



## **Australian Automotive Aftermarket Association**

---

Response to Productivity Commission Position Paper January 2014  
Australia's Automotive Manufacturing Industry

The Australian Automotive Aftermarket Association Ltd (AAAA) is the national industry association representing manufacturers, distributors, wholesalers, importers, mechanical repair & modification services and retailers of automotive parts and accessories, tools and equipment in Australia.

The Association has over 1700 member companies in all categories of the Australian automotive aftermarket and includes major national and multi-national corporations as well as a large number of Australian owned small and medium size businesses.

Suite 16, Building 3, 195 Wellington Road  
Clayton, Victoria 3168 AUSTRALIA  
03 9545 3333

[www.aaaa.com.au](http://www.aaaa.com.au)

# Introduction

Thank you for the opportunity to comment on the Productivity Commission's Position Paper published on 31 January 2014.

While we were delighted that the AAAA submission was quoted extensively in the Commission's Preliminary Report, we were disappointed that this subsequent Position Paper fails to recognise the role the aftermarket can play in fostering a sustainable trade exposed automotive manufacturing industry in Australia.

The paper states that government assistance can dull the commercial incentives faced by automotive manufacturers to respond to competitive and adjustment pressures. The conclusion reached is that although policies that provide industry-specific assistance benefit those who receive that assistance, this comes at a significant cost to taxpayers, and alternative higher-value uses for those funds are forgone. This reliance solely on market forces means that other benefits of a strong manufacturing industry were discounted and the Commission concludes that tailored assistance is not in Australia's best interest.

Our view of the Position Paper is probably best summed up in John Hirst's article "Economists in reverse over our car industry" in The Age 4 February 2014, in which he pointed out that the Commission has ignored its direction from Government to advise on support mechanisms for the automotive industry. In his words "Having decided the overall economy would be better off without a car industry, it [the Commission] saw no need to bother with support in any form." We agree with these sentiments. While it is clear from the Position Paper that the view of the Commission was that any assistance may lessen the incentive for an industry to be efficient, innovative and to develop new products – the Commission was specifically asked by Government to make recommendations on programs and assistance that would avoid this outcome. The key issue of how assistance could be designed to support productivity, diversification and export growth, and not hinder structural adjustment was not addressed in the Issues Paper.

The Australian aftermarket manufacturing industry has the right pre-conditions to be a globally competitive sector. Our initial Productivity Commission submission highlighted that recent Government policy actually had negative impact on the aftermarket. We submitted that effective policy specific to the aftermarket could facilitate an immediate additional \$1.36 billion value leading to a \$6.56 billion sector. But the aftermarket is actually facing an environment of disincentive under the current policy settings. Policy settings that the Productivity Commission did not seek to alter or improve other than to recommend that these programs continue until their sunset date.

We, like everyone in our industry were saddened to hear the decision by Toyota Australia that they would join Ford and Holden in ceasing manufacturing in Australia from 2017. However our previous submission did reference the prospect of this eventuality when we stated that 'whether Holden and Toyota maintain PMV production in Australia or not, current and projected



OE volumes simply can't support a sustainable view of the OE supply chain, acting in isolation, any longer'.

The now certain shutdown of the car industry only adds weight to the urgency for the component industry to transition away from the vehicle maker supply chain to more sustainable sectors. We need policy that promotes such investment and diversification, but at present we have an environment of disincentive that the Productivity Commission did not seek to reform.

We felt then, as we do now, that if we are able to take a step back from the traditionally narrow view of what is considered to be the "automotive industry" and instead view the entire automotive manufacturing sector holistically, we can develop policy and programs that facilitate a transition to a sustainable industry with ongoing growth prospects.

## Terms of Reference

We note, as other commentators have, that the Commission was also asked to report on the support the automotive manufacturing industry receives in other countries. Whilst we do understand that it can be difficult to uncover the true extent of international government support for automotive manufacturing, we do not believe that this should be used as a rationale for not addressing the matter. All countries that have an automotive manufacturing industry support it in some way. International government support for their automotive industry and the tariffs and non-tariff barriers that are applied to Australian manufactured components affect our scale and our profitability. Our argument is that our industry has operated exactly as an economic rationalist would desire: the aftermarket-manufacturing segment has not received Government subsidies, is heavily trade exposed and under intense import pressure. Some of our manufacturers have already moved off shore. This is not a response to poor productivity or inefficient work practices. It is a response to international trade barriers and the fact that the overseas competition in this market is too strong. Australia opens the door to imports from countries with heavily supported manufacturing industries and yet many of those same countries insist that we manufacture in their country if we want access to their markets.

## Aftermarket Growth Potential

As noted in the Productivity Commission Position Paper, the automotive aftermarket is sustainable and is a significant part of the total automotive industry. Automotive aftermarket manufacturing represents 36% of all automotive manufacturing in Australia. The aftermarket segment continues to show strong year-on-year growth. Not only is the aftermarket segment significant in terms of its size, but it has totally different drivers compared to the OE segment. The innovative and growing independent aftermarket sector is a \$ 5.2 billion per annum manufacturing segment that employs 21,000 people and earns \$800 million a year in export sales. Aftermarket producers are expanding through high technology innovation with exports to Asia, Europe, Middle East and the USA. These 260 manufacturers of parts and accessories operate across Australia in metropolitan and regional centres.



In the face of strong import penetration, our industry's response has been to move up the value chain - from service parts to high-value specialty products with a technological advantage like 4WD parts and accessories, high performance and motorsport components. This competition has created an aftermarket segment that has the right pre-conditions to be a globally competitive sector. These businesses have been successful because they have made significant investments in R&D and capital equipment and have a strong export focus.

If the full growth potential of the aftermarket segment is realised, it can absorb some of the excess capacity, skills and knowledge that become available as the shutdown of the Australian domestic passenger vehicle sector plays out. There is a great deal of synergy in labour skills between OE and aftermarket employees and it is quite realistic to assume that a growing and sustainable part of the industry can assist in absorbing excess labour. Indeed, it has a greater capacity to do so than other industries such as mining and construction. If we want this to occur we need the aftermarket to reach full capacity, and it cannot do so without specific government policy and programs designed to assist commercialisation and export.

## Government Policy & Program Settings

We note that the Issues Paper advocates that current automotive support programs should continue until their original finish date - but the current policy excludes support of the aftermarket sector. In our view this is wasted opportunity to deliver transitional support to our sector. The aftermarket-manufacturing sector will continue to exist without the presence of the domestic car makers. Continuing the same programs despite their negative affect on our industry and despite the announced closure of all three remaining vehicle producers is short-sighted.

The argument that the industry does not have a future and that therefore there is no reason to continue formal automotive structural adjustment ignores the economic loss that will occur in any restructure process. Labor and capital will not flow smoothly to other productive areas of the economy without significant loss and assets and capital will be stranded during the adjustment process. A realignment of program support could enable the aftermarket to be more effective at absorbing displaced OE resources. A re-orientated incentive structure for the entire automotive manufacturing sector will, on the one hand, encourage diversification by the OE segment into the aftermarket, and on the other hand, position the aftermarket for growth, so that the resources of the OE segment can flow more easily into the sustainable and growing aftermarket segment. Automotive Transformation Scheme (ATS) funding, which will now reduce as development and investment into the OE sector slows down, should be opened up for both OE suppliers who can diversify into new markets and independent aftermarket manufacturers who can expand their operations utilising newly available resources. If the ATS program is extended to include aftermarket component producers, the scheme will assist this sector to grow and innovate at a more rapid pace, thereby improving its capacity to absorb displaced resources from the OE supply chain.



It is time to start a genuine conversation about expanding the eligibility and the focus of automotive assistance to embrace the aftermarket, specifically in the areas of bringing new products to market (innovation and commercialisation) and in export market access. The Issues Paper advocates that the automotive aftermarket can access existing programs such as EMDG for market access. Programs such as EMDG offer limited assistance with a cap on the amount to be claimed and the duration of support. These programs are valuable, but if we want to introduce a short sharp policy intervention to encourage enough growth to transition OE employees to the aftermarket then the existing programs are not going to achieve this. These programs already offer too little and often, too late.

It is very important that we reiterate that we are not asking for support of an industry that does not have a future. The automotive aftermarket manufacturing segment has never been subsidised by Government, is not heavily unionised, not constrained by inflexible union driven enterprise agreements and is trade exposed. All the right pre-conditions are in place for further growth. Whether this occurs is really up to what the Productivity Commission recommends and what the Government does next.

The Federal Government has a role to play in facilitating urgent structural adjustment. With the complete shutdown of the car industry now imminent, the need for OE suppliers to diversify into new sustainable markets is urgent and imperative. The AAAA believes the performance of both the vehicle makers' supplier base and the aftermarket can be simultaneously enhanced through a holistic approach to policy setting, which embraces both segments. By contrast, the Commission's Position Paper is aggressively negative. It condemns Australia's automotive industry to become a market of imported vehicles and imported parts.

There is not a great deal within the position paper that we are able to welcome or offer suggested amendments. However, a welcome proposal was the recommendation to remove the \$12,000 specific duty on second-hand imported vehicles. We support this recommendation.

## Concluding Remarks

It is not too late for the Commission to recommend policy settings, which recognise the inherent weaknesses and strengths of all parts of the automotive industry. Those policy settings must facilitate a transition to a sustainable industry. The AAAA remains committed to engaging in a dialogue about credible and appropriate automotive assistance programs. We believe that the Australian manufacturing industry as a whole desperately needs visionary policy settings from this Federal Government. We don't need more inquiries or lectures about 'entitlement'. We do need long term policy based on independent research and advice that is designed to foster economic growth across a range of industries. We need trade agreements that deliver fair outcomes for consumers as well as Australian manufacturers. Such policy will enhance Australian competitiveness and innovation, and will facilitate access to new export markets with real and sustainable growth prospects.

