs in other domains, normally at lower salaries. My estimate is that around one-third of those are likely to find some type of activity within a reasonable time, so that means we are looking at probably up to 100,000 people who will not have a job in the complete supply chain structure.

**Senator EDWARDS:** Across Australia?

**Prof. Roos:** Across Australia.

**Senator EDWARDS:** Because otherwise everybody in South Australia is going to start jumping up and down.

**Prof. Roos:** No, it is across the country.

**Senator XENOPHON:** I am grateful for Senator Edwards's clarification. Are we looking at 10,000, 15,000 or 20,000 jobs in South Australia if nothing else—

**Prof. Roos:** Yes, you are looking at that. My estimate is around 14,000 sustained job losses here. Then you have probably another 10,000 or so which are doubtful. So you are looking at those areas.

**Senator XENOPHON:** What about the number of people who are earning less?

**Prof. Roos:** I would say that the absolute majority of this would have a salary level which is substantially lower than the one they have now.

**Senator XENOPHON:** So it will be 30,000 or 40,000 people earning less money?

**Prof. Roos:** Yes.

**Senator XENOPHON:** So 10,000 to 15,000 job losses, another 12,000 doubtful and another 15,000 or 20,000 people earning less money.

**Prof. Roos:** Yes.

**Senator EDWARDS:** A follow-up question: how many people lost their jobs at Mitsubishi?

**Prof. Roos:** I would have to take the specific number on notice, but there is a specific number there. I think the issue is that about one-third never really found another job.

**Senator EDWARDS:** So what has happened to them?

**Prof. Roos:** I cannot answer that question. They do not have a job, so I do not know what they do.

**Senator EDWARDS:** How do you know that they do not have a job?

**Prof. Roos:** There have been follow-up studies around that. I would refer to studies made by the University of Adelaide—for example, John Spoehr's studies on these areas.

**Senator EDWARDS:** Have you drawn anything from that experience?

**Prof. Roos:** Yes, there have been some learnings from it. What happens is normally what happens in any of these situations: the people who are in demand in a labour market that is looking for them will tend to exit quite early, and they will go on and find jobs wherever there it is they are offering them. Then there are people who are recipients of whatever support, retraining and grants are there, who then go over. What you find is, I would assume, around 20 per cent probably jumped early and got a job which is more or less similar to what they have. And you have to remember this was in good times; when Mitsubishi closed, the economy was good in Australia. Then you have about 40 per cent who probably got a job on substantially less salary than they had and around one-third who really did not end up with a job.

**Senator EDWARDS:** Of the third that did not get a job, is it possible that they were long-term employees who were looking to retire and took a redundancy package? How much of that is it?

**Prof. Roos:** I cannot answer that question, but that is possible. I am sure those numbers would be available.

**Senator EDWARDS:** Yes. I am just interested in quantifying the experience of Mitsubishi closing when Senator Carr was minister and whether we can draw anything out of that experience. Your referencing of the Holden issue is applying the same principles.

**Prof. Roos:** It is basically applying the same principles, taking into account that the surrounding economic situation for the country is not one of growth and looking for employees but rather one of contraction where there are fewer jobs of this calibre available in the industry.

**Senator EDWARDS:** Okay, thank you.

**Senator KIM CARR:** You have been active as the Chair of the Advanced Manufacturing Council in this state. You have various advisory roles and various academic positions in government agencies and universities here and internationally. You are a thinker and resident, and I have always enjoyed this. It is a particularly South Australian idea, I think.

**Senator EDWARDS:** We think a lot here!

**Senator KIM CARR:** They wouldn't put a lot of money into that in Melbourne, I wouldn't have thought! But my point is you have very wide experience and expertise. What do you think it takes to attract new investment firstly into automotive and secondly into advanced manufacturing? What do we have to do to get new investment in this country?

**Prof. Roos:** Thank you for the question. I think one has to start by looking at it from the point of view of the company. Why would a company come to Australia? They would come to Australia because there is something here that they could not get anywhere else, be it a specific market, be it access to some specific knowledge or something like that. So there would have to be something here they could not get. For example, it would be possible to attract a company that would service activities around productivity improvement in the mining industry to Australia because we have a very large potential market for them. We could also attract a company that would want to set up a development activity around certain pharmaceutical and medical devices activities because we have large research activities around this domain in, for example, Melbourne. So you have a specific link.

If you are looking to automotive, if I may I would like to broaden the area a little bit more. People tend to talk cars; I tend to include things like trucks, buses and activities like that. One must not forget that we will have the odd automotive player left. You have a truck assembler up in Queensland that will be left after this. We have some bus activities. We have a few things—not a lot—around. So to attract somebody here we would have to offer them three things. We would have to offer them a market which is very difficult to find somewhere else, we would have to offer them access to knowledge which is difficult to get somewhere else or we would have to pay them a lot of money to compensate for whatever it is that it would take to go here. If I look at an automotive situation, we could probably approach a company who would be interested in some form of niche production—a four-wheel drive vehicle or something along those lines—and say to them, 'Here are the boundary conditions

which will make it possible for you to move here with a plant because you are looking to put a plant somewhere else—you do not already have one for these purposes—and we also have a market that would absorb a sufficient number of these vehicles to make this a trial market for you before you use 80 per cent of it for export.' That requires quite a complex conversation with these companies. It requires a conversation over a reasonably long amount of time and requires these companies to have the confidence of a 10-year continuity of policy environment.

I will expand on that. When you sit as a large multinational and make a difficult decision about investing in a country like Australia, for example, you need to have 10- to 20-year certainty. If that certainty is not there, because you have seen a flip-flopping of policies from one side to the other, you will not say no; you will do what is the easiest thing to do in a board meeting: you will say, 'We cannot take the decision at this board meeting; let's push it to the next one.' And it will just keep going like that, so it will never come to a decision but there will never be a no.

I am not sure if I have answered your question correctly.

**Senator KIM CARR:** Part of the purpose of this inquiry is to establish what alternatives are available, and it is important to hear views such as yours if we are to consider the terms of reference thoroughly. You have particular international expertise. Are you familiar with what has happened in England?

**Prof. Roos:** Yes I am—a very successful reintroduction of the automotive industry.

**Senator KIM CARR:** Why was that, in your judgement?

**Prof. Roos:** Firstly, I think it was a realisation on the policy level that the automotive industry actually is a critical component of most advanced manufacturing countries. It has a huge impact through its network of both employment and, primarily, productivity-driving innovations. When they saw they were losing this industry, the decision was taken to ensure that it was not lost, and a discussion with the automotive industry made them realise that the industry required—I will use the brutal term—subsidies. It is frequently called co-investment, but it required subsidies in order to come in. The decision was made by the government that actually the subsidies requested were good investments for the country in order to make these things work. So you look at this as an investment proposition rather than as a cash outflow proposition. They did that and as a consequence now have, among other things, one of if not the world's most productive automotive plants. The government was involved in that in many dimensions—not only the co-investment or subsidy activities but also in issues about establishing local boundary conditions. For example, one plant was required to have one union rather than many, and they entered into discussion to achieve these things. So there has been a very successful outcome with these things, but it was grounded in the fact that the automotive industry is a fundamental component for the presence of other industries of high levels of complexity.

**CHAIR:** To follow up on the investment: what was the magnitude of the subsidy?

**Prof. Roos:** We are talking billions and billions for each of these establishments.

**CHAIR:** Can you give us some sort of context for that?

**Prof. Roos:** If I take that on notice, I can give you the exact numbers for each of those areas.

**Senator KIM CARR:** Would you do that?

**Prof. Roos:** I will do that.

**Senator KIM CARR:** The British have never been as transparent about these things as we have been, but my recollection is that the amount of money that we were spending was considerably less than what is being spent in the United Kingdom.

**Prof. Roos:** Substantially.

**Senator KIM CARR:** It would be great if you could do that. I am also interested in some of the work you have done with regard to Sweden, which also has experience like the United Kingdom. It is what you refer to as 'backshoring' in your more recent publications. Can you explain how that works and what you mean by that term?

**Prof. Roos:** Yes. Globalisation, of course, is a buzzword. What does it mean? Globalisation has four principal phases. I will take you through. The first phase is that you produce something and suddenly realise you can sell it somewhere else in the world, so you export. The opportunity of that is you can access a different price level and the people on the other side have a higher level of value that they are willing to pay for because you have something they want. Once you are out there, you discover it is actually cheaper over there, so you then decide in phase 2 to move a whole set of operations somewhere. You move your plant, call centre or whatever it is to another location. Then you start to deploy technology—primarily ICT—that allows you to break up your activities to very small component activities that you can spread out over the world to benefit from whatever it is



that is best of kind, best of breed in this area, and you can still coordinate them at a very low cost. That is the situation where most OECD countries exist with regard to most of their industries. So most of their industries are part of global supply chains coordinated in this manner.

When you do this, you sometimes work out that actually it was not a very good decision for many reasons. It could be discovering that I have most of my working capital tied up in components on ships, which are becoming very expensive, and I do not want to do that. I can find that my suppliers are not able to keep the consistent quality level that I require in what I do. I can find out that I have now separated development from manufacturing and that incurs a cost penalty of around 15 per cent. Or I can find that I have to be very close to universities to develop knowledge in a fast-moving area, none of which I have if I have moved all my stuff out there. That means that for many potential reasons you come to the decision to move things back. That has many names; one of them is backshoring. You can see that in, for example, the US, where the primary reason is lower energy cost, so the Americans have brought a lot of things back. They have not brought back exactly what they brought out, because things change over time, but they bring things back. And, by the way, one of the primary limiters of them today to bring more things back is the access to capable people, because they lost that capability in the time they had things outside the country.

Then you look at Germany, where this backshoring also takes place, and most of that takes place for the reason that the companies discover that it was the wrong thing to go out in the first place. They call it the issue that it could not be maintained, and it is about a four-year discovery process. So they are coming back into those areas. And you look at some of the Swedish companies, and they have come back because they discovered they need to be very close to universities to develop the knowledge that underpins their products in this area.

So that is the backshoring activity in globalisation. We do see a balance. Backshoring is still a relatively small percentage, but it is increasing. But it is horses for courses; what is the reason, and why do we want to do that?

**Senator KIM CARR:** And for many companies the initial move offshore was because of them seeing it as a price driver for their share prices. In the textile industry, for instance, Pacific Brands might be a case in point. The write-down on their book value has been substantial since they made the decision to export their production capacity. Is that experience one you are familiar with?

**Prof. Roos:** The vagaries of the market, although theoretically easy to explain, are not so easy to explain in practice. Basically, the theoretical argument is that the net present value of the earnings at the present levels plus the probability of growth—net present value once, plus the value of debt—explains the share price. So, if the share price goes down, if the view from the market is that one of those has gone down, either the value of equity and debt has gone down or you have lowered your earnings level and that issue goes down, or your growth forecast has gone down. What it is in that specific company, I cannot say. But, for example, if you move to a country where the economy is growing very fast and you are in a business that mirrors that economy, if that economy starts to slow down, then of course your future growth potential is perceived to follow that, and that will have an impact back. So, if you went to China to serve the Chinese market and the Chinese economy slowed down, then it is expected that, if nothing else happens in the world, if everything else is equal, your share price will be declining.

**Senator KIM CARR:** Thank you very much, Professor.

**Prof. Roos:** May I just add one comment, if I may.

**ACTING CHAIR:** Yes.

**Prof. Roos:** I will do that as it relates to my starting point. It has to do with what we are left with in terms of high complexity once automotive has disappeared, because that is very important. What we are left with is basically defence related industries. That is very important. The defence industry has, for example, submarines, to take a proper issue—

**Senator EDWARDS:** Don't mention the 'S' word!

**Prof. Roos:** Yes. It has a higher complexity than automotive in this area. A domestic defence submarine industry, be it in the UK or wherever it is—it does not really matter—has about 10,000 to 15,000 people in their supply chain, about 1,500 suppliers, give or take; whereas a surface vessel has about 500 suppliers, give or take. What I have been somewhat surprised about in the ongoing debate is that it seems that we have not realised that, if we are going to buy 12 submarines—which is a huge amount, nobody else has bought that amount ever—it is very easy to create a production activity locally—forget all the other discussions—where, when you produce the 12th one, the first one goes to scrap, so you can have ongoing building. That means we can become the country in the world with a continuous build and the best capability in building large submarines. Nobody else builds large conventional submarines in this world, and that means that we can become an exporter. There are a whole host of

countries that are in request of these types of submarines. That means that we could establish an export-oriented, highly complex industry based on domestic production which continuously becomes better because it is highly sophisticated, which also earns it keep through export.

I think that that opportunity to build our economic complexity in that area is overlooked. That is around having a viewpoint of competitive advantage, not comparative advantage. If Singapore had solely worked a comparative advantage, they would still be a swamp, because you only do what you do and have a God-given right to do. Whereas, with a competitive advantage, you create your own future by creating things that you do not have. Why can we not create what we do not have, use the opportunity provided to us and become really, really good at a lot of things that will earn us the wealth that we need for our children to live at least as well as we do?

**Senator EDWARDS:** So would you embrace nuclear then, in this state?

**Prof. Roos:** Absolutely.

**Senator EDWARDS:** Thank you, Professor Roos. Hallelujah!

**ACTING CHAIR:** Thank you very much, Professor.

**HARRY, Mr John, Chief Executive Officer, Salisbury Council**

**KENNEDY, Mr Shaun, General Manager Planning, Strategy and Compliance, City of Playford**

[16:24]

**ACTING CHAIR:** Welcome, gentlemen. Thank you for appearing before the committee today. Would you like to make a brief opening statement?

**Mr Harry:** Thank you for the opportunity. The terms of reference of this committee focus on many aspects, but, most importantly from my local government's perspective, it is really about the ability of manufacturing to be sustained and to build a skill capability for either advance manufacturing or ongoing diversification into other industry sectors which actually demand that capability of skills and development.

It is predicated on ensuring in this northern area we have a diverse economic base which is not actually reliant on primarily one key sector. You might suggest in the Salisbury and northern area there are multiple sectors like Defence, automotive, et cetera. But when you look at the capability, they are the two primary sectors.

The other area of significant concern to our councils is the closure and the impact of that closure not only on the business structure in the north but also the social consequences of what that may look like, if no action is actually taken by state, federal, local government and, importantly, private sector investment in that area.

My final comment in relation to the imperative of this review—and ongoing—is the ability for taking a long-term perspective of the implications. The industry sectors that have been built in the north have had a long-term operation. The implications of a closure and its flow-on effects into local industry will be immediate and obvious from this point to closure, and so there is a critical need to manage the transition in the short term for job creation. But, ultimately we are looking to build a long-term foundation for job creation in multiple sectors and the economy of South Australia—but, importantly and quite parochially, from Salisbury and Playford's perspective—by saying: 'This is a future place for investment across a diverse range of economic bases.' Thank you.

**Mr Kennedy:** Thank you. I am here today as a strategic leader within local government in my community, but previous to that I have 20 years experience in high-tech manufacturing, so I can talk from both sides of the fence. In support of what John and Harry have stated, we are seeking flexibility in the deployment of the ATS fund to a broader industry transformation fund not only for the automotive supplier readjustment to new markets and potentially new products but also in the development of totally new industries and new products which Australia can be known for.

Skills development is another critical element of being able to harness that opportunity, and the introduction of new technologies through linking of universities to access funds and industry to de-risk the process of prototyping and bringing those new industries in. We were lucky enough to be part of a recent visit to the UK to see the experiences of their automotive transformation—which was not the whole industry, it must be said; it was only some manufacturers. The highlighted learnings of that experience were around providing speciality consultancy services to individual industries; the R&D process for industry and university together; supply chain management and development to ensure that, once an industry was identified for support, opportunities along the supply chain were investigated; and that this was a long-term, a 10-plus year investment, in high-tech manufacturing for that country.

Our recent research with the University of Adelaide in a paper, *Strength and Diversity*—which I understand you have—highlights a number of opportunities in Northern Adelaide: horticulture and associated industries; intermodal health; assisted technologies; medical devices; Defence precinct; which has previously been discussed; renewable energies; sport and recreation—but as an employer; urban regeneration to create civic pride, which is a key aspect of the social fabric of this community; and infrastructure that unlocks economic opportunities for the private sector.

These are the areas that we believe the fund could be expanded and utilised for. The National Growth Areas Alliance conducts research and it shows that, if you live in communities like Northern Adelaide, when compared to the national average, you are more likely to be unemployed—for Northern Adelaide, that is double the national average—and more likely to be employed in lower-paid work; you less likely to live close to home; and you are less likely to have higher education. What we ask for is that people living in northern Adelaide have the opportunities to become average Australians—not better, just average.

**Senator KIM CARR:** Can you explain what you see as the likely impact on your community of the closure of the Elizabeth plant?

**Mr Kennedy:** It will be devastating. The City of Playford was built as a satellite city with an industrial base. General Motors Holden was the lynchpin and key founder of that process. If you lived in northern Adelaide, you

either worked at General Motors Holden, a family member worked there or your neighbour worked there. Over time, that has deteriorated and is now coming to an end. The direct impacts will be enormous, but the flow-on impacts to social pride, hope, prosperity and the social fabric of the city will also be huge. The site itself is in the heart of northern Adelaide. It has for a long time been the beacon, the light, for opportunities for people. I do not have the direct numbers for what the impact will be. The University of Adelaide, through John Spoehr—who was here earlier today, I understand—could provide you with direct numbers. But the impact on feeling, morale and employment will be devastating. There is 13 per cent unemployment today. I would not want to guess what that number will be post closure.

**Senator KIM CARR:** Professor Spoehr talks of a \$29 billion hit to the national economy. How would you describe that in local terms? What does that mean for you?

**Mr Harry:** I cannot put it in dollar terms. I know our manufacturing base in GDP is around 22 per cent of our economy. Significantly, the manufacturing impact is centred around GMH, the supply park and then the second and third tier suppliers. Importantly, in the business context, a lot of the existing businesses have used GMH skill bases to drive their productivity improvements. That is a transfer of employment—being skilled by GMH. GMH are a provider of skills in technologies and lean manufacturing and those sorts of areas. That is being applied in other industry sectors. That will be a critical loss to the northern area.

The other agenda around its criticality is the R&D capability that sits in the universities and how that is applied to manufacturing and advanced manufacturing—and what that actually looks like. The loss of Holden from the automotive sector will have significant flow-on effects. Those drivers have led to the collaboration between the state government, the existing councils and the private sector to build an economic plan for the north, specifically, which looks at the implications of the automotive transformation and what opportunities in other sectors should be pursued and investigated—and at how to ensure that the synergy that existed between GMH and other companies continues to exist between, say, defence industries, food manufacturing, materials handling and so on. That is the leverage that we see as being absolutely critical from this transformation fund. The opportunity is there to fund automotive. Equally, there is the opportunity to use those funds to scale up other industry sectors which are genuinely reliant on automotive. It is not a quantum leap to look at utilising a fund which has a capability to drive those other sector developments. That could be in the context of automotive transformation and managing that change.

**Senator KIM CARR:** Do you have a view about the growth fund the government has set up? What do you think of it? How adequate is the assistance and how can it be improved?

**Mr Harry:** I think the growth fund—I think it is \$150 million in total with \$27 million or thereabouts to South Australia—is grossly inadequate. It is inadequate in the context of just looking at what the opportunities for future industries are. Automotive transformation has done a detailed assessment of the value chain, the supply chain and everything else around it. We have these other sectors like defence, which has a similar assessment. We do not know what the opportunities are that may be in other sectors like assisted technologies, the ageing and health structure, and food and horticultural. Those are the opportunities that are yet to be explored. They need to be explored in a short period of time. That means that, as opportunities arise out of those sectors, I believe you have to have access to a future fund which enables those to grow. It is speculative to say it is \$27 million now, or whatever that figure is. You have to have a capability to feed stock and grow these industry opportunities, which will ultimately assist private sector investment. It is not going to come from my council; it is private sector investment.

**Senator KIM CARR:** Have you been following the debate about the government's proposals to have a crack at the science infrastructure programs in the country as well?

**Mr Harry:** I have not followed that closely.

**Senator KIM CARR:** On the front page of *The Financial Review* today there is an article on NCRIS, which is quite important for universities in this state and which has direct industry links—the sort of work that you are talking about. That is another issue, but it does seem to relate to this whole question about the growth fund.

Are you aware of any proposals to get new investment in automotive in this state? Have you heard any discussions around niche motor vehicle production or automotive production more broadly, rather than just motor vehicles? Are you aware of any proposals at all to attract new players?

**Mr Kennedy:** I am aware of a niche car manufacturer; there has been some speculation about a plant of I think 300 vehicles per annum—

**Senator KIM CARR:** This is electric vehicles?

**Mr Kennedy:** I cannot remember the details to be honest, but there was a concept of speculation about that. The state government would be the best to ask about that process. As a state and as a sector we are also very keen about the prospect of military vehicles being manufactured in Australia and what ability there is to transform from one sector to another. I can tell you, as somebody who has worked in both those sectors, they are somewhat different, but there are opportunities for a transfer of skills.

**Senator KIM CARR:** I saw the speculation about the state government in *The Australian* today. I understand there is no South Australian government proposal at the moment to invest in that project.

**Mr Kennedy:** I could not say.

**Senator KIM CARR:** I also understand that there are three new entrants proposed for the ATS. There are some that have fallen off, but there are some new ones coming in. Has there been no discussion with you about any of those areas in terms of maintaining capability here?

**Mr Kennedy:** Not directly.

**Mr Harry:** If I could add to that, that has been one of the primary drivers to look at this collective collaboration to put together an economic plan that all key stakeholders have an understanding of what is happening. I can bring my procurement program to leverage, or what other assets we may have, as in the northern region. That is really the fundamental tenet of getting a common understanding. Often people make judgements and say that they do not need to know that, but there is real opportunity, because we act as a facilitator not only with the industry sectors but also with the community about making those connections. I think that is an opportunity which we are endeavouring to drive with state government. A significant question that sits around that is: what is the role of federal government in working in that area?

**Senator KIM CARR:** What is your answer?

**Mr Harry:** I think it is fundamental—they have to be absolutely involved and they have to be involved from the point of view that, clearly, there are financial frameworks, but there is also the accountability for delivery in terms of expected outcomes.

**Senator KIM CARR:** How adequate is that role at the moment?

**Mr Harry:** It is not in place at the moment. It has been talked about as an opportunity that needs to be pursued. It is, from my perspective, about saying: here are the funding frameworks. They can be put forward, but if there is not a context for understanding what we are trying to create in this agenda, they are formed not in a vacuum—it would be naive to me to say that, and ill-informed—

**Senator EDWARDS:** What are you trying to create?

**Mr Harry:** What are we trying to create?

**Senator EDWARDS:** Government should not really be telling you what you need; you should be telling government.

**Mr Harry:** I think it is not a one-way street like that. I think it is about saying, 'These are the opportunities we see—what can you bring to the table?' and it is about how we can then engage with business to say, 'Here is the collective framework.'

**Senator EDWARDS:** Has that happened with the state government?

**Mr Harry:** That is what we are building on. To date that engagement has been pretty positive. Fundamentally, there is an understanding by all quarters that it is the private sector that is going to make this investment, and it is central to and actively engaged in this process.

**Senator EDWARDS:** Does this go back to the whole constitutional thing—that the federal government should just deal directly with local government, fund local government and bypass the state governments? Is that what you are contending?

**Mr Kennedy:** No. I think what we are talking about is the three tiers of government all working together.

**Senator EDWARDS:** Yes, but the federal government funds the state government. You have a relationship. You have six government members out there and two federal ones, one of whom, I am very grateful, took the time to come to the latter part of the hearing today. It is a shame the member for Wakefield did not come, given it is such an important issue. For you, Mr Kennedy, that must be disappointing. But for you, Mr Harry, it must be a celebration to have your local member here.

**Senator KIM CARR:** He has been actively engaged in this. He is in fact the shadow parliamentary secretary for manufacturing, so let's not play too many games.

**Senator EDWARDS:** Let's talk about what is real and stop mincing around. The framework is such that the federal government funds the state government to do this. We have had this discussion about whether the federal government should just find you guys directly, haven't we? And that didn't go so well, did it?

**Mr Harry:** I think it is not a question about—

**Senator KIM CARR:** I don't think this is an issue about constitutional change.

**Senator EDWARDS:** But the majority of your funding traditionally has come from the state government and from your ratepayers. In these moments where you need to have some good policy input, we have heard today that the state government is embarking on a strategic plan with the new minister, and he was very forthright in his evidence this morning. Are you involved in that planning session with the state government, with the six state government MPs and the two federal ones that we have out in your jurisdiction?

**Mr Harry:** No, we are not—

**Senator EDWARDS:** You are not! Wow.

**Mr Harry:** Chair, can I—

**ACTING CHAIR:** Senator Edwards, allow Mr Harry to answer the question.

**Mr Harry:** Can I respond to the issue from my perspective. This is not a matter of constitutional issues. The matter—

**Senator EDWARDS:** I did not say that.

**Senator KIM CARR:** Yes, you did.

**Senator EDWARDS:** This is the strategic planning—

**Mr Harry:** I am just responding from the point of view of a CEO, reflecting on the needs of an industry development opportunity and the social implications of not addressing those issues. Under the current framework that we have, it is absolutely imperative that we work with the three levels of government and the private sector. In that structure, I would expect that we would be involved at some point in time in the ongoing agendas of the minister and what you have referred to, Deputy Chair, or we will have an awareness of that. The fact that I do not know that does not necessarily detract. What it means is at a political level there is an agenda to drive forward in the Northern area.

**Senator EDWARDS:** Right, but anything that is not right is the federal government's fault and everything that is good and right and proper is your doing and the state government's doing.

**Mr Kennedy:** And it is your state—

**Senator EDWARDS:** No. There is a framework under the Federation agreement where you look at funding and get your drive. As I say, you have six state government MPs out there and two federal MPs out there and you have just told me that you are not engaged with them in regard to the strategic plan going forward that is currently in front of the state government.

**Mr Harry:** That is what I said. However, I qualify that—

**Senator EDWARDS:** There is an upside?

**Mr Harry:** There is an upside. We have regular dialogue with the members of parliament at a federal or state level in the Northern area and I think that has been an absolute strength of this Northern area because we are closely engaged with them on a regular basis, whether it be through industry networks, through business or through an understanding and management of what we deliver.

**Senator EDWARDS:** Can you highlight some of the achievements of that dialogue?

**Mr Harry:** I certainly can. One of the achievements is the sign off to move forward and develop a focus on the northern economic development plan.

**Senator EDWARDS:** The sign off of focus on the development of an economic plan?

**Mr Harry:** We have signed off on the intent to proceed with the development of an economic development plan for delivery to address some of the issues that have been raised in your terms of reference.

**Senator EDWARDS:** What are we delivering? What have we delivered so far? Holden have said, in December 2013, 'We are going to shut.' What rubber have we got on the road since then, in terms of delivering, with all this dialogue that you have had with all these different people, the bureaucracy and everything like that? What can you point to?

**Mr Harry:** I can point to funding of key infrastructures such as the Stretton Centre to ensure there is appropriate research and development sitting around that and, through our council, funding of the Polaris Centre, which is direct assistance and advice to small business.

**Senator EDWARDS:** Excellent.

**Mr Harry:** There is funding of key pieces of infrastructure, either from state or federal funding, which is aimed at either job creation or stimulating a capability of community capacity in the northern areas. The generic, classic example would be, from Salisbury's point of view, the investment that has been made through funding water initiatives for environmental sustainability and application and development to lower industry operating costs.

**CHAIR:** Thank you for appearing before us today. We do appreciate you coming to us today to provide evidence. At that point I will adjourn the proceedings.

**Committee adjourned at 16:46**