

Response to the Productivity Commission Position Paper Australia's Automotive

Manufacturing Industry January 2014

This is an unprecedented time in the history of the Australian economy. We will have not one manufacturer of passenger vehicles (PVs) in this country by 2018 and possibly earlier. The announcements of Ford to close in 2016, and GM Australia and Toyota to close by 2017 represents the worst possible de-industrialisation of our economy.

The car manufacturing industry and the capital markets are highly sensitive to change. There is a lot more research to be done before we decide as a country to abandon the enormous and capable advanced manufacturing ecosystem we have assembled today around the design and building of cars.

Our country of almost 24 million people buys more than 1.1 million PVs every year from local and overseas suppliers¹. There are more than 13 million PVs on the road in Australia and this figure keeps growing at 2.2 per cent per annum². You would think a market of this size in an economy as advanced and sophisticated as Australia's, with particular vehicle needs in the rural and mining sectors, would at least be able to have developed one vehicle manufacturer at least.

¹ <http://www.caradvice.com.au/265366/car-sales-2013-toyota-corolla-steals-title-australias-popular-car/>

² ABS Motor Vehicle Census 2013

By way of comparison, Germany, a population of 82 million people, supports six multinational PV makers. These are VW-Audi (the second biggest PV maker in the world), BMW, Mercedes Benz, Porsche, Opel (Part of the GM group) and Ford Germany.

Australia has finally reached the critical mass, after making PVs for more than 50 years, to support at least one manufacturer. And yet we are witnessing the hollowing out of this industry. It beggars belief that we have not been able to construct a joint venture with a global maker, or even build an Australian-owned PV company. It will take us a long time to recover from this folly.

We cannot let the dedicated and skilled component manufacturers that make up FAPM, such as ArcelorMittal, Arrowcrest Group, BlueScope Steel Limited, Futuris Automotive Group, Milford Industries, Multislide Industries, Precision Components, SMR Automotive Australia, Tenneco Australia, TI Automotive, Toyoda Gosei Australia, and ZF Lemforder Australia, slip into the abyss in the next 18 - 24 months.

The Federation of Automotive Products Manufacturers (FAPM) argue that assistance to the supply sector will be critical, and that announcements of assistance programs should be well considered before implemented. In particular, FAPM highlight the need for assistance measures to be well targeted. It is imperative that Ford, GM Holden, and Toyota remain in Australia as close as possible to their indicated end dates to allow suppliers time and funds to properly transition.

The chief executive of financial services group KPMG, Mr Con Tragakis, when recently approached to speak on the closure of Toyota said, "What's happened in the economy gives us a real chance to work together, but the real message for me is how we can engage the citizens of South Australia in this process". This comment does not include the component manufacturers, who will be the hardest hit and will require much of the assistance package.

The automotive supplier base will continue to be challenged by the gradual decline in volume, decrease in stock levels, management of respective tiered suppliers, entitlement payments, and employee morale to name a few. The Managing Director of Precision Components, Mr Darrin Spinks, believes that suppliers need to be supported by the Government in their quest for diversification, as this is where the majority of automotive jobs currently sit.

On page 15, reference is made to the importation of second-hand PVs and the flat tax of \$12,000. The Commission writes that the "rationale for such a policy is weak." I strongly recommend that this policy remain, at least for now. To allow open slather would potentially see a flood of cheap second-hand cars, especially from Japan where strict air and noise pollution controls result in a short life for new vehicles and the concomitant high volume of domestic sales. The impact of change needs to be examined very carefully before the removal of this tax.

Also on page 15, the Commission refers to the Australian, South Australian and Victorian governments purchasing preferences for locally-produced PVs, and states that these policies should be removed. Again I say, let's wait and see until at least 2018. This also applies to the Luxury Car Tax.

In relation to the Productivity Commission's Draft Proposal 3.1, that the Australian Government should not extend or replace the Automotive Transformation Scheme (ATS) and the Green Car Innovation Fund (GCIF), we say this: There is the opportunity to re-think this industry. The loss of interest by the three global car-makers does not mean that we should abandon PV manufacturing. Now is the time to thoroughly and creatively explore our transportation needs. The ATS and the GCIF, while clearly targeted at Ford, GM and Toyota, may well be attractive to new players. There are significant other participants in this space and we need to exhaust all of the potential to invest in PV manufacturing in Australia, by overseas or local investors, or a combination of these.