



MEDIA RELEASE

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Ai GROUP COMMENT: PC FINAL REPORT ON AUTO SECTOR

“The Productivity Commission’s final report into Australia’s Automotive Manufacturing Industry released today seriously underplays the impact of the end to car making in Australia and should be treated with caution,” Australian Industry Group Chief Executive Innes Willox said today.

“The report fails to acknowledge that the situation facing the auto sector is not just another minor ‘adjustment’ in the economy; it represents the virtual closure of an entire industry. This will happen within a relatively short span of time and it will affect a large number of businesses, employees and communities.

“In this context, the PC Report displays a disappointing and disturbing absence of practical recommendations to help facilitate an orderly transition of businesses and people seeking to move out of the local auto supply chains, beyond the existing set policies that were devised well before the current situation emerged. This absence of practical policy advice or new recommendations seriously undermines the value of the report. As a result, the Report misses the opportunity for Australia to make the most of the considerable capabilities, skills and experiences in Australia’s auto supply chains and to avoid the wasteful destruction of those capabilities.

“The Commission predicts that 40,000 people will lose their jobs. They assume that 80% of workers in the direct auto assembly workforce plus 40% of workers in the automotive components supply chain (including components for vehicles other than passenger cars) will be retrenched. This is considerably more optimistic than other estimates of future job losses. The FCAI, for example, estimates that up to 90% of the industry will close or move offshore. The PC assumes that “firms that manufacture components for the aftermarket, export markets and buses and trucks will be largely unaffected by the closure of the motor vehicle producers”. Given the close supply relationships in this industry, however, this is a brave assumption. In the current situation of looming industry closure, it is possibly a dangerous assumption.

In the absence of active supporting measures (as recommended by the Commission), it is difficult to see how 60% of Australia’s automotive components industry will be able to survive, unaffected by the demise of local passenger car assembly, or be able to successfully transition into other opportunities. The PC’s assumption that they will be able to move into exports and/or the after-sales parts market with no additional assistance or support seems fanciful at best. These markets are already crowded and are extremely competitive, with many auto components suppliers already operating in them.

Ai Group is also very concerned about the Commission’s assumption that two thirds of the expected 40,000 retrenched auto workers will find another job. This seems to be based primarily on the experience of the 700 Mitsubishi workers who were retrenched a decade ago (2004) with the assumption that it can be replicated for the 40,000+ auto workers who are about to be retrenched. This is despite strong evidence that the national jobs market is already considerably weaker than it was a decade ago and is set to weaken further, with

both Treasury and the RBA forecasting a rising national unemployment rate from here. This time around, there will be far more displaced auto workers in a very concentrated geography and with far fewer local alternative employment options, compared to when Mitsubishi closed. Among the Mitsubishi workers for example, about 10% found a new job with other auto manufacturing businesses and another 20% found work elsewhere in manufacturing. This demise of the auto assembly sector means those results simply cannot be replicated again, and certainly not for 40,000 workers.

“The Australian Industry Group strongly encourages the Government to continue talking directly to impacted businesses up and down auto supply chains in assessing the steps that can be taken to actively build opportunities both for employees and businesses over the next couple of years as the auto assemblers wind down their operations,” Mr Willox said.

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