

# **Minority Report by Senators Carr, Madigan, Muir and Xenophon**

## **TRANSFORMATION OR DISINTEGRATION:**

### **Stop an early automotive manufacturing exit—Save jobs—Plan for an advanced manufacturing rebirth**

#### *Introduction*

1.1 Manufacturing is essential to maintaining Australian living standards. It employs almost a million hard-working Australians, sustaining families and communities throughout the country. The automotive industry is the linchpin of advanced manufacturing. As the Australian Workplace Innovation and Social Research Centre (WiSeR) notes in its submission to the inquiry:

Automotive has been, and has to a large extent remained, Australia's most developed integrated and complex value chain...Some of the enabling competences and technologies inherent in automotive manufacturing and engineering include: systems integration, materials science and engineering, process engineering, automation and control technologies, electronics and miniaturisation, digital content, sensing and simulation, high tooling skills, injection moulding, etc.

1.2 Similarly, the Federal Chamber of Automotive Industries (FCAI) notes:

According to the Organisation of Motor Vehicle Producers, OICA, the global automotive industry invested almost €85 billion in R&D in 2005. 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. 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.

1.3 However, the announced departure of the three motor vehicle producers has created a crisis in manufacturing that will affect the lives of hundreds of thousands of Australians.

1.4 The Government effectively goaded GM Holden out of Australia. On 10 December 2013, Treasurer Joe Hockey challenged GM Holden on the floor of the House of Representatives saying:

...join with the Acting Prime Minister and the government in calling on Holden to come clean with the Australian people about their intentions here. We want them to be honest about it—we want them to be fair

dinkum—because, if I was running a business and I was committed to that business in Australia, I would not be saying that I have not made any decision about Australia. **Either you are here or you are not.**

1.5 The following day GM Holden announced that it would cease manufacturing in Australia.

*Exacerbating job losses and business closures*

1.6 Economic modelling by WISeR indicates that about 200,000 jobs will be lost as a result of the shutdown of automotive manufacturing, cutting \$29 billion from GDP.

1.7 Victoria and South Australia will bear the brunt of the shutdown, and there is a real prospect of regional recessions. In the scenario laid out in WISeR's modelling:

Around 100,000 jobs are lost from the Victorian economy, whilst South Australia loses 24,000, with the balance shared amongst other states less dependent on automotive production.

1.8 To put this in perspective, the Holden factory in the City of Playford in South Australia currently has an unemployment rate of 15.5 per cent and is one of the more disadvantaged suburbs in the nation. In its submission to the inquiry, the South Australian Government points to the ongoing long-term unemployment, adverse social consequences, regionalised damage to communities and increased costs to government that will result from an early and unplanned departure of the industry. This is a situation mirrored in Victoria, particularly in regions like Geelong and the South-Eastern suburbs of Melbourne, which have a high concentration of automotive manufacturers and supply chain firms.

1.9 Governments must respond to the crisis by investing, and by helping business to invest, in forms of manufacturing that will maintain, and ultimately extend, Australia's technological capabilities. That cannot happen, however, if the automotive industry, which is still the core of advanced manufacturing in this country, is simply abandoned.

1.10 The Commonwealth Government recognised its role in transitioning workers and industries:

...what we are on about is trying to ensure that the workers of this country transition from good jobs to better jobs, from the industries of the past to the industries of the future. That's what we're on about and we think government does have a role. (Joint press conference, Prime Minister Tony Abbott and Industry Minister Ian Macfarlane 18 December 2013).<sup>1</sup>

1.11 However, the Bill as it has been moved will greatly diminish the chances for any form of successful transition for either employees or businesses and will lead to

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1 <http://www.pm.gov.au/media/2013-12-18/joint-press-conference-parliament-house-canberra>

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substantial lost manufacturing capability for the nation. In fact it markedly increases the likelihood of early manufacturer closures, greater job losses and business failures.

1.12 Our most pressing and serious concern with this Bill is the risk that it will trigger early closures throughout the automotive supply chain, which in turn would force the motor vehicle producers to leave early. This would result in slashing transition times, compromising retraining opportunities for workers and retooling opportunities for companies. This concern is voiced repeatedly in the evidence submitted to the committee. As the Australian Industry Group (Ai Group) states:

If this final adjustment phase is not managed carefully and the supply chain cannot be kept intact, there is a very high risk that all automotive assembly in Australia could end well before the final dates announced by Ford, GM Holden and Toyota. For the component suppliers, this situation is serious and urgent.

1.13 The automotive supplier Futuris states:

The solvency of a number of automotive components producers may be put at risk if the proposed amendments are allowed to go through. The flow on impact of this is likely to be an early exit by the vehicle manufacturers (due to a lack of availability of key components).

1.14 The motor vehicle producers themselves all agree. GM Holden says:

If local suppliers financially fail prematurely, this will jeopardise Holden's ability to manufacture to the end of 2017 and in turn, reduce the time necessary for an orderly transition of the automotive industry, local surrounding communities and the wider economy...A premature shutdown brought on by the early collapse of critical suppliers will have a catastrophic impact on individual people and the economy – and it will likely end up costing governments significantly more to manage the consequences of a disorderly industry shutdown.

1.15 And Toyota Australia says:

Due to the interdependence within the automotive sector, all industry participants must continue operations up until the designated closures of vehicle manufactures or risk an accelerated and uncontrolled industry shut down with approximately 48,000 automotive manufacturing jobs at risk.

1.16 Ford Australia cited agreement with the view of the Federal Chamber of Automotive Industries:

...we are strongly of the view that this is likely to bring about an early closure of the automotive industry. The ATS program is now more important than ever in assisting supply chain companies to an environment without local vehicle manufacturing.

### ***Unacceptably elevating sovereign risk***

1.17 There is also the issue of sovereign risk, as the more than 120 firms currently registered with the Automotive Transformation Scheme have made business

investment decisions based on the availability of funding. As the Australian Manufacturing Workers' Union (AMWU) notes:

The Government's Bill not only represents a serious risk to the auto supply chain and early closure of the industry, it represents a clear example of sovereign risk, where legislated industry policy, which influenced investment decisions, is being undermined in a cheap quest for funds.

1.18 The Federation of Automotive Products Manufacturers (FAPM) says:

The Australian automotive supply chain quotation process is long and complex. A number of companies within the supply chain have already quoted for future contracts based on an assumed ATS return.

1.19 And the Victorian-based automotive lighting manufacturer Hella argues:

In our view, it is essential that the level of funding arrangements offered by the current ATS scheme must be maintained in their current structure. Our strategic plans and investment budgets have been based on continued access to these funds – subject to our eligible development and investment claims. Any structural changes to these plans that would reduce our claims could severely damage our performance to plan, and would be inconsistent with our strategic plans to develop future engineering and manufacturing opportunities in Australia.

1.20 Of no less serious concern are the long-term consequences for employment and for Australia's standing as an advanced industrial economy. As the AMWU notes:

Unless other manufacturing sectors can rapidly grow both in terms of size, international linkages and development and use of advanced technology, it is likely that the true impacts of the closure of the automotive industry will be much higher than any modelling analysis can indicate. Such an impact will be measured in a lower long term economic and productivity growth rate and will compound over time.

1.21 And the South Australian engineering design consultancy applidyne says:

We have observed growth in some other industries, particularly in medical and healthcare products. However the combined growth of these industries has not been sufficient to offset the decline in the traditional industries such as automotive and whitegoods. We have observed this ripple adversely through the supply chain and the attendant loss of technical capability for the last decade or so. I believe that this ripples more widely than most economists and analysts seem to think – I am thus fearful that the employment impact of the loss of the automotive manufacturers is being underestimated.

### ***Undermining successful transition***

1.22 Also of serious concern to us is the effect that such a significant reduction in ATS funding will have on government and industry planning for retraining and reskilling the thousands of displaced workers, a concern voiced in numerous

submissions to the inquiry, including the Government of South Australia, as well as FAPM, which states:

As a result, the industry's 45,000-strong workforce would face unemployment earlier than expected, impairing employment retraining and reskilling opportunities and placing significant stress on employment and community infrastructure.

1.23 The conclusion is unavoidable: by continuing with this Bill the Government would wreak havoc on the entire automotive value chain, and consequently on the livelihoods of those involved in it.

### ***Future directions***

1.24 Until the motor vehicle producers depart, the automotive industry—not only the carmakers but the supply chain as well—remains Australia's great repository of advanced skills and industrial capability.

1.25 We are committed to keeping that capability alive because it creates jobs that require high skills and pay good wages.

1.26 This is not the time to put the livelihoods of Australian men and women at risk. It is the time to look to the future, to ensure those jobs are there for generations to come.

1.27 As the Australian Motor Industry Federation (AMIF) notes:

AMIF suggests there is no clearer pathway to meet this aspiration than to retain the ATS so that manufacturers and component and part suppliers can continue to innovate, products can be delivered and business regeneration can begin.

1.28 To secure this regeneration there must be clear policies that allow Australia to maintain crucial manufacturing capabilities, secure new investment and jobs, and support future growth.

1.29 Leadership is needed to ensure a smooth transition from automotive manufacturing to a new, revitalised automotive industry that can retain the considerable knowledge, skills and experience of the existing automotive workforce while creating new employment opportunities for future generations.

1.30 As the AMIF notes:

AMIF believes the industry as a whole and the Australian Government should take stock and identify a longer term policy framework for the entire industry...what is required now is stability, surety and a commitment to a smooth and successful transition to a revitalised environment that is known and reasonably assured.

1.31 The issue is broader than the future of motor vehicle production in Australia. It is about the need for governments to develop a policy framework for the entire

industry—including, but not limited to: motor vehicle production, component making, after-market manufacturing, engineering, servicing, retail motor trades, other forms of sales support, and the training of apprentices.

1.32 A failure to appropriately fund the smooth transition of this sector dismisses the definitive and ingrained presence that the automotive industry has in Australia. As FAPM states:

Nearly 100 years of embedded knowledge will be lost without appropriate regulatory support to ensure competitiveness and securitisation of local engineering, design and production capability.

1.33 These sentiments are mirrored by FCAI, referring to the ATS funding as being imperative at such a turning point in Australian history:

To support the transition of the automotive industry through one of Australia's most significant industrial re-adjustments.

### ***Conclusion***

1.34 The evidence tendered to this committee unanimously called on the Government to reverse its position on the Automotive Transformation Scheme Amendment Bill.

1.35 This is in stark contrast to the Chair's report on this inquiry, which relies heavily on arguments previously put forward by the Productivity Commission and the National Commission of Audit in a lame attempt to justify the Abbott Government's ideological opposition to the automotive industry.

1.36 In our view, by seeking to amend the Act in this way the Government is: displaying a reckless disregard for the future of the tens of thousands of Australian men and women who are employed directly in automotive manufacturing; jeopardising Australia's advanced manufacturing capabilities; and courting serious long-term economic damage. This is a risk that the Labor and cross-bench Senators on this committee are not prepared to accept.

1.37 For these reasons, Senators Carr, Madigan, Muir and Xenophon do not support the majority report and are opposed to the Automotive Transformation Scheme Amendment Bill 2014.

### **Recommendation 1**

**1.38 That the Senate reject this Bill.**

### **Recommendation 2**

**1.39 The Automotive Transformation Scheme should be retained with current levels of funding, so that the motor vehicle producers and component manufacturers can manage an orderly and planned transition as a result of the announced closures of the motor vehicle producers.**

**Recommendation 3**

**1.40** Changes to regulations under the Automotive Transformation Scheme Act, as called for in various submissions to the committee, should urgently be considered to ensure that the Scheme remains effective in supporting manufacturers to maintain automotive capabilities and jobs during the transition.

**Recommendation 4**

**1.41** The Senate Economics References Committee should establish an inquiry to develop a policy framework for the future of Australia's automotive industry, covering all sectors of the industry—including, but not limited to: motor vehicle production, component making, aftermarket manufacturing, engineering, servicing, retail motor trades, other forms of sales support, and the training of apprentices.

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