# FORD MOTOR COMPANY OF AUSTRALIA LIMITED

# (ABN 30 004 116 223)

## SUBMISSION TO THE PRODUCTIVITY COMMISSION

## REVIEW OF THE AUSTRALIAN

## AUTOMOTIVE MANUFACTURING INDUSTRY

## RESPONSE TO POSITION PAPER

## DATED JANUARY 31, 2014

**February 2014**

**Ford Motor Company of Australia Limited**
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February 13, 2014

Review of the Australian Automotive Manufacturing Industry
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Submission via email to automotive@pc.gov.au

**Re: Productivity Commission's Review of the Australian Automotive Manufacturing Industry -- Position Paper January 2014**

This submission is made in response to an invitation for further comment in relation to the Productivity Commission's Position Paper released on January 31, 2014 regarding its Review of the Australian Automotive Manufacturing Industry. This submission is in addition to Ford Australia's initial submission to the Productivity Commission (ref: submission number 65). Ford Australia has also contributed to and is supportive of the submissions made by the Federal Chamber of Automotive Industries (FCAI) on this matter.

Ford Australia offers the following feedback on specific elements of the Productivity Commission's Position Paper and broader Government policy.

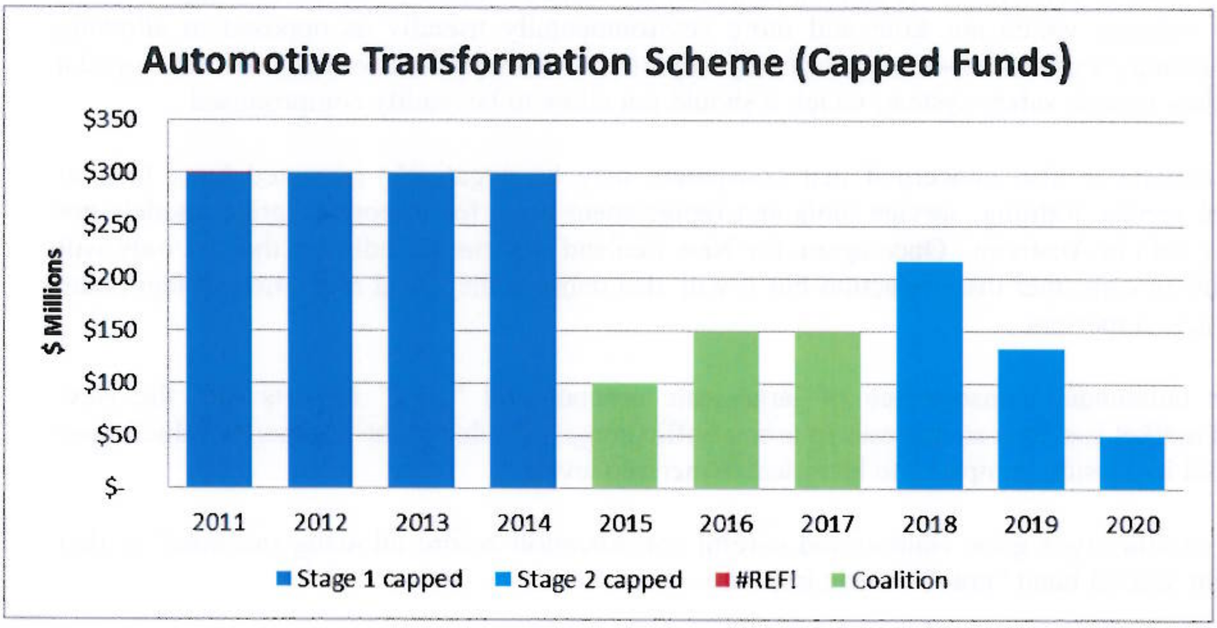
**1) Co-investment for Automotive R&D**

Ford Australia reiterates its recommendation to modify automotive industry funding parameters to recognise, support and facilitate investment in research and product development activities undertaken by local automotive companies. The retention and nurturing of this high value, complex and sophisticated design and engineering work will create a significant technical skills base in Australia which has demonstrated spill-over effects and related benefits across other key industry sectors. This is acknowledged and endorsed by a number of other manufacturing industry participants in submissions provided to the Productivity Commission for this Review. Ford Australia believes there is an opportunity for it to enhance its role as a global provider of innovative vehicle design and development services, given appropriate support through revised policy arrangements.

Ongoing and competitive levels of Government support for automotive R&D activities is relevant in the global context. For example, a recent announcement by the Russian Ministry of Industry & Trade to invest US$7.8 Billion from 2014-16 in its domestic automotive manufacturing industry specifically targeted automotive R&D activities as worthy of considerable funding support. Please refer to Attachment 1 – Just-Auto "Russia: Government to plough US$8bn in automotive subsidies" dated 24 January 2014.

**2) Automotive Transformation Scheme Funding Profile**

Ford Australia supports the Productivity Commission's findings regarding significant concerns over the uneven funding profile for the Automotive Transformation Scheme (ATS) as outlined in the Federal Government's MYEFO statement. In particular, the large reduction in ATS funding in 2015 results in a considerable industry-wide funding gap that could become a catalyst for business failures within the supply chain with the potential to directly impact the viability of local manufacturing and possibly lead to earlier than intended plant closures.




Ford Australia supports calls for a more linear approach to reductions in ATS funding in 2015-17 to ensure the industry is able to adequately adjust during a critical transition period. Given the recent manufacturing announcements by both Holden and Toyota, it may be possible for the Federal Government to bring forward ATS funds from 2018-20 to fill the gaps and ensure a smooth industry transition.

### 3) Large-scale Importation of Second-hand "Grey" Vehicles

In its Position Paper the Productivity Commission stated at Draft Finding 3.2:

> *The policy rationale for prohibiting the large-scale importation of second-hand vehicles into Australia is weak. However, appropriate regulatory measures are required to ensure that consumer protection, community safety, and environmental performance standards are maintained before the restrictions are removed. These concerns are best dealt with directly, through regulatory standards applicable to all vehicles sold in Australia. The $12,000 specific duty on imported second-hand vehicles appears to be largely redundant, providing a prima facie case for its removal.*[3]

Ford Australia holds serious reservations in relation to the Productivity Commission's position on the large-scale importation of second-hand "grey" vehicles into the Australian market. The Australian automotive market is already the most competitive in the world and one where consumers have a huge choice of brands and models available to them. The removal of current restrictions which govern the large-scale importation of second-hand "grey" vehicles will significantly affect the new vehicle market as has been the experience in New Zealand following unrestrained access for second-hand "grey" vehicle imports.

[3] Productivity Commission Position Paper, *Australia's Automotive Manufacturing Industry*, p.29

In addition, present restrictions to large-scale importation serve to ensure the quality, safety and environmental standards of vehicles entering the Australian market are not compromised thus reducing risks to consumers. Australia, as a G20 developed economy, should continue to focus on new vehicles which are safer and more environmentally friendly as opposed to allowing another country's used "cast-offs" to be freely imported. Australia has over the years developed a world-class vehicle safety system, which it should not allow to be readily compromised.

Ford Australia is also concerned that consumers may be negatively impacted by a lack of technical service training, service tools and replacement parts for imported "grey" models not normally sold in Australia. Once again, the New Zealand experience indicates that not only will this result in consumer dissatisfaction but it will also damage the brand reputation of legitimate new vehicle importers.

Another unintended consequence of large-scale second-hand "grey" imports into the New Zealand market has been an increase in urban traffic congestion due to the number of vehicles per household increasing compared to historical ownership levels.

Ford Australia urges great caution and careful consideration before allowing increased market access for second-hand "grey" vehicle imports.

Ford Australia believes the issues raised above are important and relevant to the overall automotive industry debate and trusts that these matters will be considered by the Productivity Commission as it develops its final report and recommendations for the Federal Government.

Any queries regarding this paper should be forwarded to the attention of:

**Government Affairs Director**
Ford Motor Company of Australia Limited

Attachment 1 – Just-Auto "Russia: Government to plough US$8bn in automotive subsidies" 24/01/2014

# RUSSIA: Government to plough US$8bn in automotive subsidies

By Simon Warburton | 24 January 2014

Russia is to provide subsidies to domestic automakers worth US$7.8bn to 2016 as the country sees its hitherto booming vehicle sector's performance dip slightly.

Figures from Russian specialist organisation, the Association of European Businesses (AEB), show full-year sales of new passenger cars and light/medium commercial vehicles fell 5.5% to 2.78m units - below the previous year's record level.

The forecast from the same organisation for 2014, estimates numbers to be marginally below those for last year at 2.73m units.

The substantial grants on offer originate from the Russian Ministry of Industry and Trade and are targeted at R&D, testing, meeting Euro 4 and Euro 5 standards and maintaining jobs, among other sectors, but are also aimed at supporting automotive manufacturing in Siberia and the Russian Far East.

"The signed resolutions establish rules for disbursing Federal Treasury subsidies to partly cover related expenditures made by automotive manufactures starting from 1 January, 2014," said a statement from the Russian Ministry of Industry and Trade.

"The decisions made are aimed at achieving, by 2020, the following targets set in the automotive industry sub-programme, of the state programme, Advancing Manufacturing Industries and Raising Their Competitiveness: raising the share of VAT in the sector to 48% (RUB2.2tn); bringing the production of domestic cars to 3.1m per annum; of commercial minivans to 280,000; of trucks to 280,000; and of buses to 35,000.

[Also] "Bringing the share of Russian-made motor vehicles [on] the domestic market to 80% for cars, 90% for commercial minivans; 85% for trucks; and 99% for buses; building up the car fleet to the level of 363 automobiles per 1,000 residents."

Joerg Schreiber, chairman of the AEB Automobile Manufacturers Committee, commenting on the 2013 figures said: "A strong finish in the final month of the year 2013, which had been rather difficult most of the time.

"No doubt the run-out of the car loan subsidy in December played a role in bringing more customers to dealer showrooms than in the months before - in addition to the regular year end peak and unusually mild weather."

Neither the Russian President or Prime Minister's office was immediately available for comment.

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*The documents have been drafted by the Russian Ministry of Industry and Trade.*

*The federal law On the Federal Budget for 2014 and the Planned Period of 2015 and 2016 provides for federal Treasury subsidies to Russian manufacturers of motor vehicles with a view to covering part of their expenses on the following:*

*- R&D and testing (2.5 billion roubles in 2014; 2.7 billion in 2015; 2.9 billion in 2016);*

*- energy usage by energy-intensive car makers (5.9 billion roubles in 2014; 6.3 billion in 2015; 6.8 billion in 2016);*

*- issuance and fulfilment of warranties on motor vehicles meeting the Euro 4 and Euro 5 standards (25.2 billion roubles in 2014; 27 billion in 2015; 29 billion in 2016);*

*- maintenance of jobs (50.4 billion roubles in 2014; 54.1 billion in 2015; 57.9 billion in 2016).*

*The signed resolutions establish rules for disbursing federal Treasury subsidies to partly cover related expenditures made by automotive manufactures starting from 1 January, 2014.*

*The decisions made are aimed at achieving, by 2020, the following targets set in the Automotive Industry subprogramme, of the state programme Advancing Manufacturing Industries and Raising Their Competitiveness:*

*- raising the share of VAT in the sector to 48% (2.2 trillion roubles);*

*- bringing the production of domestic cars to 3.1 million per annum; of commercial minivans to 280,000; of trucks to 280,000; and of buses to 35,000;*

*- bringing the share of Russian-made motor vehicles at the domestic market to 80% for cars, 90% for commercial minivans; 85% for trucks; and 99% for buses;*

*- building up the car fleet to the level of 363 automobiles per 1,000 residents;*

*- stimulating automotive manufacturing in the regions, including in Siberia and the Russian Far East.*

*Original source: http://government.ru/en/docs/9795*