

# Victorian Government Submission

Senate Economics References Committee:  
Inquiry into the future of Australia's automotive  
industry

Department of Economic Development,  
Jobs, Transport and Resources

May 2015

# Inquiry into the future of Australia's automotive industry

## Victorian Government submission

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# Inquiry into the future of Australia's automotive industry

## Victorian Government submission

### Executive summary

On 25 November 2014, the Senate referred an inquiry into the future of Australia's automotive industry to the Senate Economics References Committee for inquiry and report by the first sitting day in November 2015. The Victorian Government welcomes the opportunity to make a submission to this inquiry.

The automotive sector is of great importance to Victoria and the confirmed exit of the three major passenger car manufacturers in 2016-17 will have a significant impact on the State economy and employment. The Productivity Commission has estimated Victorian job losses of 24,150 by 2016-17, and a further 13,400 in the following three years.<sup>1</sup>

The automotive sector is continuing to operate under pressure, with many parts and component supply businesses reporting difficulties. There is a risk that some of these businesses may exit the sector earlier than expected, impacting its stability. This scenario would accelerate the forecast economic and employment impacts on Victoria.

Government support for the automotive sector is predominantly administered through the Automotive Transformation Scheme (ATS). Government support plays an important role in ensuring that passenger car manufacturing continues to 2016-17.

Legislation to reduce available funding under the ATS and terminate the scheme after 2017 was introduced by the Federal Government in September 2014. The Federal Government sought to reduce the amount of ATS funding by \$500 million between 2015 and 2017 and terminate the program at the end of 2017, reducing the total amount of capped funding available by \$900 million.

The Victorian Government welcomes the Commonwealth Government's decision to withdraw the proposed legislation. However, the Victorian Government is very concerned that the \$900 million in spending cuts will still be largely achieved. The 2015-16 Commonwealth Budget reinstates the \$900 million funding for the ATS however only \$105 million of the \$900 million is anticipated to be spent due, with a forecast saving of \$795 million over seven years from 2014-15. This is due to support being linked to production levels. As production volume decreases, fewer and fewer businesses will be eligible for ATS support. In effect, this means that the scheme will cease from 2017 and will not provide support to the automotive industry to 2020 as originally legislated.

Given the structural change that has occurred in the domestic automotive industry since the ATS was introduced, there is a clear need for the scheme to be updated so that it is relevant to the current environment. This should include amendments that allow automotive businesses to receive financial support until 2020.

Businesses in the supply chain must prepare to transition into the global automotive sector or to diversify into non-automotive sectors in order to survive after 2017. Commonwealth and State governments have a vital role to play in facilitating the orderly transition of automotive sector businesses and workers by supporting their diversification into new sectors, attracting new sources of investment, as well as providing automotive workers with support to re-train and find sustainable and dignified work outside the automotive industry.

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

# Inquiry into the future of Australia's automotive industry

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The Victorian Government considers that the ATS should be extended to encompass diversification activities so that Australian automotive manufacturers are supported to enter new markets between now and 2017. To further assist diversification, the Victorian Government considers that the Automotive Diversification Programme could be amended to improve its effectiveness. Suggested amendments include allowing automotive businesses to receive assistance for research and development, new product development and the utilisation of existing equipment to manufacture products for non-automotive markets. The Victorian Government also considers that any underspend from the ATS should be re-invested into the Automotive Diversification Programme and not returned to consolidated revenue.

Finally, a dynamic automotive sector will remain in Australia once the three passenger car manufacturers exit in 2017. Growth opportunities in key areas such as the aftermarket sector need to be captured. Efforts should also be made to retain the advanced manufacturing capability that has been developed in the Australian automotive industry over many decades. In particular, it is critical that the world-leading automotive design and engineering capabilities that exist in Victoria are not lost and that this asset is retained in Australia.

# Inquiry into the future of Australia's automotive industry

## Victorian Government submission

### Recommendations to the Committee

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

#### **RECOMMENDATION 1**

The current level of Automotive Transformation Scheme (ATS) funding should be continued to 2020 as originally intended to assist the industry until the planned exit of the passenger car manufacturers by 2017 and to facilitate the transition to global automotive opportunities or diversification into non-automotive sectors after 2017.

#### **RECOMMENDATION 2**

The ATS should be widened to include diversification activities so that Australian automotive manufacturers are supported to enter new markets between now and 2017.

#### **RECOMMENDATION 3**

The Automotive Diversification Programme should be amended to enable automotive businesses to be eligible for financial assistance towards expenses relating to research and development, new product development and the utilisation of existing equipment to manufacture products for non-automotive markets, and that the Programme should be continuously open to new applications.

#### **RECOMMENDATION 4**

The Commonwealth Government should increase the level of employment support services available to retrenched automotive employees from Stream 2 to Stream 3 or equivalent support through the new jobactive employment service, and employees should be able to access support before retrenched occurs.

#### **RECOMMENDATION 5**

The Commonwealth Government should maintain the current level of entitlement for retrenched workers under the Fair Entitlements Guarantee up to 2017.

#### **RECOMMENDATION 6**

The Commonwealth Government should provide greater certainty to industry regarding forthcoming major defence acquisition projects, including naval shipbuilding and armoured combat vehicles, and that opportunities for local content are maximised so that high-value manufacturing skills and capabilities can be retained in Australia.

#### **RECOMMENDATION 7**

The Victorian Government recommends that the Commonwealth Government provide incentives for the development of new automotive and non-automotive technologies, including light weight advanced materials, processing and manufacture of materials and alternative gaseous fuel technologies.

# Inquiry into the future of Australia's automotive industry

## Victorian Government submission

### 1. Context

In November 2014, the Senate requested that the Senate Economics References Committee conduct an inquiry and report into the future of Australia's automotive industry. The Committee is due to report to the Senate by the first sitting day in November 2015.

As its first order of business, the Committee inquired into automotive manufacturing and supply chain transition. The Victorian Government provided an interim submission to the inquiry in March 2015 addressing those issues.

The Committee is now seeking written submissions to the broader inquiry by 29 May 2015. The Victorian Government welcomes the opportunity to provide this submission that responds to the full terms of reference of the inquiry.

### 2. Introduction

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

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

Last year, the Productivity Commission conducted a review of the likely economic impacts arising from the exit of the three major passenger car manufacturers. It predicted a reduction in long-run Victorian Gross State Product of 1.9 per cent and a significant negative impact on employment.<sup>2</sup> The Productivity Commission estimated Victorian job losses of up to 24,150 by 2016-17, and a further 13,400 in the following three years.<sup>3</sup>

Victoria's automotive sector is geographically concentrated in north and south east metropolitan Melbourne (see Map 1), and the regional centre of Geelong. The closure of the three major passenger vehicle manufacturers will present particular the challenges for businesses and workers in these areas.

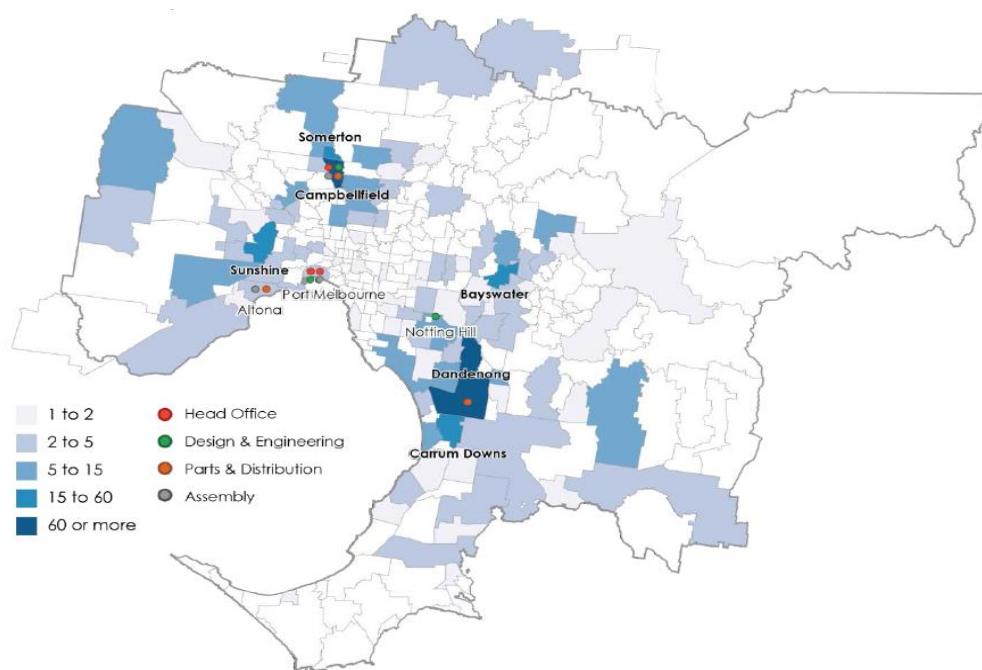
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<sup>2</sup> Productivity Commission 2014, Australia's Automotive Manufacturing Industry: Supplement to Inquiry Report, p. 18 and 22 <http://www.pc.gov.au/inquiries/completed/automotive/supplement/automotive-supplement.pdf>

<sup>3</sup> Ibid

# Inquiry into the future of Australia's automotive industry

## Victorian Government submission



Source: Worksafe Victoria, unpublished data

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

The stability of the Victorian automotive sector will be challenged in the lead up to 2017. Victorian Government consultation with industry has found that businesses in the sector are experiencing significant pressure to continue their existing operations, while simultaneously having to prepare to diversify into new sectors and markets. At the same time, there is a risk that expected support schemes, notably the ATS, will in effect be dramatically reduced and terminated early, further eroding business confidence throughout the sector.

These combined pressures could lead to an early closure of one of the three car manufacturers or a critical supplier. This would cause significant job losses over a short period of time in a few geographically concentrated areas. The socio-economic impacts of an early closure are likely to be severe.

### 3. Need for a new policy architecture

The Commonwealth Government's existing policy architecture to support the automotive sector was largely developed before the exit of the three passenger car manufacturers was announced. There is, therefore, a need for the policy framework to be updated to reflect the current operating environment. During this process, policies will need to be developed and implemented that achieve a number of different objectives.

Policies should be implemented that assist in the diversification of the economy to mitigate risks in specific sectors and support structural adjustment. Efforts must be made, however, to retain the advanced manufacturing capability that has been developed in the Australian automotive industry over many decades. For example, Victoria's world-leading automotive design and engineering capabilities are an asset to Australian industry.

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The planned exit of the three passenger car manufacturers must be predictable and orderly to allow sufficient time for businesses and workers to transition to new opportunities in a smooth and effective manner. Automotive supply chain companies should be given assistance to help them either transition to the global supply chain or diversify to the non-automotive domestic sector, wherever possible. In addition, the opportunities that exist in the automotive sector that will remain once the three passenger car manufacturers exit in 2017 should be capitalised on with government support where required.

Displaced workers in the automotive sector should be given the skills, training and outplacement support that make the transition to alternative employment as smooth and timely as possible.

## 4. Supporting diversification of the economy

### 4.1. Contribution of the automotive industry to the Victorian economy

The automotive industry has historically been a vital part of Victoria's broader manufacturing sector. Manufacturing is a major industry in Victoria, generating an annual output of \$25 billion, or 8 per cent of Gross State Product, and capital expenditure of \$2.5 billion. It is a key driver of many of the high value services that are critical to Victoria's future prosperity, including: research, design and engineering services; finance and business services; training and recruitment; transport; and communications and marketing.

Victoria is Australia's leader in advanced manufacturing and one of the few places in the world that covers the entire manufacturing spectrum, from research and engineering to design and production. Victoria's advanced manufacturing expertise includes design, composite materials, material handling, software development, additive processes, automated systems and advanced electronics and machinery.

In Victoria, around 80 per cent of manufacturing exports are in elaborately transformed manufacturing. The growth potential of this segment of the global trade market is significant with global elaborately transformed manufacturing exports increasing from around \$4 trillion in 2001 to more than \$10 trillion in 2012.

The decision of the major car manufacturers to retain their design and research and development facilities in Victoria is evidence of Victoria's globally-competitive advanced manufacturing capabilities. Ford has announced its intention to retain its design studio, engineering centre and proving ground beyond 2016 as part of its global product development operations. Ford's engineering centre in Victoria will develop vehicles for its global vehicle line up including vehicles for China, the world's largest car market.

GM Holden will also retain its design studio and proving ground beyond the closure date of its manufacturing facilities to develop vehicles for its General Motors parent company. Toyota has announced that it will retain its Altona site and transform it into a centre of excellence inclusive of a world-class training facility to enhance the business and community. Ford, Holden and Toyota will therefore continue to be part of Victoria's advanced manufacturing capability.



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They join a number of global companies with manufacturing operations in Victoria that have chosen to establish their research and development and design facilities here, including BAE Systems (UK), Siemens (Germany), IBM (USA) Microsoft (USA) and Thales Group (France).

Victoria's automotive sector currently holds a significant amount of knowledge and skills that it has built up over time through its research and development, product development and production activities. The global value of these capabilities and experience has been demonstrated by many workers, particularly automotive engineers, taking up international roles.

The Victorian Government is working hard to ensure that these skills and specialised workers stay in Victoria so this tacit knowledge is not lost. The technical and commercial knowledge held in the sector is a significant asset to Victoria and it is critical that this knowledge base is captured and redeployed to Victoria's growing advanced manufacturing and services sectors.

The Victorian Government's Back to Work plan is focused on investing in industries where Victoria has a competitive advantage to provide sustainable jobs for people previously employed in slowing areas of the economy. Advanced manufacturing is an enabling capability across many of Victoria's growing industries. The Victorian Government will also provide targeted support to automotive supply chain businesses and their workers through the transition period.

### 4.2. Victoria's plan for jobs and growth

Significant parts of Victoria's economy are continuing to adapt to structural economic changes. The emergence of lower-cost international competition, years of a high exchange rate, the increasing interdependence of global supply chains and shifting patterns of consumption and investment are all contributing to a re-shaping of Victoria's economy.

The decision by Ford, Holden and Toyota to cease production in Australia highlights the ongoing structural change that is occurring within the Victorian economy. The Victorian Government is acutely aware that there will be difficult times ahead for some regions and sectors. Nevertheless, there are also many parts of Victoria's economy that are flourishing.

The Victorian Government is focussed on investing in those industries with high growth potential and supporting the businesses and workers from slowing parts of the economy to transition into those growth sectors.

Priority sectors for the Victorian Government include medical technology and pharmaceuticals, new energy technology, food and fibre, transport, defence and construction technology, international education, and professional services. These are sectors where Victoria has a competitive advantage and where there is potential to create high-quality jobs for Victoria's growing population. A \$200 million Future Industries Fund is being established to support jobs growth in these sectors.

The Future Industries Fund is complemented by a \$500 million Regional Jobs and Infrastructure Fund and a \$500 million allocation for strategic projects to be supported on the advice of the Premier's Jobs and Investment Panel, a panel of business and industry leaders.

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One of the first projects will be to establish Start Up Victoria, a new body dedicated to accelerating the commercialisation of new technologies and ideas. This investment will accelerate jobs growth over the next few years to provide sustainable work for people retrenched from declining areas of the economy while also generating sustainable jobs for the future.

The Victorian Government is also investing in an up to \$22 billion capital program, including transport projects and other major government projects, which will yield not only construction jobs, but also generate jobs in sectors provide support to these projects. As part of the government's commitment to supporting skills development, 10 per cent of employment on major projects will be reserved for apprentices and trainees.

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

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

The Victorian Minister for Industry wrote to the Federal Industry Minister seeking co-investment from the Commonwealth Government to complement the \$18 million committed by the Victorian Government. The Commonwealth Government declined to provide any further investment to the funds. As a result, the Victorian Minister for Industry will lead work to deliver the commitment to invest the additional \$18 million and take over administration of the funds once the existing funds are exhausted.

### 4.3. Automotive Transformation Scheme

Government support for the automotive sector is predominantly administered through the ATS. Government support plays an important role in ensuring that the passenger car manufacturing sector remains stable and continues to operate until 2016-17.

Legislation to reduce available funding under the ATS and terminate the scheme after 2017 was introduced by the Federal Government in September 2014. The Federal Government sought to reduce the amount of ATS funding by \$500 million between 2015 and 2017 and terminate the program at the end of 2017, reducing the total amount of capped funding available by \$900 million.

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

The Victorian Government welcomed the Commonwealth Government's decision to withdraw the proposed legislation. However, the Victorian Government is concerned that the \$900 million in spending cuts will still be largely achieved. This is due to support through the ATS being linked to production levels. As production volume decreases, fewer and fewer businesses will be eligible for ATS support.

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The 2015-16 Commonwealth Budget reinstates the \$900 million funding for the ATS however only \$105 million of the \$900 million is anticipated to be spent due, with a forecast saving of \$795 million over seven years from 2014-15. In effect, the scheme will cease from 2017. This was not the intent of the ATS when it was legislated – it was legislated to provide financial support to industry participants until 2020.

Given the massive structural change in the domestic automotive industry that has occurred since that time, there is a clear need for the ATS to be updated to be relevant to the current environment so that automotive businesses can receive financial support until 2020 as originally planned when the ATS was established.

As the Federation of Automotive Products Manufacturers stated in its submission, another key reason for the continuation of ATS funding until 2020 is the critical role that these funds will play in allowing supply chain companies to plan and take action to diversify their businesses out to 2017 and beyond.

### **RECOMMENDATION 1**

The current level of ATS funding should be continued to 2020 as originally intended to assist the industry until the planned exit of the passenger car manufacturers by 2017 and to facilitate the transition to the global automotive opportunities or the diversification to non-automotive sectors after 2017.

## **5. Transitioning the automotive supply chain**

### **5.1. Assisting suppliers to diversify into global automotive markets**

An increasing focus on product development in the automotive sector illustrates its intention to retain advanced services activities in Victoria and reflects the sector's increasingly globalised supply chain. The use of Australia's domestic automotive design and engineering capabilities by global automotive manufacturers reflects the global reputation built up by the local industry.

Australia's automotive suppliers have an opportunity to diversify into the manufacture of advanced componentry and complex systems for the global automotive market as a result of the globalisation of the automotive manufacturing supply chain. Opportunities for Australian manufacturers exist in areas such as telematics, low emissions vehicles, driver aids and advanced materials. These are areas where no clear global leaders have emerged and, with the right collaboration between design, research and development, engineering and manufacturing, Australian firms have the potential to compete.

Australia's regional neighbours currently lag behind global best practice in automotive manufacturing. Australia has a more mature industry than Thailand, Malaysia, Indonesia or China, with knowledge and expertise accumulated through its many years of operation. These countries are seeking Australia's expertise and, with innovative business models that ensure intellectual property and expertise is maintained in Australia, there are opportunities to service these markets and participate in regional supply chains.

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The primary mechanism for supporting the automotive industry, the ATS, does not provide assistance for diversification activities due to its focus on domestic production. Moreover, a reliance on support provided through the ATS as it currently operates could inhibit component manufacturers from diversifying in the future as support is directly linked to production volume. This issue was acknowledged by the Productivity Commission in its recent inquiry into Australia's automotive manufacturing industry.

The Victorian Government recommends that the Commonwealth Government amends the ATS to encompass support for diversification activities. Amendments could include relaxing the production volume requirement and extending eligibility to include companies undertaking automotive research and development work done in Australia that is not directly connected to the high-volume production of original equipment vehicles.

The Victorian Government sees merit in considering the removal of the requirement that an applicant must produce components for at least 30,000 original equipment vehicles. It also considers there to be merit in widening the definition of automotive and automotive components used in the ATS to reflect the Customs tariff definition. This would allow the ATS to capture the full span of Australia's automotive industry, including mining vehicles, truck, bus, recreational vehicles, and special purpose vehicles.

Any amendments should be considered in close consultation with the automotive sector to ensure the scheme is effective in assisting the industry to transition between now and 2017.

### **RECOMMENDATION 2**

The Automotive Transformation Scheme (ATS) should be widened to include diversification activities so that Australian automotive manufacturers are supported to enter new markets between now and 2017.

## **5.2. Assisting suppliers to diversify into non-automotive markets**

As part of the \$155 million Growth Fund, the Commonwealth Government established the Automotive Diversification Programme to assist Australian automotive supply chain companies to diversify out of the domestic automotive manufacturing sector. The programme provides a financial contribution towards capital equipment and reconfiguration costs, and also requires that companies have undertaken one or more activities such as research and development, pre-production development and early stage commercialisation. A survey of automotive suppliers undertaken by the Victorian Government in late 2014 found that companies needed support for research and development activities more so than support for capital investment to diversify.

The Victorian Government supports the recent amendment to the scheme to include the purchase of second-hand equipment and recommends that the programme is further extended to include assistance towards expenses relating to research and development, new product development and the utilisation of existing equipment to manufacture products for non-automotive markets. Furthermore, the Victorian Government recommends that the Automotive Diversification Programme is continuously open to applications to prevent delays to investment, and that any ATS underspend is re-invested into the Automotive Diversification Program and not returned to consolidated revenue.

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### RECOMMENDATION 3

The Automotive Diversification Programme should be amended to enable automotive businesses to be eligible for financial assistance towards expenses relating to research and development, new product development and the utilisation of existing equipment to manufacture products for non-automotive markets, and that the programme should be continuously open to new applications. Any underspend from the ATS should be re-invested into the Automotive Diversification Programme and not returned to consolidated revenue.

## 6. Retaining skills and industrial capabilities

### 6.1. Supporting the automotive workforce to find new work

The closure of passenger car manufacturing in Australia is going to have a significant impact on the automotive workforce. Many employees will need support to re-train and find sustainable and dignified work outside the automotive industry.

The automotive sector contains a higher proportion of lower skilled occupations and older workers than other sectors. It has over double the proportion of machinery operators and labourers than the broader Victorian workforce, and 30 per cent more lower level professional workers.<sup>4</sup> In addition, over a fifth of automotive sector employees are over the age of 55 years.<sup>5</sup> These employees are likely to face higher barriers to finding sustainable employment than other job seekers and require more intensive support to re-enter the workforce.

The Growth Fund, including the \$30 million Skills and Training Initiative for Holden and Toyota employees, is providing important support to the manufacturing sector. However, the focus of skills and training funding for workers in the broader supply chain is limited. Employees in supply chain companies need greater access to transitional training and career opportunities.

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

The Victorian Government is also directly supporting workers in the automotive supply chain through a \$30 million program which provides access to government-subsidised training and individualised career and transitions advice services. The purpose of this program is to ensure that workers are equipped with the necessary training and advice to find new employment.

To complement these investments, particularly Victoria's already substantial commitment to vocational training subsidies for automotive supply chain workers, the Victorian Government recommends that the Commonwealth Government strengthens employment support services

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<sup>4</sup> ABS, Census of Population and Housing, 2011

<sup>5</sup> State Review Report – Victorian Government submission to the review of the Victorian economy by the Commonwealth Government, 2014.

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for automotive employees. This could be achieved through allowing retrenched automotive workers to access the equivalent of the more intensive Stream 3 support through its new jobactive employment service, consistent with support available to retrenched workers in similar sectors. Through the Automotive Industry Structural Adjustment Programme, retrenched automotive workers are currently eligible to receive Stream 2 support however retrenched workers from the textile, clothing and footwear industry, for example, are eligible to receive Stream 3 support. At a minimum, the Victorian Government recommends that former automotive employees be eligible to receive an increased level of financial assistance through the Employment Pathway Fund.

Under current arrangements, workers are not eligible to access employment services while they are still in full-time employment. In the Victorian Government's experience, early engagement with employees, preferably before retrenchment occurs, was a key success factor in assisting people to find sustainable new employment. The Victorian Government therefore recommends that automotive workers facing retrenchment are able to access employment support services while still employed.

### RECOMMENDATION 4

The Commonwealth Government should increase the level of employment support services available to retrenched automotive employees from Stream 2 to Stream 3 or equivalent support through the new jobactive service, and employees be should able to begin accessing support services before retrenchment occurs.

A survey of automotive supply chain businesses undertaken by the Victorian Government in 2014 found that many businesses are not well equipped to manage retrenchment processes, or to finance statutory employee retrenchment liabilities. The Victorian Government provides information to businesses regarding the retrenchment process through its Businesses in Transition Scheme however it is likely that some workers will need to access assistance through the Commonwealth Government's Fair Entitlements Guarantee (FEG). The Victorian Government recommends that the Commonwealth Government maintains the current level of entitlement for retrenched employees up to 2017.

### RECOMMENDATION 5

The Victorian Government recommends that the Commonwealth Government maintains the current level of entitlement for retrenched workers under the Fair Entitlements Guarantee up to 2017.

## 6.2. Transferring skills and capabilities to other areas of the economy

Victoria's automotive industry holds valuable skills and capabilities that are transferable to other areas of the economy. A Victorian Government survey of automotive suppliers found that over a third of suppliers are looking to diversify into new markets. The most commonly cited new markets were the defence and aerospace, mining, transport equipment, medical products, infrastructure and food processing sectors.

The Victorian Government is working closely with automotive suppliers to match them with new business opportunities through the government's business development network and through the conduct of inbound and outbound trade missions, appointing an in-market

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supplier advocate located in Malaysia, working with the Automotive Cooperative Research Centre, hosting inter-industry forums and promoting local supplier capabilities at events such as the International Mining and Resources Conference, Automotive Week, and the Australian International Airshow.

Commonwealth Government investment in major projects, such as infrastructure and defence acquisition, over the next two years will have a direct impact on the job opportunities for retrenched automotive employees.

Defence and aerospace was identified by Victorian automotive supply chain companies as the sector of most interest in which to diversify. The potential for the defence and aerospace sector to provide job opportunities for former automotive workers is heavily dependent on the Commonwealth Government's procurement schedule. Any delays to commencement or uncertainty around major acquisition projects over the next two years will reduce the opportunity to transfer knowledge and skills from the automotive industry into the defence and aerospace sector, risking the retention of those skills in Australia.

The Victorian Government recommends that the Commonwealth Government provides greater certainty to industry regarding forthcoming major defence acquisition projects, including naval shipbuilding and armoured combat vehicles, and that opportunities for local content are maximised so that high-value manufacturing skills and capabilities can be retained in Australia.

### RECOMMENDATION 6

The Commonwealth Government should provide greater certainty to industry regarding forthcoming major defence acquisition projects, including naval shipbuilding and armoured combat vehicles, and that opportunities for local content are maximised so that high-value manufacturing skills and capabilities can be retained in Australia.

### 6.3. Transferring skills and capabilities to other areas of the automotive industry

The skills and capabilities contained within the automotive industry are an asset to Victorian industry and have applicability to the broader automotive sector as well as non-automotive sectors. Victoria's automotive sector includes heavy vehicle manufacturing, the manufacturer of special purpose vehicles and businesses that manufacture automotive aftermarket parts and accessories.

Victoria has a dynamic aftermarket industry that is currently growing at an average of 3 per cent a year. The Victorian aftermarket industry employs around 5000 people in approximately 90 manufacturing businesses, accounting for a third of Australia's aftermarket industry.<sup>6</sup> It has demonstrated that strong businesses with high technology and high performance product offerings can compete in the global market.

The closure of passenger vehicle manufacturing has the potential to benefit the broader automotive industry through the transfer of skills and knowledge gained in the manufacture of passenger cars.

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<sup>6</sup> Australian Automotive Aftermarket Association (2013), *A Vision for the Entire Automotive Manufacturing Industry: Submission to the Productivity Commission Review of the Australian Automotive Industry*

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The implementation of reforms to widen the ATS will assist other parts of the automotive sector, such as the aftermarket industry. These potential reforms were outlined in Section 5.1. They include potentially widening the definition of automotive and automotive components used in the ATS to reflect the Customs tariff definition. This would allow the ATS to capture the full span of Australia's automotive industry including mining vehicles, truck, bus, recreational vehicles, and special purpose vehicles

## 7. New automotive technologies

The automotive industry has developed advanced materials and manufacturing techniques that have applications beyond the automotive industry. Advanced materials, such as carbon fibre and high-strength steels have applications in biotechnologies and medical devices, consumer electronics, energy harvesting technologies, oil and gas, food packaging and construction technologies, in addition to the traditional markets of defence, aerospace and transport.

Advanced materials manufacturing accounts for around five to six per cent of Victoria's manufacturing activity and Victoria is home to a number of advanced materials research institutions. These include Carbon Nexus and the Institute of Frontier Materials (IFM) at Deakin University, the Victorian Centre for Advanced Materials Manufacturing (VCAMM), CSIRO, the Melbourne Centre for Nanofabrication at Monash University and the University of Melbourne Materials Institute.

Advanced materials technology has the potential to generate significant economic and environmental benefits across a broader range of industries. Victoria's investment in new energy technology and defence, construction and transport technologies will provide an opportunity to further build Victoria's advanced manufacturing capabilities. This investment will complement the establishment of the Commonwealth-funded Advanced Manufacturing Industry Growth Centre.

Given the potential economic and environment benefits to Australian industry, the Victorian Government recommends that the Commonwealth Government continues to invest in the development of new automotive and non-automotive technologies such as light weight advanced materials, materials processing and manufacturing techniques, and alternative gaseous fuel technologies.

### **RECOMMENDATION 7**

The Victorian Government recommends that the Commonwealth Government provide incentives for the development of new automotive and non-automotive technologies, such as light weight advanced materials, materials processing and manufacturing techniques, and alternative gaseous fuel technologies.