



**Senate Standing Committee on Economics
Inquiry into the Future of the Australian Automotive
Industry**

Preliminary Submission AMWU February 2015

Introduction

The Australian Manufacturing Workers' Union (AMWU) represents approximately 100,000 members working across major sectors of the Australian economy. AMWU members are primarily based in manufacturing industries, in particular; metal, vehicle, and food manufacturing, but also in the industries of mining, building and construction, printing and graphic arts, repair and service and laboratory and technical services. We have nearly 15,000 members employed in Ford, Holden, Toyota and several hundred auto component suppliers who are first, second or third tier suppliers of components and services to Australia's automotive manufacturing industry.

The AMWU would like to thank the Committee for the opportunity to provide this preliminary submission into the Senate Standing Committee on Economics Inquiry into the Future of the Australian Automotive Industry. This submission will focus on issues pertinent to the manufacturing and supply chain transition, while the AMWU will provide a more comprehensive submission to the inquiry by the submission deadline of 29 May.

This preliminary submission seeks to provide the Committee with our views on issues that may need to be considered by the Committee and Parliament prior to the inquiries reporting date. The foremost of these is the future of the Automotive Transformation Scheme and its role in the manufacturing and supply chain transition. This issue sits in the broader context of the potential and desirability of maintaining an automotive manufacturing industry in Australia, even in light of the flagged closure of Ford, Holden and Toyota manufacturing operations.

One in a long line of submissions

The broader policy issues that a successful transition for auto supply chain firms and the sector more broadly raise have been canvassed by the AMWU and other stakeholders through a number of inquiries and reviews since the closure announcements were made.¹ This includes a lengthy Productivity Commission (PC) review into the automotive industry, reviews into the Victorian and South Australian economies in light of closure announcements, an inquiry into Australia's Innovation System and most recently, an inquiry into the Governments planned Bill to cut \$900 million from the Automotive Transformation Scheme (ATS). The AMWU has provided submissions into all of these processes, with a preliminary and final PC review submission, as well as submissions into both state economic reviews.²

Contained in these submissions are detailed analyses of the likely impact of the announced closures, detailed arguments concerning the importance of a diverse economy for our future

¹ Indeed, the inquiries started prior to closure announcements and it has always been the view of the AMWU that the preference of the Government for inquiries into the auto industry masked a reluctance to face up to the government's role in securing the industry's future. This like other issues, have been extensively canvassed in previous submissions.

² AMWU submissions into all of these processes are available at:
<http://www.amwu.org.au/news/37/research%20reports%20submissions/>

prosperity, the central role of manufacturing in a diverse economy, broader pressures being faced by manufacturing as well as specific policy suggestions to address these pressures.

AMWU submissions have outlined, with supporting evidence, the view of the AMWU that the Government's 'Growth Fund' is a woefully inadequate policy response to the announced closures. This is best illustrated by the fact that the closure announcement has prompted the Government to increase funding for supply chain diversification by only \$3 million, with \$17 million of the \$20 million diversification program being re-directed from the previous government's Automotive New Markets Program, which was also aimed at diversifying the auto supply chain. This is a sum that is less than what the government is paying one attorney as part of the Royal Commission against union corruption, which exposes how seriously the Government takes the impact of closure of the auto supply chain and employment.

The current situation

As we have consistently stated in numerous submissions, an adequate policy response should have three complimentary aims and sufficient resources to achieve those aims. These aims are:

1. Minimise business closures and employment losses
 - Minimising employment losses by helping businesses to maintain employment through a transition to new markets and products, thereby also minimising broader economic impacts on families, communities and tax revenues and welfare expenditures.
 - Minimise the damage to our industrial capacity and capability by transitioning to new markets and products, largely through new investment, thus minimising the further retardation of our economic diversity and sophistication.
2. Ensure workers who lose their jobs are in a strong position to find quality new work.
 - Minimises the impact on families, individuals and communities by ensuring workers are as well positioned as possible to find good new employment. This includes obtaining new skills as well as having current skills certified. This should occur where possible prior to losing current employment.
3. Minimise impact on already disadvantaged communities
 - Regardless how successful a policy is in addressing 1 and 2, targeted community support programs are justified to mitigate the economic impact on communities.
 - The closure represents a significant economic shock to communities that are already disadvantaged with high unemployment rates (in the teens) and disastrous youth unemployment rates of over 40% in some communities.³

³ For example, see: <http://www.abc.net.au/7.30/content/2013/s3785434.htm>

The AMWU has proposed a detailed adjustment package, both in our submission to the Productivity Commission and in our submissions to the Government's Victorian and South Australian Economic Reviews. Needless to say, our recommendations have been ignored and judging by the pitiful 'Growth Fund' response of the Government, our concerns about the economic and social impacts of closure, especially if left unmitigated by policy inaction as is the case, are not shared by the Government.

Indeed, it seems that rather than move to mitigate the impacts of closures in 2016/17, the Government is seeking to bring the closures forward by insisting on cutting \$500 million from the Automotive Transformation Scheme (ATS) prior to 2017. This cut is not only a dramatic decrease in planned and legislated support to automotive manufacturers, since 45% of ATS support goes to supply chain firms, it is a substantial cut in supply chain support, just when the supply chain in particular needs additional support to transition to new markets and products to avoid closures and mass layoffs.

The opportunity

The planned ATS cut directly and substantially works against the 1st goal of a genuine policy response to announced manufacturing closures. So much so that Holden⁴ have warned that if the cut goes ahead, they fear a collapse in their supply chain leading to early closure by all three multinational manufacturers. It is evident that the Government is indifferent to the fate of the industry, the workers and families that depend on the industry for their livelihood and to their communities as well as the diversity, capacity and industrial sophistication of our economy. Not only are they refusing to put in place an adequate support package in response to a closure, they are intent on bringing the closure forward.

It is with great relief that the AMWU notes the Senate's flagged opposition to these cuts through early indications that the Government's ATS cut bill is unlikely to pass. The likely blocking of the Government's planned ATS cuts represents a new opportunity to implement a policy that will adequately respond to the planned closures, at least a policy to minimise the supply chain employment and broader industrial capacity impacts.

While our major auto manufacturers are planning to close manufacturing operations by 2017, Australia still possesses excellent experience, skills and capacity in automotive manufacturing, design, testing and innovation. This is in both the automotive supply chain, the 'Primes' (as Ford, Holden and Toyota are known) and in aftermarket businesses which improve existing cars, SUVs, motorcycles, caravans and trucks through the manufacture and design of innovative products and systems as well as replacement and maintenance products.

Australia maintains a very impressive set of automotive industry capabilities, which can be maintained and grown with the right policy settings. These capabilities are well known in the

⁴ As well as others including the Federation of Automobile Parts Manufacturers (FAPM). See the AMWU ATS Bill submission for more detail, available at: <http://www.amwu.org.au/news/37/research%20reports%20submissions/>

industry and have been recognised by the industry globally⁵ as well as domestically. As an example, a brochure on Australia's automotive industry prepared just prior to the current Government's entry into office in 2013 by Austrade,⁶ stated about our automotive industry:

"The Australian automotive industry has developed world leading expertise in components, systems and vehicle design, research and development and testing."

And:

"Australia has strong capabilities in design, management, safety, reliability, logistics infrastructure, workforce, productive business culture, customer relationships, innovative systems, sophisticated IP protection and research and development. Utilisation of these capabilities can position companies for international operations with high quality value-add at a competitive price. Australia also has expertise in 'green car' technologies and products in areas of lightweight materials and alternate fuels, to reduce vehicle weight and emissions."

It is crucially important, both in order to save as many jobs as possible and in order to preserve an advanced manufacturing, design and engineering capability, that Australia implement a policy that will sustain our automotive manufacturing skills and capabilities and support the diversification and growth of sub-industries such as the aftermarket and specialist parts industry.

The Committee has a unique opportunity to do this by maintaining the full resourcing of the ATS and reforming the ATS into a broader automotive related manufacturing, engineering and design program.

Currently the ATS is squarely targeted at supporting multinational manufacturers and their supply chains to design and build conventional passenger vehicles. The argument presented by the Government to justify abolishing the ATS from 2017 is centred on the fact that from 2017 Australia will no longer produce cars for either our market or for export. However, this assumes that with the end of manufacturing, we are happy to see the end of the entire supply chain as well as our design, research and development and testing capacity. This is an assumption that the AMWU, many other stakeholders, businesses and workers and we can only assume this Committee (at least in part) rejects.

⁵ For example, see:

<http://www.goauto.com.au/mellor/mellor.nsf/story2/2CF9D5A51A45706ACA257DCD007FA351>

⁶ Available at:

<http://www.google.com.au/url?url=http://www.austrade.gov.au/ArticleDocuments/1358/Automotive-ICR.pdf.aspx&rct=j&frm=1&q=&esrc=s&sa=U&ei=UvPzVPfhCcbDmwWPqIGACw&ved=0CBoQFjAB&usg=AFQjCNHcScg83ukeuBkjjlTi8zDIPoUhJA>

Given the change in circumstance, in the AMWU's view, the ATS should not be abolished or de-funded but re-targeted and given a new purpose; namely to support the transition of our automotive manufacturing industry from one focused on the domestic production of cars to one focused on:

- The design of cars,
- The design and production of aftermarket parts and accessories,
- The design and production of advanced components, systems and materials for global supply chains producing cars and other vehicles,
- The design and production of low emission automotive components, engines and infrastructure.

This will require substantial changes to the existing ATS scheme, including:

- removing production volume eligibility requirements on applicants,
- removing the requirement that support must be for the domestic production of cars (i.e. open eligibility to manufacturers who do not supply into existing Ford, Holden and Toyota supply chains, such as aftermarket or specialist component exporters, as well as producers of vehicles and parts other than mass passenger automobiles), and updating the object of the ATS Act to better reflect a new direction for the scheme.
- The new object should specify the ATS is designed for: the promotion and growth of an advanced automotive manufacturing industry, including; components and materials, aftermarket products and accessories and design and testing.
- Allowing current underspends in the ATS (the result of assistance being tied to falling volumes) to be brought forward from phase 1 to phase 2 of the scheme.

In addition, post 2017, the scheme needs to be modified by:

- removing the 55%/45% split between support for Motor Vehicle Producers (MVPs) and supply chain firms,
- removing the 5% cap on support and the two tiered capped and uncapped design of the scheme.⁷

Given the scope of the changes necessary to re-orient the ATS towards preserving and growing the industry, the AMWU recommends the Committee establish a bi-partisan Working Group of Senators, working with industry and union stakeholders, to develop new guidelines for a reformed ATS scheme and to present these guidelines to the Government along with the Committee's final report.

A note on the Greens ATS proposal

⁷ This design feature is a result of WTO automotive subsidy rules and is no longer relevant once the scheme's scope is expanded beyond car production.

The AMWU notes the proposal of the Greens to re-design the ATS as a Green Car Transformation Scheme. We support the broad idea behind this proposal, namely to salvage the industry by giving it a new direction and a new mechanism of support to expand in that direction. Indeed, our general view of the future of the industry sits well with the thrust of the Greens proposal. However, we do have some concerns regarding this proposal:

- The focus on low emission technology should not come at the exclusion of other technologies and trends in automotive and other vehicle manufacturing.
 - For example, as well as electric and hybrid cars, we are currently witnessing a revolution in driverless cars, IT system integration in vehicles, new materials, safety, production processes as well as other dimensions of technological change. It would be foolish and self defeating to exclude any of these directions of advance and new opportunity simply because they may not address a separate, while important, economic challenge; namely climate change.
- We fundamentally disagree that the Senate should trade resources in the ATS for a re-design of the ATS.
 - Current funding under the ATS is legislated and reducing this not only represents a betrayal of all ATS participants, it represents a blatant disregard for sovereign risk. As we have argued above as well as in numerous other submissions, the impending closure of the MVPs does not justify a cut in support to the sector, it calls for strong and even increased support to avoid and mitigate the worst impacts of closure, both on our industrial base and on individuals and communities.
 - Resources invested in mitigating the negative impacts of closure, especially through a reformed ATS, will minimise the need for greater welfare, law and order, health, and other funding in future. If anything, a reformed ATS should see an injection of funds rather than a cut.

There is a viable future industry but we need to act

Australia still remains one of only 13 countries that can build a car from the earliest design phase to the showroom floor. In addition, we have held these capabilities for decades and we have a wealth of experience in developing and implementing the technological and other innovations that we can see in our modern cars whenever we sit behind the wheel. No other country in our region has anything like this experience and expertise.

The capabilities, skills and technologies that this supply and production chain encompasses represent some of the most advanced economic processes on the planet. It is a huge national asset and the government should be in the business of maximising the value of this asset, not liquidating it as seems to be the case.

The closure of MVPs need and should not mean Australia loses this entire capacity. It is a capacity that defines us as an advanced economy and its loss due to misguided policy choices will severely impact our economic diversity and prosperity for generations to come.

The current Government has shown no understanding of either the role advanced supply and production chains play in an advanced economy nor in the government's role in attracting and fostering these activities. They persist in attacking the industry, its workers and the policy mechanisms put in place by successive governments (of both stripes) to promote it. We do not know whether this is in an attempt to cut spending to satisfy a budget surplus fetish,⁸ an attempt to damage a workforce because they are largely proud union members or a hypocritical expression of a 'no corporate welfare' ideology.⁹ Regardless, their approach continues to cause damage on an individual, community, regional and national level, for a gain that is invisible at least to the AMWU.

Yet with policy settings that promote new technology, products, processes and markets, Australia can retain the highest value and most sophisticated parts of this industry, significantly mitigating the impact of MVP closure on individuals and communities and partially safeguarding our advanced economic future.

In addition, the recent falls in the AUD have illustrated how short sighted it was of the Government to refuse to address the industry's concerns about future investment certainty, which ultimately led to the closure announcements. At a current USD exchange rate of 78 cents to the dollar, there is every reason to believe the MVPs could have had a strong and viable future were it not for the Government's actions in reneging on decades of bipartisan strategic support for the industry. We urge the Committee to act to avoid a similar mistake being made which will devastate the rest of the automotive manufacturing industry, again for no benefit to anyone.

A redesign of the ATS represents the best option to mitigate the industrial, jobs and broader economic impacts of MVP closure. To miss this opportunity would represent an additional and unnecessary tragedy, the costs of which all Australians will pay for decades to come.

⁸ For a sober expert assessment of our fiscal challenges and priorities, see: <http://www.tai.org.au/content/economists%E2%80%99-statement-commonwealth-budgetary-and-economic-priorities>

⁹ Hypocritical because they see no problem with over \$900 million in annual assistance to the mining industry or with \$700 million in annual assistance to the finance industry, but auto industry assistance is somehow 'corporate welfare' that needs to end. See: <http://www.pc.gov.au/research/recurring/trade-assistance>