

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

2014 - 2015

Department/Agency: Productivity Commission

Question: AET 305-310

Topic: Automotive Manufacturing Industry

Reference: written - 06 March 2015

Senator: Xenophon, Nick

Questions:

305. I refer to recent answers to my questions on notice as a result of the previous Supplementary Budget Estimates. In your response to question 47 you make a statement that ‘decades of government assistance have been unsuccessful in overcoming the market conditions and competitive pressures that face the industry’. As part of your inquiry into Australia’s Automotive Manufacturing Industry, did you provide any guidance as to how government assistance could be best put to save this industry?
306. In your responses to questions 48 and 49, which revolved around industry assistance comparative studies across countries, you note the constraints of conducting such studies due to country specific assumptions and qualitative data sets being unavailable.
- I now refer you back to number one in the terms of reference for the PC Inquiry, which was to ‘examine national and international market and regulatory factors affecting the industry’.
- Why did you include this in your terms of reference, and then discount the use of these comparisons throughout the report and subsequent Senate Estimates?
307. Do you think that an industry assistance comparative study across countries would have yielded a different report in relation to recommendations?
308. What evidence did you collate from other countries through the PC Inquiry as to why countries invest in their automotive industries?
309. You state in response to Question 55 that you ‘have not evaluated the adequacy or efficacy of existing welfare, training and employment services in the affected regions’, where the automotive job losses will be hardest felt. Do you have plans to commission this research, and do you agree this modelling will be useful and timely?
310. Have you commissioned any research as to which industries you envisage ex-automotive industry employees will be re-employed? Are you aware of any funding re-direction as a part of this shift?

Answers:

305. The Commission did not make recommendations on how further government assistance could be used to support the industry. In the Commission’s view, the policy rationales for industry-specific assistance to firms in automotive manufacturing are weak and the economywide costs of such assistance outweigh the benefits. Furthermore, decades of transitional assistance to the automotive manufacturing industry has been unable to overcome the scale requirements, market conditions and international competitive pressures that face the industry — such assistance has forestalled but not prevented the significant structural adjustment now facing the industry.

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306. In the preliminary findings report, the Commission set out the international context for the automotive manufacturing industry and Australia's place in that dynamic environment. The Commission highlighted that global forces are driving dramatic changes in the size, scale and location of production, and that global production capacity exceeds demand for motor vehicles. It noted the relentless pressure on vehicle producers worldwide to reduce manufacturing costs, and that such costs (including labour costs) are substantially higher in Australia than some other countries that export motor vehicles.

During the course of the Commission's inquiry General Motors announced that Holden would cease manufacturing in Australia by the end of 2017 and Toyota announced that it also would cease manufacturing in Australia by the end of 2017. These announcements followed Ford's May 2013 statement that it would cease manufacturing in Australia by October 2016.

In light of these announcements and the impending structural change from motor vehicle manufacturing plant closures, the Commission's focus in the final report was on the effects of structural adjustment throughout the supply chain — on employees and firms — and on regions. To this end, the Commission assessed the relative merits of special assistance measures that are, or might be put, in place with the aim of lowering the costs of that adjustment. The Commission considered that even if a detailed quantitative comparison of assistance measures in other countries could be done robustly - and there must be doubts, as not all assistance is publicly transparent - the outcome of such an analysis would have been irrelevant to any consideration of the best policy settings for the Australian community.

307. A detailed quantitative comparison of assistance measures in other countries would not have changed the Commission's recommendations in the final report.

The Commission considers that Australia's industry assistance policy settings should be determined according to the interests of the Australian community as a whole, not by attempting to maintain relativity with the assistance measures provided in other countries. As noted above, even if a detailed quantitative comparison of assistance measures in other countries could be done robustly, the outcomes of such analysis would not be useful for informing policy decisions.

308. In its survey of other countries' assistance arrangements (appendix B of the final report), the Commission identified some stated rationales for such assistance. Some assistance measures have a broad objective, such as promoting environmental outcomes, rather than the specific objective of providing assistance to automotive manufacturing. Other stated rationales identified include the promotion of exports and regional aid. Identifying such rationales can be difficult — evidence on assistance measures often lacks transparency, is dispersed and difficult to verify.

However, as noted above, the assistance arrangements in other countries are irrelevant to the best policy settings for the Australian community. In the final report the

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Commission assessed the policy rationales for specific assistance to automotive manufacturing in Australia, and concluded that these rationales are weak.

309. The Commission does not plan to undertake research into the adequacy or efficacy of existing welfare, training and employment services in regions where automotive job losses will be hardest felt.

In the final report the Commission recommended that governments should ensure appropriate resourcing of generally available welfare, training and employment services in regions affected by motor vehicle plant closures. The Commission also concluded that the provision of special adjustment assistance to retrenched automotive manufacturing employees, over and above the substantial commitments of firms, at a level that exceeds the assistance generally available to other jobseekers, risks misallocating funds to jobseekers who would have found employment without additional assistance. There are likely to be opportunity costs to such programs.

There are some steps that can be taken by governments to inform future policy decisions when workforces and regions face structural adjustment challenges. In its final report the Commission said that if governments choose to provide additional assistance to retrenched automotive manufacturing employees, they should consider whether there are ways to better target such assistance to those likely to encounter the greatest difficulties in finding re-employment. In its geographic labour mobility study, the Commission recommended that governments should ensure programs announced in response to motor vehicle plant closures are properly evaluated. The Commission also noted that a longitudinal study of retrenched workers in regions affected by motor vehicle plant closures would help to understand the long-term effects of structural adjustment and inform policy development in this area.

310. In the final report the Commission drew on a survey of retrenched Mitsubishi employees and conducted its own analysis of unemployed former manufacturing employees using the Household, Income and Labour Dynamics in Australia survey. The Commission has not subsequently commissioned any other research on the re-employment of ex-automotive employees. The Commission is not aware of any funding re-direction as a part of this shift.