



ROCKY ROAD

AUSTRALIAN CAR PART MAKERS FACE A DIFFICULT FUTURE, AS IMPORTS DWARF LOCAL CONTENT.

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The automobile industry is the largest manufacturing sector in Australia and enjoys massive government subsidies, but it is a minnow in a highly competitive, and subsidy-rich, world market.

That would make the car business hard at any time, but today the local industry confronts high fuel and commodity prices, a relatively strong Australian dollar and, of course, wage competition from China. Total Australian vehicle manufacturing profits fell from \$300 million in the black in 2003 to \$100 million in the red in 2004.

Faced with this kind of pressure on their bottom line, local car manufacturers have increasingly been sourcing car components from overseas. As a result, the level of locally made components on locally produced cars has been steadily falling, at the same time as their capacity to export has been squeezed.

Car manufacturing and the component industry that hangs off it directly employs 81,800 people and their activity means another 420,000 jobs depend on the industry staying afloat, according to research commissioned by the Australian Manufacturing Workers' Union.

This is the backdrop against which the Workplace Relations Minister asked the House of Representatives Employment Committee to inquire into employment in the automotive component manufacturing sector.

The unfolding story is bleak. The Victorian government is deeply concerned about the future of the industry, given 54 per cent of the sector is based in that state. The picture is even more concentrated when it is just focused on the components industry: 120 of the 180 component manufacturers in Australia are located in Victoria.

South Australia is similarly concerned. Its submission notes that automotive manufacturing makes up 2.4 per cent of Gross State Product, had generated exports worth \$1.2 billion in the year to November 2005 and provides direct employment for around 14,800 people.

The Victorian submission to the inquiry says car production in Australia has remained at about 320,000 a year for the past five years, with vehicles produced for local sale and export. However the Australian-made share of local vehicle sales has fallen markedly over that time and now stands at 26 per cent of all sales. The gap



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is being filled by imports, particularly of small cars.

The rise in imported cars and components has seen the automotive trade deficit rise from \$6 billion in 1989-90 to \$20 billion in 2002-03 according to the AMWU submission. The imports have hit the local component industry hard, particularly given their share of the local pie has been steadily declining.

Appearing before the committee, the Victorian Minister for Manufacturing and Export, Andre Haermeyer, said the sourcing policies of Holden and Ford, in particular, had lowered local component levels.

“For example, we understand that with the new Holden model, the VE Commodore, local content is expected to fall from 73 per cent to 56 per cent,” Mr Haermeyer said. “That has already resulted in Victorian

companies losing a balance of 14 contracts. As for the local Ford, whilst overall the variation is not expected to be quite as large, we expect in some models the local content will fall from a high of around 90 per cent to as low in some models as 60 per cent.”

The car industry has been protected by a tariff wall but that is being slowly unpicked. Following a Productivity Commission inquiry in 2002, a timetable was established for bringing down tariffs from 15 per cent to five per cent in a series of steps. On 1 January 2005, the tariff on imported passenger vehicles was stepped down from 15 per cent to 10 per cent. In 2010 it will fall to five per cent.

Beyond that the federal government provides assistance to the car industry by way of tax concessions. The Productivity Commission notes in its most recent trade and assistance review that the “Automotive Competitiveness and Investment Scheme was the most significant tax concession, accounting for more than one-quarter of the almost \$2 billion of such assistance provided”.

That assistance gives the federal government enormous leverage over the local car industry, but that leverage is not being used according to the secretary of the AMWU, Doug Cameron.

Mr Cameron told a committee hearing there was a “climate of fear” in the component industry because of the complete control car makers held over them.

“There is a bully on the block in our industry and that bully on the block is the chief executives of these major car companies in Japan and the United States,” Mr Cameron said. “When there is a bully on the block, somebody has to come in and say, ‘We’re not going to cop the bullying.’”

“I will turn it around again and say that the only people who can stop it are those in the federal government. The federal government is the only group, the only institution in this country that is big enough to stand up and say to these car companies, ‘We are providing you with billions of dollars of taxpayer-funded support and, for that support, this is what you will do’.”

The chief executive of Flexdrive Cables Australia, Darren Wesley Hugo, said the committee’s focus on skills, training and research missed the crux

of the problem. The real issue was the disinterest of local car builders in the merits of the local supply chain.

“Our experience tells us that, in relation to the local scene, price comparisons and value judgments are heavily biased towards buying from China, seemingly ignoring the real costs of getting the imported product to the assembly line—that is, judging Australian prices shipped ready for assembly into the vehicle against ex-works prices from the country of origin,” Mr Hugo said. “Further, there is great reluctance on the part of the local [car makers] to agree to long-term contracts, reserving the right to resource at any time for any reason.”

But even if transport and other costs are included, can Australian component manufacturers compete with China? A spokesman for one multinational car parts maker in Adelaide gave a frank assessment of China’s competitiveness to the MPs attending a roundtable meeting in the Edinburgh Parks automotive district in Adelaide.

“I attended a meeting in Europe last year with my European counterparts and we were provided with two components that we manufacture—one was an Australian component that cost \$90 to manufacture and I was then shown another part that was identical and it cost \$9 to make in China—10 per cent of the cost,” he said. “There was no difference in quality. Automotive manufacturers can source that part for \$9 in China whereas it costs \$90 to manufacture in Australia—a huge difference.”

A number of witnesses before the inquiry said they believed the Australian car industry had to change tack if it was to survive. Local manufacturers had concentrated on building big six cylinder cars, which were being bypassed by consumers looking for more fuel-friendly models.

But Ford’s manager of government affairs, Russell Scoular, doubted that Australian manufacturers could compete in the small car market.

“If I look at the Australian marketplace today for smaller vehicles, it is incredibly fragmented,” Mr Scoular said. “There are more than 50 different models of small car, and that does not include the sedan, hatchback and station wagon variants of a name.

Photo: Marc McCormack, Newspix Continued page 34 ▶

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“The top selling small car in Australia today sells about 16,000 vehicles year to date. The average of small cars on sale in Australia today is barely 3,000 units a model. If I look at my Falcon Territory platform, which shares many components together, they are year to date about 35,000. The critical factor, if I was to seek to go into a smaller vehicle, is: I cannot get the volume mass in such a fragmented and segmented market.”

Others who gave evidence saw the future as developing a niche market in environmentally friendly cars. CSIRO’s transport leader, David Lamb, believed Australia had missed an opportunity to get a head start in building hybrid cars and the fault did not lie entirely at the feet of car manufacturers. Ten years ago CSIRO had extolled the benefits of half-petrol, half-electric cars in a presentation at Parliament House. No such car was built in Australia but Toyota’s hybrid, the Prius, was now on the road.

“It would be very easy for me to say that we should have been producing that car in Australia for the last 10 years, but if we had, or whichever company had, they would probably have gone broke because there was not a market for that kind of car in Australia,” he said. “And why would there be? We had just about the cheapest petrol in the world and we had a car-buying public who were well and truly accustomed to and were wanting big cars, regardless of the amount of fuel they consumed, and with very little understanding of the environmental damage that was being done.”

Mr Lamb said policy settings would need to change if consumers were to be herded towards buying fuel efficient cars. Greater value had to be placed on minimising energy use and, as price had the biggest influence over people’s behaviour, there should be a hike in fuel taxes.

Talk of pushing up fuel taxes disturbed Employment Committee



120 of the 180 component manufacturers in Australia are located in Victoria. Photos: photolibary and Lindsay Moller, Newspix

Chair, Phillip Barresi (Member for Deakin, Vic).

“We have been told to take taxes off fuel at the moment,” he said.

“Of course you are being told that, because people are hurting,” Mr Lamb said. “If I had swallowed the big car myth five years ago and I had bought a nice large house out in the boondocks, well away from any public transport, and then suddenly the fuel price went up 30 to 50 per cent, I would be asking for some relief too.”

“The only point that I would make is that nothing will work without a cohesive plan that is stuck

to. If we seriously want to have hybrid electric vehicles we need to have an agreement about who will make them and the conditions under which we will make them, and we will need to set up some sort of regulatory regime that will support such a move.”

The AMWU’s Doug Cameron warned the committee of the tough road ahead for the car industry and Australian manufacturing as a whole if the decline can’t be reversed.

“If we de-industrialise the [auto] components sector then there is no long-term future for the car industry in this



Cheaper imports are threatening car parts manufacturing jobs in Australia. Photo: Searcy Ben, Newspix

country and the whole manufacturing sector is in trouble,” he said.

“We say that means that we will simply be a quarry, a farm and a nice place to visit.”

The growing dominance of China was worrying indeed for one employee of a car parts maker who shared his personal views with the committee. He feared within 10 years that two of the four major car manufacturers in Australia would have either folded or withdrawn from building cars locally in favour of overseas production.

“We just cannot compete with China paying its workers \$30 a month,” he said.

“We are very competitive but like a lot of other industries that need labour the only way they can survive is to go off-shore. The components industry is going off-shore, everything is going off-shore and I’m just wondering what contingency plan has the government got for Australia without an automotive industry because I’ll tell you that’s the way everyone is talking.”

But Australia’s scientific and engineering expertise for research and development could be one saviour according to the chief executive of the Federal Chamber of Automotive Industries Peter Sturrock.

“The one major opportunity we have in Australia is a high skill base and reasonably low cost R&D or engineering development compared with Japan, the US or Europe,” Mr Sturrock said.

“Australia is now being called upon by the overseas parent companies of brands like General Motors Holden, Ford and Toyota to specifically undertake R&D and model development work for their wider groups of companies not just in the region, but sometimes globally.”

Mr Sturrock highlighted to the committee how the cost competitiveness of a locally made vehicle had, since late 2002, deteriorated by around \$5,000 against an imported vehicle of a similar value. He also stressed the component industry was “under threat

and siege” without a vibrant vehicle manufacturing industry.

“The component industry is obviously feeling the effects of the global sourcing programs which the vehicle manufacturers have embarked on,” he said.

“That has come into sharp focus in the last two or three years. The response from the industry—from the vehicle manufacturers—has been a willingness to work as closely as possible with the key local component suppliers in Australia and, with the assistance of the government through industry minister Ian Macfarlane and others, to ensure that we do everything we can to encourage the overseas parents, be they in Japan, the US or wherever, to consider Australian component manufacturers within their sourcing programs.” ■

For information on the inquiry into employment in the automotive component manufacturing sector, visit www.apf.gov.au/house/committee/ewrwp or email ewrwp.reps@apf.gov.au or phone (02) 6277 4162.