

CABINET - SUBJECTS FOR CONSIDERATION, 18 JUNE 2007 11:00 AM

N

Not relevant



1 New Initiatives/Policy Matters

Not relevant



103

MIT07/003CS

GM Holden - Safety Enhancement Project (Kevin
Foley)
APPROVED

Not relevant



REVISED

CABINET COVER SHEET

- 1. **TITLE:** GM Holden – Safety Enhancement Project
- 2. **MINISTER:** Kevin Foley MP
DEPUTY PREMIER
MINISTER FOR INDUSTRY AND TRADE
- 3. **PURPOSE** Amend the terms of a \$3.4m grant to GM Holden that Cabinet approved on 23 October 2006 for the Pontiac G8 to support a Safety Enhancement Project instead.
- 4. **RELEVANT GOVERNMENT POLICY AND/OR SA's STRATEGIC PLAN TARGET** Supports the economic growth target in the Strategic Plan T1.5
- 5. **ICT COMPONENT** Does the submission have a material ICT Component?
 Yes No
- 6. **RESOURCES REQUIRED FOR IMPLEMENTATION** \$3.4m over a four year period. SAFA to be approved to administer the grant and monitor compliance, with DTED to be consulted from a policy perspective on issues of non-compliance.

Treasury and Finance agrees with the basis of the assessment of costs contained in this submission.
- 7. **COMMUNITY AND ENVIRONMENTAL IMPACT** The project will facilitate the introduction of technological improvements in safety and fuel management systems in GM Holden's locally manufactured vehicles, including the Pontiac G8, and will require an estimated capital investment of \$26.9m and \$45m of engineering work.

No significant environmental impact.

Does the submission have an impact on business?
 Yes No

The Department of Trade and Economic Development agrees with the basis of the assessment of the business compliance costs associated with this submission.
- 8. **RISKS** Based on Commonwealth Government advice that grants based on production specifically for an overseas market would not comply with World Trade Organisation (WTO) rules, Cabinet's previous decision to support the grant on

the basis of Holden securing an export contract must be amended, with a production target at Elizabeth proposed instead. The grant may still be seen as an export subsidy in breach of WTO rules, although DTED believes this risk is low as the previous export target will be replaced with a production target, which is consistent with the Victorian Government's grant funding terms and conditions.

There are also risks around market sales projections for GM Holden's passenger vehicles both domestically and internationally, due to the high Australian dollar.

9. CONSULTATION

Consultation has occurred with GM Holden, the Commonwealth and Victorian Governments.

10. COMMUNICATION STRATEGY

The Deputy Premier has already committed to provide \$3.4m to GM Holden. Substantial media and communications activities have already occurred around the three Governments' support (Cth/Vic/SA) for Holden's Safety Enhancement Project.

11. URGENCY

URGENT – Subject to approval, first payment to GM Holden is required by end of June 2007.

12. RECOMMENDATIONS

It is recommended that Cabinet:

4.1 amend the terms of the \$3.4 million grant to GM Holden previously approved on 23 October 2006 for the Pontiac G8 to support a Safety Enhancement Project instead.

4.2 note the Commonwealth and Victorian Governments have agreed to financially support GM Holden's Safety Enhancement Project.

4.3 approve an amendment to the timing of payments to be consistent with those of the Commonwealth and Victorian Governments, from \$1.7 million in 2006-07 and \$1.7 million in 2007-08 to \$1.1 million in 2006-07, \$1.1 million in 2007-08 and \$1.2 million in 2009-10; and an equivalent adjustment to the expenditure authority of DTED. Payments would be subject to:

4.3.1 GM Holden confirming approval to commence the Safety Enhancement Project by 31 October 2007 and providing evidence of R&D having been undertaken and expenditure acquitted;

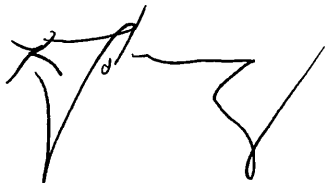
4.3.2 GM Holden providing evidence that safety enhancement technology has been incorporated into vehicles in 2008 and 2009, including the Pontiac G8, and a minimum

production level at Elizabeth of 140,000 vehicles in 2009, payment for which may be withheld should production fall short by more than 10%;

4.3.3 Holden not to relocate out of SA during term of the contract, which will expire in June 2011.

4.4 Approve SAFA to administer the grant and monitor compliance. Where there is non-compliance, DTED would be consulted from a policy perspective.

I declare that I have no actual or potential conflict of interest in relation to the proposals contained in this submission.



Kevin Foley MP
DEPUTY PREMIER
MINISTER FOR INDUSTRY AND TRADE

13/16/2007

TO: THE PREMIER FOR CABINET

RE: GM HOLDEN – SAFETY ENHANCEMENT PROJECT

1 PROPOSAL

To amend the terms of a \$3.4m grant to GM Holden that Cabinet approved on 23 October 2006 for the Pontiac G8 to support a Safety Enhancement Project instead.

2 BACKGROUND

- 2.1 On 23 October 2006 Cabinet approved funding of \$3.4m over two years (\$1.7m in 2006-07 and \$1.7m in 2007-08) to support investment by GM Holden Ltd associated with the G8 export program to the United States, subject to the Commonwealth and Victorian Governments also agreeing to financially support the project; Holden securing the export contract for a minimum of 25,000 vehicles per annum for 2.5 years; investing a minimum of \$26.9m in capital expenditure and undertaking engineering design work estimated a \$45m.
- 2.2 GM Holden formally announced the G8 export program on 8 February 2007 with financial support of \$3.4m committed by each of the SA and Victorian Governments and \$6.7m by the Commonwealth Government, for a combined total of \$13.5m.
- 2.3 The SA Government has since been advised by the Commonwealth Government that grants based on production specifically for an overseas market would not comply with World Trade Organisation (WTO) rules. Cabinet's previous decision to support the grant on the basis of GM Holden securing an export contract must be amended, with a production target at Elizabeth proposed instead.
- 2.4 All Governments have now agreed they will support a Safety Enhancement Project instead.

3 DISCUSSION

- 3.1 The Safety Enhancement Project will facilitate the introduction of technological improvements in safety and fuel management systems in GM Holden's locally manufactured vehicles, including the Pontiac G8, and is expected to lead to further capital investment of \$26.9m and \$45m of engineering work.
- 3.2 Despite GM Holden's recent loss of 600 jobs at Elizabeth, due to increased production efficiencies associated with the VE Commodore, the continuing employment of approximately 3,800 people makes GM Holden a significant employer in South Australia, with extensive supply chain linkages.

- 3.3** The SA Government is seeking to amend the terms of the \$3.4m grant that Cabinet previously approved for the G8 export program to align more closely with the Commonwealth and Victorian Governments' support for a Safety Enhancement Project.

The SA grant will be conditional on:

1. Confirmation that GM (US) has given approval for GM Holden to commence the Safety Enhancement project by 31 October 2007.
2. Evidence of R&D having been undertaken and expenditure acquitted.
3. Evidence that safety enhancement technology has been incorporated into vehicles in 2008 and 2009, including the Pontiac G8.
4. Minimum production level at Elizabeth of 140,000 vehicles in 2009, payment for which may be withheld should production fall short by more than 10%.
5. Grant to be paid in 3 instalments over 4 years to June 2010.
6. Contract to expire in June 2011.
7. GM Holden to provide four progress reports in May 2008, 2009, 2010 and 2011.
8. Holden must not relocate out of SA during term of the contract.

- 3.4** Cabinet should note the Commonwealth Government does not intend to include any production related performance milestones in its contract with GM Holden, while the Victorian Government will be seeking a minimum production level of 140,000 vehicles in 2009.

3.4.1 Economic, financial and budgetary implications

It is proposed the previously approved payment of \$3.4m over two years (\$1.7m in 2006-07 and \$1.7m in 2007-08) be amended as follows:

- \$1.1 million in 2006-07
- \$1.1 million in 2007-08
- \$1.2 million in 2009-10.

3.4.2 Required resources

The submission recommends that SAFA be approved to administer the grant and monitor compliance obligations. Where there is non-compliance, DTED would be consulted from a policy perspective.

3.4.3 South Australia's Strategic Plan

The grant supports the economic growth target in the strategic plan T1.5.

3.4.4 Information and Communication Technology Requirements

There are no Information and Communication Technology requirements in relation to this Cabinet Submission.

3.4.5 Staffing Implications

There are no staffing implications.

3.4.6 Impact on the community and the environment

Regulatory Impacts

There are no regulatory impacts in relation to either the grant being provided or building of vehicles incorporating Safety Enhancement Project derived technology.

Family and Social Impacts

There will be significant family and social impacts if the project does not proceed. Notwithstanding the recent loss of 600 jobs at Elizabeth, DTED understands that if approval is not gained a further 200 jobs could be at risk. In addition, there would also be negative flow-on effects to suppliers who would also need to review their employment levels.

Business Impacts

There are significant business impacts as a result of the project proceeding. GM Holden has estimated a benefit to suppliers of \$340 million per annum of which \$218.3 million per annum will be in South Australia. At a time of significant downturn in the motor vehicle industry, this project will have a positive impact on the viability of local suppliers.

The Department of Trade and Economic Development agrees that there are no business compliance costs associated with this submission.

Regional Impacts

There are no regional impacts as a result of the Safety Enhancement Project or the provision of the grant.

Environmental Laws

The vehicles to be manufactured will include the Active Fuel Management process.

Holden will continue to comply with all their environmental laws including compliance with their EPA licence.

3.4.7 Risk Management Strategy

Based on Commonwealth Government advice that grants based on production specifically for an overseas market would not comply with WTO, Cabinet's previous decision to support the grant on the basis of Holden securing an export contract must be amended, with a production target at Elizabeth proposed instead. The grant may still be seen as an export subsidy in breach of WTO rules, although DTED believes this risk is low as the previous export target will be replaced with a production target, which is consistent with the Victorian Government's grant funding terms and conditions.

There are also risks around market sales projections for GM Holden's passenger vehicles both domestically and internationally, due to the high Australian dollar.

3.4.8 Consultation

The Department of Trade and Economic Development has consulted with the Commonwealth and Victorian Governments, and GM Holden in relation to the Safety Enhancement Project.

3.4.9 Implementation Plan

Production of the first vehicles at Elizabeth incorporating Safety Enhancement Project derived technology is expected to commence in October 2007.

3.4.10 Communication Strategy

Substantial media and communications activities have already occurred around the three Governments' support (Cth/Vic/SA) for Holden's Safety Enhancement Project.

3.4.11 Executive Council

No implications for the Executive Council anticipated.

4 RECOMMENDATIONS

It is recommended that Cabinet:

- 4.1** amend the terms of the \$3.4 million grant to GM Holden previously approved on 23 October 2006 for the Pontiac G8 to support a Safety Enhancement Project instead.
- 4.2** note the Commonwealth and Victorian Governments have agreed to financially support GM Holden's Safety Enhancement Project.
- 4.3** approve an amendment to the timing of payments to be consistent with those of the Commonwealth and Victorian Governments, from \$1.7 million in 2006-07 and \$1.7 million in 2007-08 to \$1.1 million in 2006-07, \$1.1 million in 2007-08 and \$1.2 million in 2009-10; and an equivalent adjustment to the expenditure authority of DTED. Payments would be subject to:

- 4.3.1 GM Holden confirming approval to commence the Safety Enhancement Project by 31 October 2007 and providing evidence of R&D having been undertaken and expenditure acquitted;
 - 4.3.2 GM Holden providing evidence that safety enhancement technology has been incorporated into vehicles in 2008 and 2009, including the Pontiac G8, and a minimum production level at Elizabeth of 140,000 vehicles in 2009, payment for which may be withheld should production fall short by more than 10%;
 - 4.3.3 Holden not to relocate out of SA during term of the contract, which will expire in June 2011.
- 4.4 Approve SAFA to administer the grant and monitor compliance. Where there is non-compliance, DTED would be consulted from a policy perspective.


Kevin Foley MP
DEPUTY PREMIER
TREASURER
1316 12007



In Cabinet

18 JUN 2007

APPROVED
PREMIER