

13 February 2014

Australia's Automotive Manufacturing Industry  
Productivity Commission  
LB2 Collins Street East  
Melbourne Vic 8003

Dear Commissioner,

I write to you in relation to the Productivity Commission's Position Paper on Australia's Automotive Manufacturing Industry.

### **Executive Summary**

Subsequent to Business SA's submission to the Issues Paper, the decisions taken by both Holden and Toyota have reframed our position on how future assistance to the auto manufacturing industry should be managed. Given there is now an end date for auto-manufacturing in Australia, the focus of Government policy now needs to be on ensuring that any changes to the Automotive Transformation Scheme (ATS) funding do not further impede the transition that auto component companies will have to begin over the next four years.

In the transition phase, it will also be critical that all Government spending is carefully targeted to areas of market failure and to where component companies specifically need assistance. Furthermore, funding of infrastructure in affected regions is an integral part of any Government assistance and a broad assessment of benefits across the State and Nation must be considered, particularly where infrastructure is targeted to improve export gateways.

### **Background**

Business SA makes the following comments on the Position Paper following on from our submission to the Issues Paper:

1. Given that the majority of jobs affected are in the auto component supply industry, ensuring that as many component companies as possible stay in business should be top priority for the assistance package to transition South Australia's economy beyond Holden's manufacturing exit.
2. In our discussions with component supplier members, it is clear that a one size fits all approach will not be sufficient to assist them transition from reliance on locally based auto-manufacturing. The companies involved are quite diverse in terms of ownership structures, leverage ratios, range of customers and markets, levels of sunken investment and the ability to sell redundant plant and equipment.

There are many component suppliers already diversified to some extent but which still rely on supplying Holden and Toyota for a significant proportion of revenues. To keep these companies in business, the Federal Government may need to consider arrangements which can facilitate the merger of such businesses to ensure the industry does not lose companies which could remain viable if merged. For example, tax incentives to facilitate the disposal of redundant plant and equipment or Holden specific redundancies may assist local businesses to merge.

3. While diversification of existing businesses is an ideal policy goal, it is far from being simple in reality and the assistance package needs to be carefully constructed to provide businesses the actual help they need, not the help they are perceived to need. The businesses in the auto-manufacturing sector which have managed to diversify away from entirely relying on local auto-manufacturing have taken many years to do so.

Founding new relationships in established markets is inherently difficult and takes time. For many companies who have predominantly relied on auto-manufacturing, their customer network is the auto-manufacturing companies which will not help them diversify into new markets. The Government can assist this process through providing resources for businesses to explore new market opportunities both here and overseas or through coordinating other industries, such as food and beverage manufacturing, to bring together businesses in targeted expo settings.

4. Business SA agrees that any significant reduction of subsidy funding (as outlined in the MYEFO estimates) during the next critical few years of transition could result in adjustment costs greater than the savings benefits to Government.

The savings to be realised under the ATS from the exit of Ford, Holden and Toyota, should allow the Government the flexibility to ensure a smooth funding profile to the auto component industry for the remainder of the Scheme's life.

The Department of Industry's projections for ATS capped payments, 2014-2020, show significant savings in 2015-2017. These savings should not be followed by additional cuts during that early period, given it will discourage innovation, research and development and impede the diversification of auto component companies away from locally based auto manufacturing.

5. Eventually, Holden employees and many others in the auto-manufacturing supply chain will require re-training or formal certification of existing skills. However, it will be critical that Governments at both levels focus on keeping remaining component companies in business and creating the economic and regulatory conditions which can facilitate their expansion concomitant with the expansion of other industry sectors such as food and beverage manufacturing. While re-training will be important, it is just as important to ensure that there are jobs at the end of that training to avoid a very expensive policy failure.
6. The Northern Connector infrastructure project will provide a competitive export gateway into Port Adelaide and will deliver significant economic benefits for the State, mainly through reducing freight costs for regional exporters. While the benefits of construction may initially flow to the region affected by Holden's manufacturing exit, the long term benefits are more likely to accrue to regional South Australia. This project has also been assessed by Infrastructure Australia and is already at the threshold level for funding.

Following the recent announcements by both Holden and Toyota, Business SA is calling for this project to commence as quickly as possible.

7. Regional infrastructure requirements should also be addressed, such as the need for a 275 KV transmission line on the Eyre Peninsula to support expansion of mining in that region. Business SA acknowledges the present fiscal situation at both levels of Government but infrastructure spending which can facilitate sustainable export led economic growth is not just replacing one subsidy with another because it ultimately enables expansion of industry sectors (which have a comparative advantage) in world markets.
8. Business SA wishes to emphasise to the Commission that any move by the Federal Government to reduce car tariffs prior to the end of 2017 is likely to bring forward the closure of both Holden and Toyota's Australian manufacturing operations. The transition period for South Australia's auto component companies will be difficult enough as it is without further pressure from Government policy decisions. The Government must provide component companies with policy certainty to ensure they can make the investments needed to achieve diversification and help create sustainable jobs for their employees and other displaced auto manufacturing workers.

#### **Who We Are**

As South Australia's peak Chamber of Commerce and Industry, Business SA is South Australia's leading business membership organisation. We represent thousands of businesses through direct membership and affiliated industry associations. These businesses come from all industry sectors, ranging in size from micro-business to multi-national companies. Business SA advocates on behalf of business to propose legislative, regulatory and policy reforms and programs for sustainable economic growth in South Australia.

Should you require any further information or have any questions, please contact Rick Cairney, Director of Policy, Business SA on (08) 8300 0060 or [rickc@business-sa.com](mailto:rickc@business-sa.com).

Yours sincerely



**Nigel McBride**  
Chief Executive Officer