Submission to the Productivity Commission's Position Paper into the Review of the Australian Automotive Manufacturing Industry

Federal Chamber of Automotive Industries
Level 1, 59 Wentworth Avenue
Canberra ACT 2604
Phone: +61 2 6247 3811
Facsimile: +61 2 6248 7673

Contact: Mr Tony Weber

OVERVIEW

The FCAI welcomes the opportunity to respond to the position paper released by the Productivity Commission's Review of the Australian automotive manufacturing industry.

The FCAI is the peak industry organisation representing vehicle manufacturers and importers of passenger motor vehicles, SUVs, light commercial vehicles and motor cycles in Australia. The FCAI made its initial submission to this Inquiry in December 2013.

In the time since the 31 January release of the PCs Position Paper, Toyota Motor Corporation-Australia (TMC-A) has announced it will also cease automotive manufacturing in Australia by the end of 2017. This means that all three domestic automotive manufacturers will cease operating in Australia, bringing to an end the Australian automotive manufacturing industry. This will have profound implications for other businesses throughout the economy, most particularly the automotive supply chain.

The FCAI offers the following feedback on specific elements of the PCs position paper and broader government policy.

Ongoing financial assistance

All three domestic automotive manufacturers have announced they will cease automotive manufacturing in Australia. Ford has announced it will cease manufacturing in 2016, while Holden and Toyota have announced they will cease domestic manufacturing by the end of 2017.

There is an urgent need for Government to provide clarity and certainty around the Automotive Transformation Scheme funding profile. The incoming Abbott Government announced as part of its election commitment a reduction in the level of funding of the Automotive Transformation Scheme of $500 million. In its Mid-Year Economic and Fiscal Outlook (MYEFO) the Government outlined how it would achieve this reduction in funding.

Mid-Year Economic and Fiscal Outlook 2013-14 (Page 170)
Automotive Transformation Scheme — reduction in funding

Expense ($m)

	2012-13	2013-14	2014-15	2015-16	2016-17
Department of Industry	-	-	-100.0	-175.0	-150.0

The Automotive Transformation Scheme operates on a calendar year basis. When the Government's budget cut is reported on that basis the Government has advised that the ATS will be reduced accordingly:

ATS Calendar Year	**2011 ($m)**	**2012 ($m)**	**2013 ($m)**	**2014 ($m)**	**2015 ($m)**	**2016 ($m)**	**2017 ($m)**	**2018 ($m)**	**2019 ($m)**	**2020 ($m)**	**Total ($m)**
Capped Funding as Currently Legislated under ATS Regulation 3.9	300.0	300.0	300.0	300.0	300.0	300.0	300.0	216.7	133.3	50.0	**2,500.0**
Less MYEFO Savings	-	-	-	-	-200.0	-150.0	-150.0	-	-	-	**-500.0**
Capped Funding After MYEFO Savings (and subject to legislative amendment)	**300.0**	**300.0**	**300.0**	**300.0**	**100.0**	**150.0**	**150.0**	**216.7**	**133.3**	**50.0**	**2,000.0**

Notwithstanding the decision by the three domestic manufacturers to cease automotive manufacturing there remains an ongoing need to ensure policy and funding certainty between now and 2017 for the OEMs and potentially until the end of the ATS for the supply chain and other entities. As currently proposed, the effect of the phasing of these reductions will mean that 66 per cent of funding in 2015 will be cut, leaving both the automotive manufacturers and its supply base without the policy and program support they require as part of the industry's transition and consolidation. The FCAI agrees with the Productivity Commission's finding that:

> "…the uneven funding profile could elevate the risk of earlier plant closures by Ford and Holden and might negatively affect investment decisions by Toyota and its component suppliers. The changes to the legislated funding schedule could therefore result in costs greater than the savings benefits by front-loading large, simultaneous adjustment costs throughout the automotive manufacturing industry. The announced savings will potentially elevate policy uncertainty for the automotive manufacturing industry at a time of already major structural change."[1]

Left unaddressed, the FCAI is strongly of the view that this is likely to precipitate an early closure of the entire automotive industry, particularly through increased financial pressure on the supply chain that have already factored in the ATS to the their long-term business and investment decision-making process. Undermining this certainty will bring forward the early closure of the supply chain and the closure of the three domestic manufacturers. As modelling undertaken for the FCAI as part of the PC review process shows, the closure of the automotive industry in Australia will cause a significant economic downturn in both South Australia and Victoria, with substantial reductions in economic activity, investment activity and increased unemployment levels in areas already economically disadvantaged. On a national basis, it is modelled that it will leave Australia's GDP with a $7.3 billion hole in it (in 2018 $ terms)[2].

The FCAI does not support the $500 million reduction to the Automotive Transformation Scheme (ATS) funding profile, particularly at a time of substantial ongoing structural adjustment in the industry. In the event that the Australian Government persists with this commitment, the FCAI questions the phasing of the proposed reduction, in particular cutting the ATS funding in 2015 by $200 million. Should the Government proceed with this funding reduction, the FCAI believes that the bulk of savings proposed should be made in the outyears, when there will be substantially less demand from the three car manufacturers and the supply chain. Given that these companies have expressed their intent to maintaining their manufacturing operations until 2016 and 2017 respectively, adjusting the ATS reduction would allow the three manufacturers and the supply chain access to ATS entitlements and ease the transition for the substantial supply chain that will need to adjust to a post-local vehicle manufacturing environment. Early clarification of the phasing of the reduction of ATS funding will enable suppliers to better understand the level of modulation that will occur on claims made under the ATS and how this will impact on their business operations.

The FCAI supports the proposal put by other participants to modify the parameters of the current ATS to recognize, support and facilitate investment in research and development activities post the ceasing of domestic automotive manufacturing. While it is regrettable that automotive manufacturing will cease in Australia, both Ford and Holden have committed to maintaining their significant design and development

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[1] Productivity Commission Position Paper, *Australia's Automotive Manufacturing Industry*, p.85

[2] http://www.pc.gov.au/__data/assets/pdf_file/0010/130123/sub030-automotive-attachment.pdf

facilities in Australia. A change to the ATS parameters to encourage further investment in these, and other, facilities would help nurture complex design and engineering work in Australia, in turn providing significant technical skills for the country.

Other Transition Matters

Given that all three domestic motor vehicle manufacturers have announced they will cease domestic manufacturing it is now critically important to provide the automotive supply chain access to transitional support through mechanisms that help foster diversification and consolidation.

To support an orderly wind-down of manufacturing, the FCAI supports a government-led review and development of a plan of action for business continuity.

Large-scale importation of second-hand 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]

The FCAI notes that the PC seeks further information on the benefits and costs of removing restrictions on the large-scale importation of second-hand vehicles.

Initially, the FCAI would like to point out that the PC has only considered the importation of second-hand vehicles in terms of the review into domestic automotive manufacturing. The FCAI believes that any consideration of this policy needs to have a 'whole-of-government' view to consider other policy objectives, such as the health impacts from government road safety and environmental policies.

Specifically in terms of both these policies, it is generally acknowledged that newer cars are safer and more environmentally friendly than older cars. Indeed, the entire regulatory regime around the Motor Vehicle Standards Act is based on the philosophy that introducing newer Australian Design Rules provide a benefit to the Australian community with safer and more environmentally friendly cars. The FCAI refers the Productivity Commission to Regulatory Impact Statements released by the Department of Infrastructure and Regional Development for various Australian Design Rules including mandating brake assist systems and Euro 5 emissions standards.

The FCAI also refers to the experience in New Zealand, where there are few restrictions on the large scale importation of second-hand cars. As a consequence of that policy position, around 50 per cent of all 'new' light vehicles introduced into New Zealand today are second-hand vehicles. As a consequence the average age of a second-hand light vehicle entering New Zealand since 2000 has risen from just over 7 years to more than 8 years in 2012. This has resulted in an increase in the average fleet age in New Zealand from around 11.5 years in 2000 to around 13 years in 2012.[4]

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

[4] New Zealand Ministry of Transport, February 2013, *The New Zealand Fleet, Annual Fleet Statistics 2012*

In contrast over the same period, the Australian vehicle fleet age has decreased from around 10.5 years to 10 years old[5].

The FCAI acknowledges that the PC has noted it would be appropriate to deal with the consumer protection, community safety and environmental performance through regulatory standards. The FCAI's view is that to deliver the community's expected consumer protection and the government's road safety and environmental objectives, regulatory standards for both new and used imports (i.e. current ADRs) and the level of evidence required to demonstrate compliance would need to be the same for both new vehicles and second hand imports. This would lead the cost of used imports to increase due to the need for importers to undertake extensive certification testing without the ability to amortise the cost of large number of vehicles sold into many markets and access to the brands extensive research and testing data. The FCAI believes that the only effective way of reducing the cost of compliance in this circumstance would be to also reduce the level of safety and environmental standards which would lead to increased cost to the community through health and injury associated with less-safe vehicles.

Beyond the safety issues associated with the large-scale importation of second-hand cars, the FCAI is concerned that the Productivity Commission only considered the initial purchase cost of the motor vehicle. It does not appear that, in making this draft finding, the PC has considered the total cost of ownership of the motor vehicle. It does not appear to give appropriate consideration to the cost of servicing and obtaining parts of motor vehicles that are not supported by the established brands and their service network. Nor does it appear to consider the availability of trained technicians within Australia in both the franchised dealer network and non-aligned workshops to undertake the service and repair of second-hand models sourced from many locations around the world.

Similarly, the PC appears to have not considered the reputational impact on the motor vehicle brands of another organisation importing poor quality second-hand motor vehicles. Motor vehicle brands make a significant investment in building and maintaining their brand recognition, including ongoing in-service support (parts and repairing) of their products in the marketplace. This needs to be better recognized by the PC in its consideration of this draft finding.

Finally, the FCAI is concerned that the PC has not given appropriate consideration of the ability for existing government agencies at both state and federal levels to provide adequate levels of consumer protection to ensure second-hand cars meet necessary quality, safety and environmental standards.

Luxury Car Tax

The FCAI supports the abolition of the Luxury Car Tax (LCT). The FCAI recommends that Government consider options to abolish the LCT, such as a staged phase-down of the LCT threshold from the current 33 per cent to zero.

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[5] Australian Bureau of Statistics, January 2013, *Motor Vehicle Census, 9309.0,*