
FCAI Submission to the Senate Economic References Committee Inquiry into Australia's Innovation system



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 Senate Committee's inquiry into Australia's innovation system. The FCAI has also provided observations and recommendations relevant to this inquiry in its submissions to the Productivity Commission's Review into the Australian automotive industry, and attach for reference a copy of the 2013 report, *The Strategic Role 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. As such, our members are very heavily involved in the innovation system, both in Australia and internationally.

Innovation is central to the development of a national economy. It is well established that innovative businesses are more profitable, more productive and more likely to employ more people. The Australian Bureau of Statistics has previously found that Australian businesses that innovate are also more likely to invest in employment training and more likely to be involved in the community.¹

International experience too shows that a strong innovation system is critical to a vibrant and prosperous economy. This is demonstrated by examples such as those in the United States where commercial success in information technology has been driven by innovation in new knowledge.

To this end, universities as centres of research play a pivotal role in the innovation system, both in their role generating new knowledge and in the international transfer of ideas, methodologies and concepts. They also play a crucial role in developing the technical skills and knowledge base that in turn contribute to innovation and commercialisation in the corporate sector.

Unfortunately, as the 2012 Australian Innovation System Report identified, Australian business innovation performance ranks behind other countries, with large Australian-based businesses ranking at the bottom of OECD tables for innovation. In contrast, the Australian domestic automotive industry has been at the forefront of innovation and commercialisation of R&D. While domestic manufacturing is to cease from the end of 2017, there is scope and opportunity to ensure that Australia continues to benefit from ongoing investment in high-value automotive R&D and product development by providing bipartisan innovation policy certainty.

Automotive manufacturing: innovation in Australia

The Australian automotive industry is one of Australia's most advanced industries. It deploys advanced manufacturing techniques, technologies and adds value through the broader economy far beyond its manufacturing core.

Australia is currently one of only a few nations in the world with the capability to produce a car from concept to delivery. The Australian automotive industry competes globally and designs, engineers and manufactures a complete range of automotive components including body and chassis systems, electrical and control systems, drivelines, interiors and aftermarket accessories.

Innovation is central to automotive manufacturing and design. According to the Organisation of Motor Vehicle Manufacturers, OICA, the global automotive industry invested almost €85 billion in

¹ Australian Innovation System Report - 2012

R&D in 2005.² In Australia, while the manufacturing sector spends the largest amount on business R&D (\$4.8 billion or 26.6 per cent of total business R&D spending in 2010-11), ABS data shows that nearly \$700 million was invested in R&D in motor vehicles and parts in 2010-11. This includes around \$480 million for motor vehicle manufacturing alone.³

Indeed, innovation in the automotive industry is seen as central to an advanced economy around the world. Out of the 20 countries in the G20, only one currently does not have automotive manufacturing. Those countries have seen automotive manufacturing as a strategic investment and all provide significant assistance to their local automotive industries in a range of ways.

Historically the Australian Government has seen value in supporting this investment through a variety of funding and structural assistance mechanisms. The Automotive Transformation Scheme (ATS) is the latest incarnation of this assistance, providing capped funding of \$300 million per year to encourage competitive investment and innovation in the Australian automotive industry. Prior to this, the Australian Competitiveness and Investment Scheme (ACIS) also provided an effective mechanism to encourage and nurture investment in automotive R&D.

This strong focus on innovation has been greatly assisted by the international linkages the domestic automotive industry maintains. The Australian automotive industry is replete with highly skilled designers and engineers involving high-value and high-technology practices. The major car companies, notwithstanding their decisions to cease automotive manufacturing in Australia by the end of 2017, have designers and engineers who work on global projects for their parent companies. These operations exist in very few locations around the world; they exist in Australia because the expertise of the people involved and the high regard in which they are held throughout their parent companies. In other words, we have an advanced innovation capability.

This focus on innovation is also demonstrated by the very strong links the domestic automotive industry has developed, and maintains, with the Australian university sector. In particular, the domestic industry has developed strong working relationships with the University of Melbourne, Deakin University, the Royal Melbourne Institute of Technology and the Australian National University. These universities provide not just graduates and the necessary technical skills for the industry, but they also provide an important conduit to the research community for technologies commercialised by the automotive industry.

The domestic supply industry also consists of highly trained and professional engineers and designers that produce advanced equipment and technology for use in the manufacturing process. These skills and the innovation that is endogenous to the industry deliver benefits to the broader economy, magnifying their value further. While difficult to quantify, these spillovers are well-recognised through the broader economy. Such spillovers benefit the economy in ways that are clearly recognized by industry leaders around the nation. These include chief executives of companies like Boeing, BHP Billiton, Rio Tinto and Coca-Cola Amatil, each of whom have directly related the success of their own businesses to the skills and expertise gleaned from the automotive

² *The Strategic Role of the Australian Automotive Manufacturing Industry*, p.4

³ *Research and Experimental Development, Businesses, Australia, 2010-2011*, Cat. No. 8104.0

industry in Australia.⁴ The Australian Government has also recognized that the automotive industry benefits the broader economy through its extensive linkages into other parts of the economy like heavy engineering, tool making, aerospace and marine.⁵ Many of these stretch across related industries like defence.

The future of automotive innovation in Australia

Although the three domestic automotive manufacturers will cease manufacturing motor vehicles in Australia by the end of 2017, they have each announced that they will maintain research and development facilities in Australia. These range from concept designs and product development through to product adaptation and technical facilities. Nissan also maintains a considerable manufacturing presence in Australia at its casting plant and provides a range of advanced componentry for the technologically advanced Nissan Leaf electric vehicle.⁶

These are important facilities for Australian industrial design and automotive innovation capabilities into the future. They are also significant businesses in their own right. Holden, Ford and Toyota continue to engage in significant services exports through their design capability, with all three having recently played a lead role in the development of new car models for their respective parent companies.⁷

Internationally competitive R&D support

Following the cessation of domestic automotive manufacturing at the end of 2017, Australia can continue to have a valuable link into this important industry through its high-value, innovation-intensive design and product development operations. However, if Australia is to maintain the technical and design advantage it currently enjoys across automotive product development, then as a country we must have consistent, long-term internationally competitive policy assistance.

The automotive industry's competitiveness in attracting global capital is strongly influenced by the level of support, including financially, provided by the national government. On this measure, Australia is at the bottom of the league table.⁸ Eroding this modest level of assistance, by reducing the total amount of financial support or by altering the existing Automotive Transformation Scheme in ways that erode this policy framework as is currently proposed through the reduction of \$500 million in assistance between 2015 and 2018, and the cessation of the ATS program in 2018, increases the level of uncertainty in automotive policy and decreases the attractiveness of Australia as an investment destination.

An important first step as part of this is reversing the Government's current announced intention to reduce the available assistance from 2015 to 2018 by \$500 million, and the closure of the scheme from 2018. This would mean the continuation of the Automotive Transformation Scheme at current levels through to 2020. Secondly, the Government needs to make changes to the ATS regulations to allow OEMs to continue accessing funds for automotive R&D once manufacturing ceases.

⁴ *The Strategic Role of the Australian Automotive Manufacturing*, p.38

⁵ <http://www.industry.gov.au/industry/automotive/Pages/AbouttheAutomotiveIndustry.aspx>

⁶ <http://www.themotorreport.com.au/54651/first-australian-made-nissan-leaf-components-shipped-to-japan>

⁷ *The Strategic Role of the Australian Automotive Manufacturing*, p. 39

⁸ See *The Strategic Role of the Australian Automotive Manufacturing*, p.6

In the event that the ATS is to be abolished, the FCAI would support a new automotive R&D co-investment policy to maintain and grow the established automotive R&D infrastructure and skills base currently in Australia. Any such replacement program needs to recognise that Australia can be a potential source of design and engineering services for global markets. Establishing Australia as a global centre of excellence for automotive R&D is an achievable objective given the right policy settings and support for academic institutions.

Finally the FCAI would like to ensure that the Committee is aware that our sector is conscious of the claim by some parties that as motor vehicles become more complex there is a tendency for manufacturers to withhold data on service and repair processes. While the FCAI fails to see a clear link to the terms of reference for the Committee⁹, it is important that the Committee is aware that the FCAI has developed a draft industry Code of Practice on Access to Service and Repair Information that is expected to be released at the end of August 2014. This document clearly communicates the path to service and repair information for the independent repair sector. The data is already available; however the FCAI has taken an approach in conjunction with the Commonwealth Consumer Affairs Advisory Council to more publicly promote the path to access.

The FCAI trusts that the information contained in this submission assists the Committee's inquiry and the Chamber would be happy to participate further with the Inquiry.

⁹ Any potential supplier of innovation is welcome to contact the overseas or local OEM and offer ideas and solutions to improve manufacturer/consumer outcomes. The provision of service and repair information to Australian repairers seems quite distant from the value point of contact for innovative manufacturing or repair input.