18 December 2006

Science & Innovation Study
Productivity Commission
PO Box 80
Belconnen
CANBERRA ACT

Dear Sir/Madam

Subject: SCIENCE & INNOVATION STUDY

We write in response to a public invitation for comment on issues raised in the recently published draft research report "Public Support for Science and Innovation". This submission will focus on issues relating to the commercialisation of research and development; and accompanying suggestions made in the draft research report.

Ford Australia is a leading automotive company with extensive design, engineering and manufacturing facilities located in Broadmeadows and Geelong, Victoria. Its core products are the Ford Falcon and Ford Territory which are sold in Australia as well as export markets in New Zealand, South Africa and Thailand. In 2005, Ford Australia sold 128,140 locally manufactured and imported vehicles. A further 10,000 locally manufactured vehicles were exported.

Earlier this year, Ford Australia announced a new, innovation-focused, strategic direction for the company, including significant investment in new projects and accompanying facilities of more than $1.8 billion over the next decade. A key element of this new strategy was an expansion of Ford Australia's product development capability, and its enhanced role as a design and engineering "centre of excellence" for the Asia Pacific and Africa region. One of the first major projects under this umbrella is the design and engineering leadership of a new light commercial vehicle to be sold in more than 80 countries. This project represents one of the most significant automotive R & D initiatives ever undertaken in Australia.

Ford Australia believes the Productivity Commission has generally well appreciated the contribution that is made to the wider community by public funding support for science and innovation. It agrees the benefits of such research and development to the broader national economy are significant. However, the company believes the commission has seriously under-estimated the national contribution of what it describes in the draft report as incremental catch-up research and development. Furthermore the company is surprised by the commission's apparent suggestion that the benefits of public support for research and

development could be constrained by a concentration on such sectors as the automotive industry.

A global characteristic of technically-based industries such as automotive manufacture is the evolutionary nature of product development. This in part reflects the enormous capital demands of the industry with model specific infrastructure such as engine, stamping and assembly plants, together with ever reducing model life-cycles with a focus on continuous incremental improvement and very strong competitive intensity in the marketplace. In such an environment, incremental research and development plays an important role in determining competitive success. A passenger motor vehicle, for example, that does not benefit from continuous technical refinement and manufacturing process improvements will over a relatively short period of time become uncompetitive relative to other motor vehicles in the marketplace. This is particularly applicable in an automotive market like Australia, which has in recent years developed into one of the most competitive in the world with more than 50 different brands and 350 different models from 25 source countries readily available.

Ford Australia can readily illustrate the incremental nature of its extensive research and development activities. Three examples are the dedicated LPG Ford Falcon, the Ford Territory and ACART. Ford Australia was the first local manufacturer to complement its supply of petrol-fuelled vehicles by offering dedicated-LPG variants of the Ford Falcon. These vehicles were first introduced in 1999. More than 50,000 dedicated-LPG Ford Falcon vehicles have now been sold with extensive economic and environmental spillover benefits to their purchasers and the wider community, particularly during a period of rising fuel prices. This has been strongly evident in 2006 where sales of the LPG vehicle are more than 70% higher than in the previous year. The Ford Territory was the first SUV to be designed, engineered and manufactured in Australia. It reflects a program investment of more than $500 million, incorporates substantial local content developed by and sourced from Australian suppliers and has been the top-selling SUV in Australia since its launch in 2004. The development of the Ford Territory also saw the first introduction of dynamic stability control to a locally-made vehicle. The Advanced Centre for Automotive Research and Testing (ACART) is a collaborative undertaking between Ford Australia and the University of Melbourne. It seeks to provide the local automotive and transport industries with state-of-the-art infrastructure and highly skilled personnel. The Centre, now under construction will be located at two nodes near Geelong and Parkville. When completed, it will incorporate an alternative fuel emissions facility, environmental laboratory and an engine dynamometer facility. These facilities will each have third-party access.

Ford Australia firmly believes the abovementioned projects have delivered considerable spillover benefits. The incremental research and development behind these projects, and public support provided by such programs as the Automotive Competitiveness and Investment Scheme (ACIS) STI and the Income Tax R & D concession, have delivered considerable benefits to consumers sooner and in greater quantity than may have been possible with projects of a significantly more advanced scientific character. An illustrative example of such an advanced project could be the Orbital two-stroke engine.

Far from being the result of too great a level of support in a declining sector, Ford Australia would strongly argue that both the dedicated LPG Ford Falcon, the Ford Territory and ACART are strong examples of projects which have enhanced the competitiveness of manufacturing industry in Australia.

Ford Australia would support an increase in the available level of the R & D tax concession, including a relaxation in the beneficial ownership requirements related to the ownership of intellectual property of overseas-owned subsidiaries held abroad. However, the company does not believe a sound case has been made for a reorientation of the concession toward the premium level. A tiered-system may also penalise significant research and development investors like the automotive industry because of its exposure to investment peaks and valleys associated with model cycles.

We would be happy to discuss these issues in greater detail.

Yours sincerely

Russell Scoular
Government Affairs Manager