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STRUCTURE OF INDUSTRY PLANS
INTERIM REVIEW - AUTOMOTIVE

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STRUCTURE OF INDUSTRY PLANS

INTERIM REVIEW - AUTOMOTIVE

Foreword

This report is one of a series of working papers to be produced by Monash University as part of regional industry development research in South East Melbourne funded by the University, Phillip Morris and local Government and developed in collaboration with the Centre of Advanced Engineering for Manufacturing at Melbourne University and RMIT, and National Institute of Economic and Industry Research (NIEIR).

This is an interim report on the initial findings from the automotive industry and work is continuing in the Textile, Clothing and Footwear and Pharmaceutical industry sectors. A central feature of the work in this series is to use the data collected to stimulate debate at both the industry and academic levels and to develop "real world" information and strategies for industry of the South East Melbourne region.

The aim of this research is to outline a framework for the successful development and implementation of industry plans. Review of the automotive industry plan has highlighted the need for a dynamic industry plan structure which provides firm direction for industry together with adjustment and review processes to deal with the ever changing domestic and global environment.

We welcome comment on the conceptual approach used to analyse and develop industry plans and regional sector strategies to assist us in our future research.

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Government Industry Plans: Are they a way to the Future?

A government plan for an industry must ultimately be good for the country. If the plan fails to improve the country's competitiveness and economy and the community's quality of life, then it must be regarded as failure of the government and not the industry. The debate between advocates of the "free market" and the "interventionists" in regard to maximising our utility is old and tired but far from resolved. In this working paper this debate is seen as misleading, a more appropriate view is that the plans which various country's governments have for their industries profoundly affect the nature of the market and in turn are affected by the market. Therefore government industry plans are part of business reality and the important questions now are: what should the content of the industry plan be (a plan to do nothing is still a plan); and how should they be developed and implemented?

The driving question of the research project is: "can the industry plan approach be used in a regional context?" The project is aimed at analysing past industry plans in Australia, recognising the relative success of the planning approach elsewhere in the world, and then translating this information for a regional economic context. Our basic approach is to ask senior managers of companies immediately affected by government industry plans about the history of development, implementation and content of these plans and attempt to isolate critical success factors and impediments to their success. The diagram below illustrates the research model.

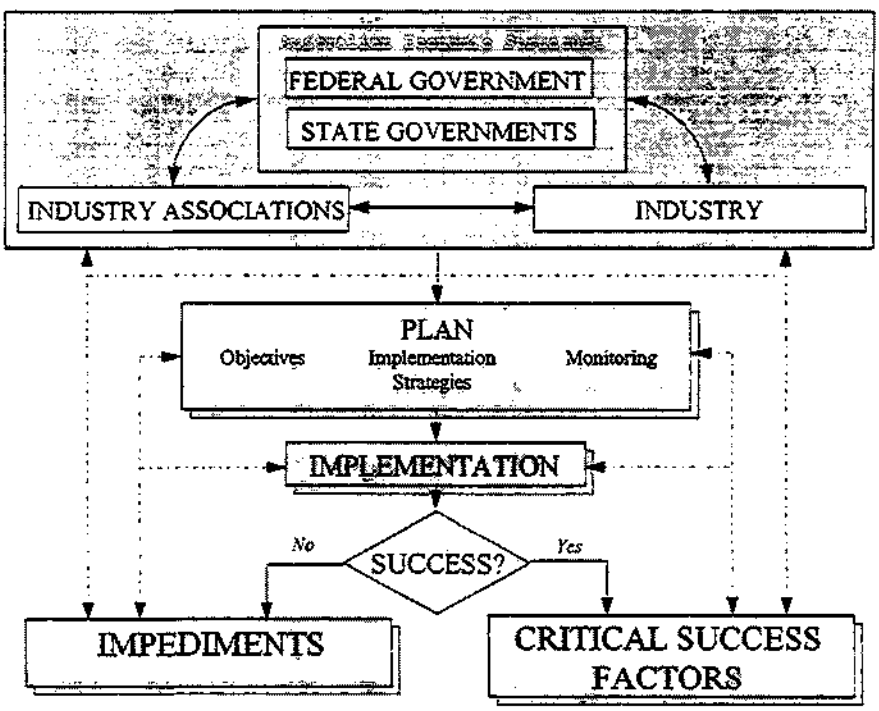


Figure 1: A model of the research project

For this working paper, the "Passenger Motor Vehicle Plan 1984 - 1996" is the focus of the research. Senior managers from Ford, General Motors Holden, Toyota, Mitsubishi and Nissan were interviewed separately. Interviews were conducted at the headquarters of each organisation and lasted between one and two hours. In addition, a discussion forum was held

comprising industry representatives and managers from supplier companies to the automotive manufacturers. The key issues discussed were:

Describe what you consider to be the main areas of the Plan.

Who drives/drove the Plan?

Who was involved in the development of the plan and who are the parties that should have been involved?

How was the plan developed i.e. what was the process of liaison, discussion and decision making?

Were the objectives reasonable, achievable and agreed upon by industry?

What was the impact of the Plan, either directly or indirectly, on the operations of the company?

Overall, was the plan successful in terms of the:

- the company, ie. improving its operations and competitiveness
- the country, ie. the strength and importance of the industry in the Australian economy
- the people (employees, the community etc)

What are the critical factors/attributes to ensure successful adoption of the plan by industry and the overall success of the Plan?

What impediments to the overall success of the plan can be identified?

While ultimately our focus is to use this information for the development of regional economic strategies, the interviews provided useful and important information about the automotive industry and the prospects of its immediate future such that it is appropriate to present these insights in this working paper. The results of the interviews are presented in a discussion format whereby all the issues raised in the interviews are simply described under section headings of Plan "Development", "Content", "Impact" and "Critical Success Factors and Impediments". This format was chosen primarily to preserve the confidentiality of the interviewees, but it is also an efficient way of presenting the key issues from such a variety and volume of sources. The interviews have aided in the development of a dynamic model which attempts to outline a potentially prosperous relationship between industry dynamics and industry plans. We present two possible scenarios and their potential outcomes for consideration by the automotive industry and Government. It is hoped that this working paper will stimulate wide discussion. Future papers will present similar analysis of the "Textile Clothing and Footwear Industry Plan" and the "F-Plan" for the pharmaceutical industry.

The Passenger Motor Vehicle Plan, 1984 - 1996

Background

In 1984 Senator Button released to the Senate details regarding a "Passenger Motor Vehicle Plan" to provide the Australian automotive industry with 'a framework in which the industry can develop with a sense of purpose and vision' [2]. The Government was committed to a viable motor vehicle manufacturing industry in Australia, but with lower levels of government assistance and the production of better quality cars at more affordable prices.

The Plan comprised a series of target figures for tariff reduction, import quota increases and industry structure reform. In addition, the Automotive Industry Authority was established to monitor the activities of, and consult with, industry participants. A labour adjustment training arrangements scheme was also put in place. The main areas of the Plan, interdependent in many ways, may be summarised as:

Quality:	Improve the overall quality of Australian made cars to match international competition at reduced real prices.	**Efficiency:**	Increase all aspects of efficiency so as to enable the industry to compete with lower levels of government assistance.
Protection:	Open the industry to international competition through a reduction in protection	**Rationalisation:**	Rationalise the number of manufacturers and the number of models in the industry.
Price:	Hold down the price of cars below the rate of inflation.	**Exports:**	Establish Australian manufactured cars in overseas markets.

From the various documentation associated with the Plan (Senate Addresses, Automotive Industry Authority Reports, Industry Commission Report and Press Releases), the main objectives and implementation strategies and the performance of the Plan, at least from the Government perspective, are outlined in Table 1..

Objectives:	Implementation Strategies:	Performance:
Vision • Provide a framework in which the industry can develop with a sense of purpose and vision. [2] ***Efficiency / Rationalisation*** • Increase all aspects of efficiency so as to enable the industry to compete with imports at lower levels of government assistance. [1] • The Government has specified a target industry structure comprising three manufacturing groups producing at most six vehicles. ***Quality and Price*** • Provide better quality products for consumers at reduced real prices. [1] • Hold down the price of cars [3] ***Protection*** • By 1990 the market share of an importer should be a result of that importers competitiveness. [2] • Deregulating the current method of going from 150% in 1985 to 125% in 1992. • Phasing the penalty tariff from 100% in 1985 to 57.5 in 1992 ***Time to Restructure*** • Minimise disruption to production and employment during the transition to a more efficient industry. [1] • Give the industry more time to restructure and modernise [3] ***Social Concerns*** • Reduce the cost to the community and the disruptions to the industry and its employees. [2] • Reduce job losses in the short term and provide job stability [3]	***Guiding Principles*** • Process of adjustment over a period of years. Predicability and stability of policy is essential. [2] • Concentrate on the strengths of the industry and encourage exports [2] • Encouragement of rationalisation and cost reduction [2] • Greater integration of the Australian industry [2] • Greater Australian equity in, and participation in, the management of foreign owned companies, as well as an increased autonomy of local operation. [2] ***Automotive Industry Authority*** To monitor the activities of, and consult with, industry participants to encourage consensus and action consistent with the Governments policy objectives. [2] ***Specific Strategies*** • Development of local design and tooling. [2] • The pursuit of scale economies and better capacity utilisation through rationalisation - encouraged by minimum volume provisions and export facilitation [1] • Productivity and quality improvements through investments in new manufacturing technology and automation and investment in new manufacturing practices, skills training and work organisation. [1] • Assembly at low local content. Considerable reduction in the effective rate of protection given to pure assembly operations. [2] • Reduction in model lines and a corresponding increase in the volume of each. Along with standardisation of components, this will achieve efficiency gains. [2] • Increased import competition through a gradual reduction in the tariff rate. [1] • Price reductions and gradual removal of quota restrictions against imports. [2]. • Gradually deregulating the current method of establishing base quota. [2] • Transfer pricing. Monitoring of prices to ensure fair prices. [2] • Labour adjustment under the labour adjustment training arrangements scheme. [2]	***Exports*** The industry has more than tripled its exports since 1984. The range of products has also diversified. ***Prices*** The rate of price increase for locally produced cars has been on a downward trend. It has been below the rate of inflation for 1988, 1989 and 1990. However, since 1989 prices of locally produced cars have on average risen faster than import prices and form 1989 to 1991 the import share of the market has increased. ***Quality*** In the previous four years to 1991, quality (no. of faults per vehicle reported by consumers) has improved by an average 27%. All models now have fewer reported faults than in 1985 and several models have reported quality levels equivalent to those of some comparable imports. ***Productivity*** The labour productivity in the vehicle assembly sector remains about half that of US producers and only one third that of Japanese producers. ***Human resources*** The area of industrial confrontation (no. of disputes) has been on the decline over 1990 and 1991. However, survey results show that while vehicle manufacturers are making some progress in changing their human resource policies, their performance lags bebind that of their major overseas competition. ***Sales*** After having risen in 1990 to their second highest level since the mid 1970s, they declined in 1991 to their second lowest level in 20 years. However, in the same year imported small cars increased sales and overall there was a rise in imports. ***Production and Employment*** In 1991, production in motor vehicles fell to its lowest level in more than two decades. Employment decreased significantly. In the longer term, improved industry structure offers the prospect of more secure jobs.

Table 1: The Automotive Industry Plan.

The Industry Perspective: Review of the Interviews

Against a history of multiple and largely ineffectual government plans in the automotive industry, the Plan was welcomed by senior managers, industry associations and other industry observers as a set of serious and stable long term Government policies for the industry. Initially there was a "let's wait and see" sentiment from industry so that it could assess how committed the Government was to the Plan. In addition and understandably, there was a sense of apprehension by senior managers about the prospect of unrelenting tariff reductions and an unprotected future.

It took approximately two years for the industry to be completely convinced that these Government policies were very serious and the industry would have to continuously improve its performance to develop and sustain a competitive advantage in the face of ongoing protection reduction and increasing global competition. Although, the introduction of new technology from overseas and competing in US/Japanese board rooms for capital was already having some effect on the competitiveness of the industry. The major industry players were beginning to show improvements in product quality and costs. However, most companies at that time were still focussing on the domestic market and had not developed the capability to produce vehicles for the export markets. It was clear the industry needed a development plan.

Plan Development

The government was the driving force behind the development and implementation of the Plan. Specifically, by the then Minister for Industry and Commerce, Senator John Button. It must be noted that the dominant economic ideology of the time was a growing acceptance that Australia was living beyond its means and must be opened up to international competition through a free market. In addition, the "style" of the Hawke Government in 1984 was seen to be "consensus politics", whereby government policy was formulated and implemented with consensus agreement from the relevant industry groups.

According to Senator Button, in developing the Plan "the Government has consulted widely with the various interests involved, and has sought, and obtained their views" [2]. Industry affirmed that there was indeed such a process of discussion, indicating that all the relevant parties did contribute to the consultation process (manufacturers of vehicles, component suppliers, industry associations and unions). Some sixty submissions from companies and industry associations were offered. However, the final formulation of the Plan did come from the Government and Senator Button openly stated that "no prescription for change and the development of a new sense of purpose and direction can receive universal approval" [2]. Again such sentiments were affirmed by the interviewees, the emphasis being that the major automotive manufacturing companies are very different from each other, especially with respect to their demands from the Government regarding tariffs, exchange rates and import quotas. The requirements of the hundreds of suppliers and dealers further complicated any process of consensus. It was acknowledged that the Government ultimately has responsibility to establish policies for the good of Australia and, in the development of the 1984 Plan, all that could reasonably be expected was done to ensure that the views of industry were heard. However, with so many different voices from industry, the views were somewhat diffused or watered down when combined together as a whole. This case in particular highlights the need for "one voice" to exert some real influence on the process of developing an industry policy.

Content of the Plan: Issues and Concerns

The main feature of the Plan was the on-going reduction of protection through tariffs. In this respect the Plan "took on the nature of a blunt instrument". As a result, discussion of the plan throughout its life has focussed on the tariff level. However, other forms of industry support such as import quotas and local content requirement are also relevant. The focus on tariffs clouded the debate.

With respect to the conflicting interests between the automotive companies, a theme that emerged was that of simplicity. The particular needs of all sectors of the industry could not be met in their entirety and so a clear policy framework, within which the companies can do their business, is most preferable. As a framework, it simply sets the parameters of the game, it does not tell the players how to play. In addition, the central tenants of this framework must be market driven such that the plan recognises and moves with market forces rather than fighting against them, in order to place the Australian industry in the most advantageous position in the world market. The primary argument for this view was that the Australian automotive sector is small by international standards, and as such it is foolish to attempt to resist or influence the international market in a way that Japan or the United States could.

In considering some of the key areas of the Plan in terms of their coincidence with market realities, it was clear that the deregulation and quality initiatives were regarded as appropriate. The reduction in protection was necessary to open the industry up to real international competition and improve the efficiency and quality of Australian car manufacture. The quality of Australian made cars has improved markedly over the period 1984 to 1994 (from 1987 to 1991, a 27% improvement in the number of faults reported by consumers, [5]) and is now at a level consistent with the highest international standards.

However, the initiatives aimed at rationalisation of the number of model lines through minimum volume provisions has proved to be a shortcoming of the Plan. The first argument being that the minimum volume provisions have effectively reduced the number of smaller passenger vehicles made in Australia. Understandably, at the inception of the Plan the companies focussed on the production of cars that they knew they could sell in the domestic market at a high volume so as to avoid the minimum volume penalties. These are the six cylinder or larger cars. Presumably the risk of relying on export potential, with additional penalties if this potential was not achieved, was just too high despite the export facilitation scheme incorporated in the Plan. As import restrictions were relaxed, the majority of the small car domestic market was replaced by imports. The January 1996 registration figures showed that imports accounted for 58.2% [6] of the overall new car market, a large proportion of which are small cars. Australia now has more models and brands available than the United States. Unfortunately, the export potential for larger Australian cars is limited. Also larger cars are predominantly produced for the fleet market, a market of lower profit margins than the private car market. Hence, the rationalisation initiatives have inhibited small car manufacture in Australian which is now the very area required for the industry to grow into both domestic and export markets.

The second argument offered was that the rationalisation of model lines and minimum volume provisions has inhibited the manufacturers from exploiting technologies which can achieve

economies of scale and scope. Producing a variety of models while maintaining economies of scale is possible with computer integrated manufacturing technologies and a flexible workforce. The design changes can be programmed into the production line and the workforce can match such flexibility if the training and process design are sufficient. There is no doubt that Australian consumers demand a variety of models and the models not produced in Australia will simply be bought as imports. However, from the industry's perspective, in producing more models it became more difficult to satisfy the minimum volume provisions. This suggests two areas that were not fully appreciated in the development of the Plan: the preference dynamics of Australian car buyers and that economies of scale in manufacture does not necessarily require a reduction in the number of models produced.

It is clear that the Plan did not anticipate the lack of growth in the domestic market. Over the period 1984 to 1994 there has been no growth in the new car market. Even at the time of the first review of the plan in 1987 the industry commission anticipated the domestic market growth at 5% annually. The second review in 1992 appears to have been dominated by the exchange rate at the time (US/$A 0.66) which from the commissions perspective opened the doors for export, one of the planks of the plan. The corollary to this is that the current exchange rate of US/$A0.79 represents a 20 % loss of competitive leverage in the export market. Clearly for any industry plan to include export as a major plank for increasing production volumes the exchange rate needs to be significantly better controlled or the plan requires more flexibility in the review process to achieve the required outcomes over time.

The major challenge for the industry is to be established in enough export markets to ensure the viability of the industry. Indeed, the industry is currently in the process of establishing a "critical" figure of the future volumes of Australian made cars that need to be sold domestically and overseas for the industry to be viable. However, from a performance perspective, *the plan did not set any goals for the industry to be viable for satisfying the national imperatives.*

Crucial to an understanding of the "viability" of the industry is an appreciation of the range of both tangible and intangible effects on suppliers, other manufacturing sectors and the community that an automotive manufacturing industry of a given size provides in Australia. Much of the debate and subsequent implementation of the 1984 plan over the years has ignored viability and marginalised the tangible cross sectorial influences of the automotive industry. For example, the impact of the automotive sector on the steel sector and the direct linkage between the performance of both sectors in Australia. The broader intangible effects appear primarily in the benchmarking and expertise areas such as manufacturing systems, technology adoption, inventory management and quality management. The automotive manufacturing companies emphasised the influence of the company on their suppliers and the community as a whole. Specifically in terms of 'setting a pace for quality' and 'providing a base' for companies that predominantly supply the car manufacturers but also a range of other industries as well. If these intangible effects are not given due weight then what is considered "viable" in obvious financial terms may be misleading. Whilst an industry plan must take into account these effects, it has been difficult to assess whether the Plan did give due regard to these aspects.

Plan Impact on Company Operations

The impact of the Plan on company operations was, for the most part, indirect. Most companies had initiated programs aimed at continuous improvements and managers were well aware of the standards of international competitiveness before the introduction of the Plan. All of the car manufacturers in Australia are large multinational companies and each suggested a substantial awareness of international standards and management and manufacturing practices irrespective of government policies. However, the opening of the industry to international competition facilitated by the Plan provided a framework in which continuous improvement was essential, particularly during the very tough economic conditions of the late 1980s and early 1990s. In this environment of "real" international competition, tighter supplier alliances were formed and training was increased in a focussed effort to improve quality and efficiency. The marketing of cars was more aggressive as the domestic market became crowded with more imports and less buyers.

Efficiencies in distribution were improved as the companies sought to become competitive in every area. All the companies have had to substantially reduce the number of employees in all areas since the introduction of the Plan but in all cases this was believed to be a step that had to be taken. It was suggested that the labour adjustment training arrangements scheme was useful to many employees but that there were so many redundancies that it's effectiveness was undermined. The scheme was very important when laying off employees, not only for the employees themselves, but also for the company image and the company's standing in the community. In addition, from the company's perspective, such dramatic downsizing was not a bad thing as long as the company remains profitable and provides a good rate of return to their shareholders.

Critical Success Factors and Impediments

The following critical success factors and impediments were identified through the interviews as having a significant impact on the success of the Plan:

- **Stability of policy in the immediate and longer term.** To accommodate the lead times of the industry, long term certainty is essential for making sound strategic, operational, workforce and investment decisions.

- **Recognition of the nature of the industry.** To develop a plan that "fits" the business dynamics of the industry and is consistent with market forces.

- **Vision.** To establish a common and definitive future direction for the industry over the next 20 years.

- **Dimensions and success measures.** Quantifiable goals and targets and a system by which to measure these is essential for the monitoring of the plan and as a guide for future changes.

- **Framework/Structure/Support.** This is what an industry plan should aim to be. The internal operations of a company are best left to that company and an industry plan should only set the parameters of the industry so that the company can do business. Also, protection is no longer an appropriate form of intervention, rather facilitation and encouragement of investment and export opportunities through incentives is the future role for industry plans.

- **Fine-tuning.** Mechanisms must be put in place that allow for changes. this is particularly important if exogenous factors, such as recession or other Governments' policies, demand amendments to the plan.

- **Focus/Relevance** An industry plan must focus on the most relevant areas of concern, namely the externalities which individual companies cannot influence on their own.

- **Clarity and explicitness.** With a range of competing interests in the industry, an industry plan must be kept as a simple clear framework that is adequately disseminated amongst relevant parties.

- **Present a coherent case from industry for industry.** While there are a range of competing interests in any industry, realistic common ground for the industry as a whole must be found to effectively present the requirements and overall importance of the industry.

- **Maintain and enhance industry skill.** In order to attract investment and ensure high value-added industries are retained and developed.

Discussion of interviews

An interpretation which can be made from the review of the industry plan is that the plan did not concur with market realities and was too internally focussed on the companies rather than the future of Australian industry as a whole. It can also be said that the subsequent reviews of the plan showed a distinct myopic/ideological pursuit of the original plan rather than acknowledging the changing world economics and the role of the expanded market in these new economic circumstances. Revision to the plan in 1996 should recognise the need to have a market base to develop and apply the world competitive practices and skills that we have obtained as a result of the plan to date. In this regard, consideration to polices in such areas as export, waterfront reforms and international bilateral trade links, as well as tax restructuring and export support to component suppliers starting export, appears appropriate (approximately 20% of component suppliers currently export with opportunities to grow to 50%).

The clearest message to emerge from this research was that of the need for the individual companies to be internationally competitive and that industry plans must provide the right conditions in which the companies can become internationally competitive by making the necessary changes. At the operations level the companies now know what is required of them. They require support of an industry plan to do it, a stable framework in which to invest, and the external barriers to their profitability removed to attract more capital investment .

The key objective for an industry plan should be to establish an environment in which the companies can, with confidence of their role in the community, "get on with the job". The content of such plans should be determined by the parameters that define the "viability" of the industry. An understanding of viability must take into account the range of intangible effects that the car manufacturing companies have on the community (employment, skills and investment) and other manufacturing sectors (best practice in management and manufacturing) and their numerous local suppliers.

The responsibility of a company is ultimately to its shareholders and it will modify its strategies and operations to maximise the rate of return for the shareholders. The responsibility of the government is to the community. The effects of the company on the broader community will in turn be changed when the company changes. As part of the development of an industry plan, this understanding must be developed in order to establish the parameters of viability. If the parameters of the viability are known, then all of the implementation strategies for the plan can be focussed to ensuring that these parameters are achieved.

The above message is presented diagrammatically in Figure 2. The model is dynamic and, importantly, the interaction between the industry plan and the industry is ongoing. It is this feature which we believe distinguishes this model from the mainstream conceptions of industry plans. Rather than presenting a linear conception whereby an initial state of affairs in the industry is transformed to a new state of affairs through the mechanism of a "plan", this model emphasises that the process must be ongoing. *The plan should continually be monitored and changed to reflect changes in the industry and the market, all through the central concept of the "viability" of the industry.*

- In the plan development phase the concept of "proposed" viability should accommodate not only the companies in the industry, but also influence of these companies on the broader community; and how such understanding should be reflected in the content of the industry plan.

- That the implementation of the industry plan will in turn impact on the "real" viability of the industry and this "real" viability will ultimately be reflected by the number of companies in the industry, the way they do business and their effect on the broader community.

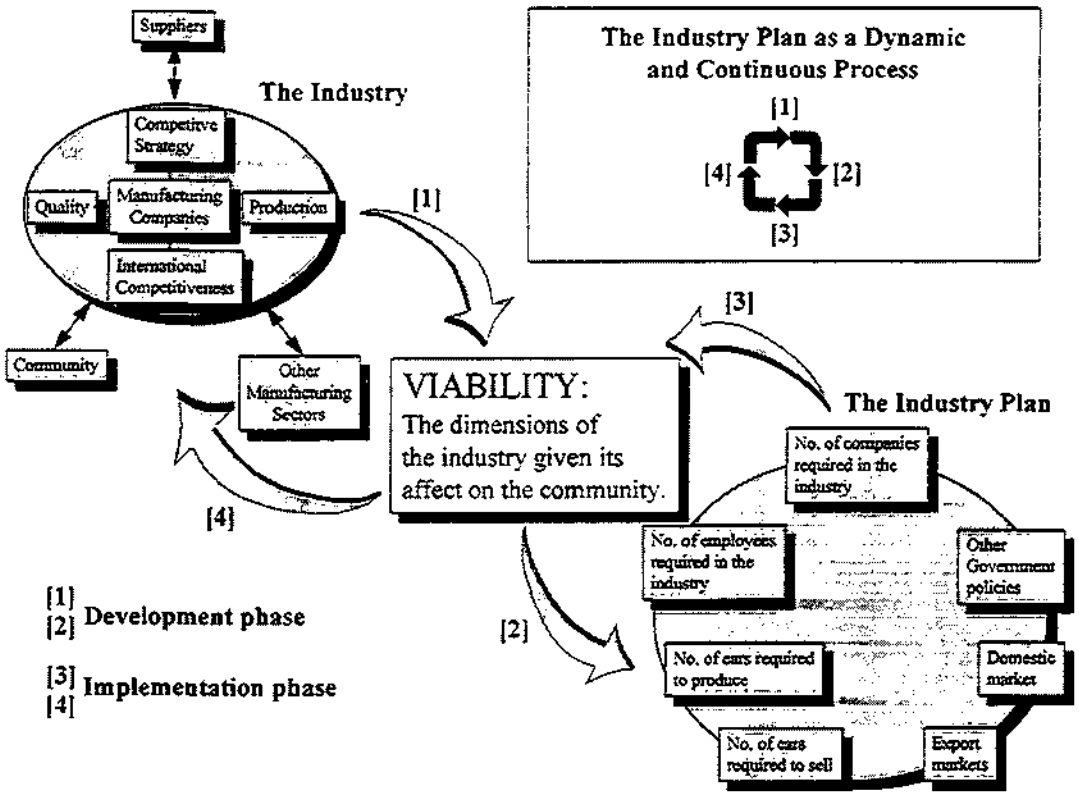


Figure 2: Industry viability and its connection to the dynamics of the industry and the content of industry plans.

The market is always changing and the industry plan must change accordingly. As such, the information required for an industry plan must continually be updated. The government must be committed to the on-going monitoring of the plan, updating of market information and subsequently changing the plan to move with market forces. This is as true for plans that intervene in a minor way as for those that intervene in a major way. *The stability of the plan comes from the systems set in place to monitor and change it.*

Figure 3 is static representation of Figure 2, highlighting the compatible roles of company plans and industry plans given the key issues that each should address. The industry plan acting as a framework within which the company can do business.

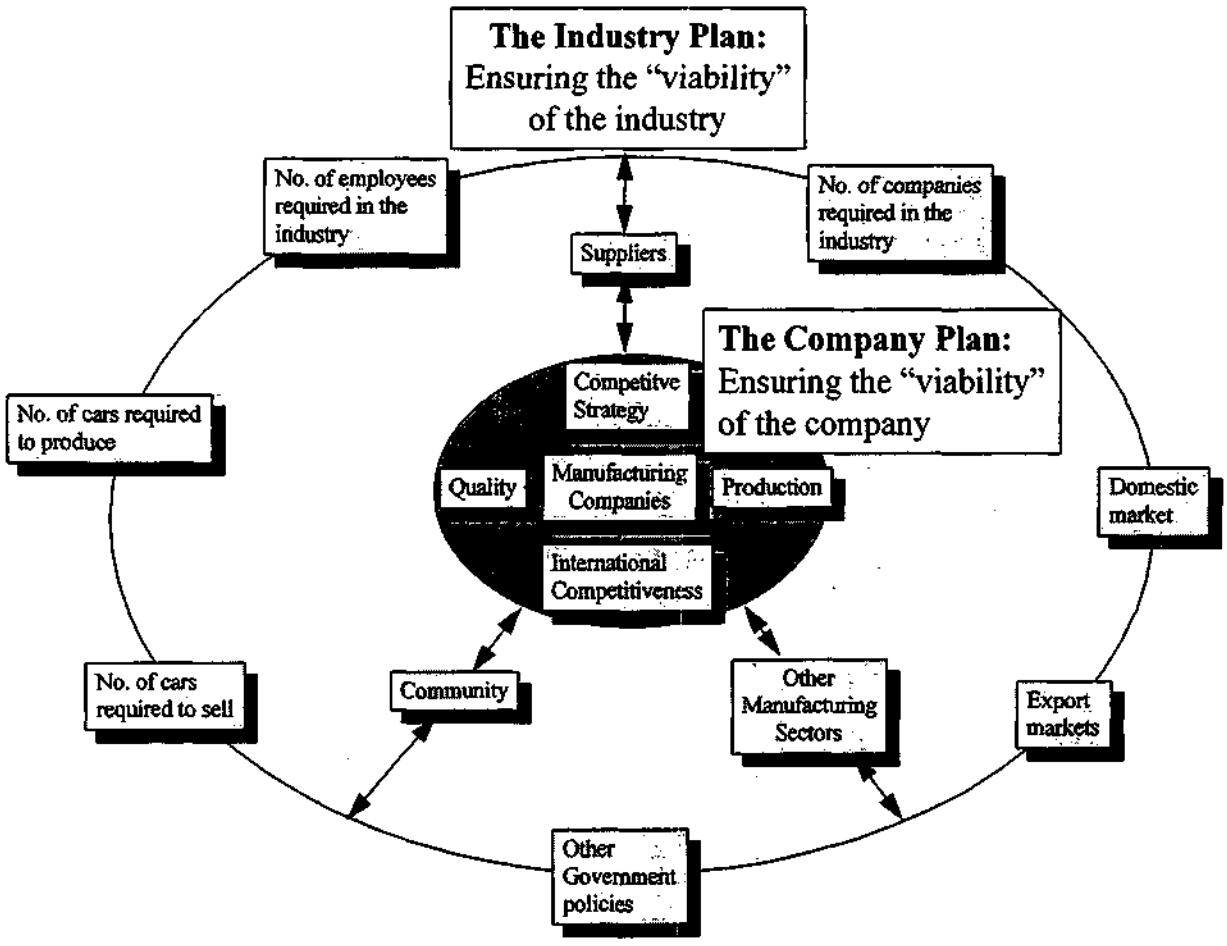
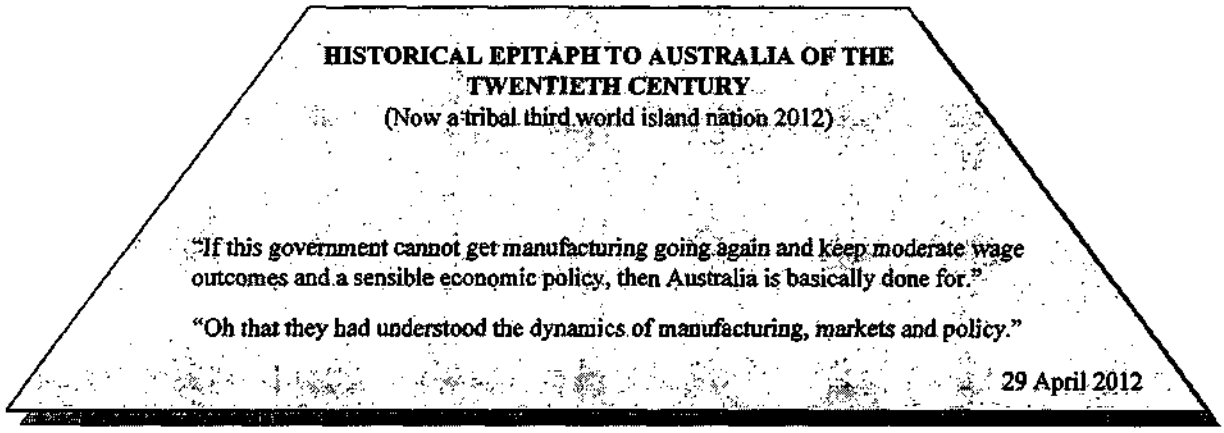


Figure 3: The compatible roles of Company Plans and Industry Plans.

Conclusions



The combination of the industry plan, the changing economic circumstances and the market demand in the last ten years have not been assimilated through the Plan review process into a dynamic plan.

The small volume penalties included in the passenger vehicle plan directed local manufacturers to the medium to high priced end of the market at a time when real wages were falling with a consequential draw down on savings. The consumer reaction was to broadened the lower-priced, smaller sized vehicle range in the market for the young and low income earners, the largest growing section of the market. Imports now fill the under $20,000 vehicle market. At the same time the number of models in the market has exploded to meet market demand.

It is important to note the lowest effective import barrier (tariff plus non tariff barriers) in the world at present for Australian standard cars is probably represented by a tariff of 23%. This represents the lowest level of the playing field

The structure of the plan without clear goals or definition of a viable industry suggest that there was no intention of succeeding in industry terms. An alternative view is that a genuine attempt was made to improve local companies to attract new capital investment. In a small way this could be considered successful. Investments in new models and plants were given much prominence. However the plan failed to ensure that a viable industry survived.

From either perspective the next decade will be a requiem for the automotive, engineering and manufacturing sectors of the economy unless market led changes are introduced in the revision to the Automotive Industry Plan in 1996.

The Industry plan has made a major contribution to engaging a large proportion of industry in a change process to improve capabilities. The world competitive skills that have been developed can lead to new industries over time if they can be utilised in the world market rather than retired with the collapse of the industry.

The 1996 review can only have two scenarios which clearly indicate the intentions of the economists undertaking the review and the Government. One scenario that continues to apply the past economic theories of absolute free market to sacrifice Australian industry, or a

scenario that uses real time industry economics as a guide to changes in the plan to support the international competitiveness, knowledge and ideas for Australia to have a viable automotive industry and become a significant player in the world economic battle field. In future, Australia cannot be taken seriously in the new world economic environment if it is not a player in the world manufacturing market.

These two scenarios may have the following characteristics / impact.

Scenario One:

- Drop all export support schemes for the industry.
- Lower the labour market adjustment schemes.
- Continue the tariff reduction - 15% by 1998.

The potential effects of this scenario will be:

- The last models of the current major manufacturers will be complete before 2000.
- Local manufacture will cease in 2002.
- The 13 component suppliers currently exporting will move offshore.
- The current account deficit due to automotive industry will double 1995 figures.
- The cost of cars will rise by 23%.
- A 25% increase in national unemployment will occur by 2002.

Scenario Two:

- Review tariff levels to include non-tariff barriers and match the best of the advanced economies on a bilateral basis to maintain equal leadership in world trade.
- Set a goal for minimum number of locally complete built vehicles (CBVs) at 500,000.
- Expand the category of vehicles under CBVs to include all four or more wheeled vehicles except heavy trucks as from 1st July 1997.
- Import credits can only be accrued for import CBVs by export CBVs on the basis of one for one.
- Export assistance equivalent to a tax restructuring will be provided for forty percent (40%) of local CBVs up to a total of 300,000 CBVs and all component items as from 1st July 1997.
- Locally manufactured, environmentally powered, CBVs will accrue import component and CBV credits 2 for 1 up to the year 2010.
- Change the role of the Automotive Industry Authority to be responsible for developing and monitoring the direction of the plan to ensure a viable Automotive manufacturing industry is retained in Australia.

The potential effects of this scenario will be:

- The major car manufacturers now number two.
- Two new niche market Australian manufacturers began production in 1999 & 2001.
- The automotive share of the current account deficit is half 1995 figures.
- The component suppliers share of export will continues to grow 100% above 1995 levels.

- Employment associated with the automotive industry has reduced by 10,000.
- The first environmentally powered production vehicle will be available in 2005.
- The first environmentally powered Grand Prix will be held at Albert Park in 2003.
- Exports of CBV's reached 250,000 this year.

These scenarios are not intended to be prescriptive but to focus the Industry Plan Review to a new horizon and the potential role for the automotive industry in the future of Australia. A country where working, democratic freedom of movement and a clean environment are clearly defined requirements of the community over the next twenty-five years. Our automotive industry is now capable of delivering these outcomes competitively in the new world economic order but must continually develop its capability to compete in an ever changing marketplace.

In presenting this working paper for discussion the writers believe thought should be given to the role of government in industry plans. If government is to continue to be a player in creating the horizons of industry development in future it needs to recognise its proper role. This role might best be defined as collecting, recording and collating data of all externalities of the nation and industry sectors for use in the development of plans rather than at present looking inwards monitoring the actions of domestic industry. The government can no longer rely on industry to provide the wider understanding of world market dynamics. The industry approach becomes too narrowly focussed on the company needs rather than the wider perspective for the nation.

Alternatives to providing direction to industry plans might be either that government remains an economic development team player making contributions as discussed above or perhaps a Council of Industries should take over leadership with a mandate to create Australian wealth and by default manage economic and industry policy. There is no doubt Australian managers through out the world running many of the worlds major companies have demonstrated the we have the capacity to consider these alternatives.

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