Introduction

The Australian car manufacturing industry is collapsing from within, in the face of internal and external market and trade forces, and high operating costs.

This is similar to what occurred in North America and Europe. US car makers and the associated supply chain went through a painful restructuring period from 2006 to 2010 as assembly plants were closed, thousands of employees were made redundant, and entire vehicle lines were extinguished. Dominant factors in this process were the Global Financial Crisis and the rise of fuel prices impacting the popularity of Sport Utility Vehicles in North America, then staple products of North American car makers.

The European car industry is still grappling with these changes as it deals with excess capacity. As it stands, Ford of Europe has already announced the closure of two assembly plants: Genk, Belgium; and Southampton, England, with associated job losses in excess of 5000. The regional economic impact of closures and job losses on this scale is significant.

For Australia, it is dealing with a similar situation, but in a condensed form.

Submission

Government policy has not been entirely helpful. A theory of “throw money at the problem and it will go away” has not been backed by sound policy that protects our industrial and manufacturing base, and uninformed political commentary demonstrates a lack of understanding of the problems exists at a political level, together with an abject disregard for the consequences should our car manufacturing industry fail. The view of think-tanks and policymakers that Australia is some sort of shining beacon of tariff reduction in a dark protectionist world is foolish: every country that has a car manufacturing operation within its borders has some sort of policy system, industry subsidy or protection in place to safeguard the strategic economic importance a car manufacturing industry has to the country it is in. These countries work had to protect their investment.

The genesis of this issue began with the Button Car Plan. Tax reforms relating to vehicle imports by car companies have led to an unprecedented level of choice for consumers. Similarly, a change in consumer attitudes towards vehicles that offer more 'flexibility' for lifestyle choices and vehicles that are more family friendly have introduced a new dimension into the automotive market.

In 1982, the Minister for Industry and Resources, Senator John Button, proposed a reform of the Australian automotive industry which was called the Button Car Plan, or Button Plan for short. The Button Plan called for indigenous car makers to establish joint ventures with one another (and foreign car makers), badge engineering, and a reduction in the import tariff rating effecting new imported cars. Whilst the joint venture and badge engineering aspects of the Button Plan ultimately failed, successive governments continued to roll back import tariff ratings to the point where the tariff is currently 5%. Inequitable Free Trade Agreements signed between Australia and Thailand mean that cars made in Thailand (by global car companies) can be imported into Australia with a zero tariff payable. The same cannot be said for Australian made cars being exported to Thailand, who imposes a 60% “import excise” on cars with an engine capacity over 3.0 litres.

The thinking behind tariff reduction was that it would allow imported cars to become cheaper and more accessible to Australian consumers, thereby increasing competition in the market and providing incentive to local car makers to improve their products to meet the competition, to level the playing field. In short, the theory was "competition betters the breed".

Whilst this theory was sound in principle, in practice it has had the effect of pushing local car makers towards insolvency and closure (like Mitsubishi's manufacturing operations in Australia). The rollback of tariffs has gone over and above what was necessary to open the market up to competitors. Local car makers are owned by foreign corporations and are given limited funding for development of new local models. Those foreign corporations will not allow a local arm to duplicate a car here that is being made in lower-cost assembly plants elsewhere in the world, and because of this, local car makers have over time designed and built their own products with the funding they have available.

Another issue with the tariff reduction program was that it failed to consider the fact that importers were able to import vehicles that were global platforms developed for global markets, which have an according budget allocation to develop them. This expenditure on such a car would be quite high, but can be recouped through amortisation of those costs across the global market as those cars are sold in several different regions (like the Toyota Corolla is sold in Europe, North America and Asia). The local car makers do not have this luxury and cannot compete with the economies of scale foreign car makers can bring to bear, and the production volumes they can draw on. Contrary to the intent of the Button Plan to create a level playing field, it has resulted in a playing field that is substantially lop-sided.

The inequality of the terms of the Free Trade Agreement with Thailand underscores this. Not only did government policy makers fail to pursue this issue with their Thai counterparts, they failed to review the now-ancient Button Plan to account for changes in the market, both locally and globally. Good government founded on good policy dictates that you review your strategic position to account for industry, market and technological shifts.

The abandonment of the protectionist ideal at all costs has been done so with little regard for the Australian workers and their families that rely on this industry for survival. Unsupportive commentary from media and academics say these people can transition to another sector or find another job. However this is easier said than done, and for workers in their later years, finding work can take considerable time and the household bills still need to be paid. The public debate thus far on the subject has been unhelpful and derisive.

This is something that is echoed throughout the rest of Australia’s struggling industry sectors. The failure of the car industry in Australia is not the beginning nor is it the end of the contraction of our industrial and manufacturing base.

Ford Australia warned the federal government in May 2002 in a submission to the Productivity Commission that it considered the 10% tariff and ACIS (which was linked to the tariffs) to provide the optimum balance between industry protection and market competitiveness and that any further erosion of this policy structure would leave the Australian car industry exposed to international market and economic forces, which the industry would not be able to withstand long term. Bear in mind this was in 2002. In simple terms, Ford said that any further erosion of the tariffs would produce little consumer benefit but significant industry consequences *(Ford Motor Company of Australia Ltd, Submission to the Productivity Commission – Review of post 2005 Automotive Policy Arrangements, May 2002)*

The Productivity Commission and the government of the day ignored Ford's warnings and the end result is the situation the car industry is in now (to a degree). Adding to this adverse chain of events is the conclusion of the Productivity Commission in 2008 that -

> *"In sum, based on the Commission's economy-wide modelling and related analysis, reducing tariffs to 5 per cent by 2010 and removing ACIS by 2015 can be expected to have a positive payoff. By comparison, the options that would prolong higher assistance for this industry, or introduce new forms of assistance, would be likely to impose costs on the community as a whole." (Page 81, Productivity Commission, Modelling Economy-wide Effects of Future Automotive Assistance, May 2008)*

This conclusion is open to question given the predicament now facing the Australian car manufacturing industry. Whilst it is noted the Productivity Commission modelled the future impact of a rising Australian dollar and labour costs on the industry in this study, it would appear that this modelling did not impact on the report's conclusions. This is a most unfortunate outcome. I wonder how this could have happened.

A view has been expressed in the media and other forums that the removal of all forms of industry assistance (and probably along with it, the removal of the Australian car manufacturing industry) would free up resources and funding for other economic areas and finally remove any semblance of trade barriers to imported vehicles. It is said that this outcome would best serve the national interest because it would make imported cars accessible to consumers at the best possible prices.

However, this is a simplistic, one-dimensional consumer-driven view of the situation and does not take into account the contribution car makers put into the economy and the nation's GDP – nor does it account for the economic and social consequences should the industry fail. For example, according to the Federal Chamber of Automotive Industries, car makers and the associated supply chain employ in excess of 50,000 people and is one of the biggest investors in research and development in Australia. A gross annual turnover of $160 Billion per annum and an annual tax liability across all tiers of government of approximately $10 Billion makes this single industry one of the biggest contributors to the nation's overall cash flow and economic output *(FCAI - Key facts about the Australian auto industry, August 2013, retrieved from http://www.fcai.com.au/ 1 November 2013)*

Then there is the effect on the supply chain to the automotive industry. The myriad of companies that supply parts and materials to the three car makers in Australia stand to lose the greatest if the car industry in Australia folds. The role the supply chain plays in this industry cannot be overestimated and is almost more important than the car industry itself. Phillip Toner summarised the importance of the supply chain thus:

> *"What we're potentially looking at is the loss of an important part of Australia's technological base because of the sheer breadth of technologies that are involved in the production of a motor vehicle: metallurgy such as complex casting of alloys; sophisticated machining centres; electronics and software into engine management and safety systems; robotics used in assembly and painting; chemicals and paints; sophisticated work organisation and logistic systems and of course the trade, technician and engineering skills supported by the car making industry." (ABC News, online edition, 14 August 2013)*

Add to this the level of R&D that is spent annually by car makers in Australia, and it can be seen that it is more worthwhile to have the industry in Australia, spending its money in our national economy rather than someone else's. Media coverage earlier in 2013 highlighted that GM Holden Ltd received $2.17 Billion in taxpayer subsidies in the period 2000-2012. However, there was very little comment on the fact that in the same period, Holden spent $32.7 Billion dollars in Australia – everything from parts, to salaries, and everything in between. GM Holden Ltd invested $607 Million on research and development in the past three years alone.

The market share and market position the Australian car makers trade in will not be absorbed by imported product, as the new car market in Australia is already saturated. Rather, consumers will simply go to other brands. Therefore, the economic impact of the car industry folding and the removal of the car makers' spending and tax income for the government will not be replaced. This loss will be compounded by large numbers of workers from the car makers and suppliers being forced into redundancy and will increase reliance on unemployment benefits if work cannot be secured rapidly for those people.

Through media investigation and reporting, it is now apparent that every nation on the globe that has a car manufacturing industry provides some level of financial or policy support to its car makers:

Country	Estimated government funding per capita[3] ($USD)	Vehicles produced[4]	Estimated government funding per vehicle produced[5] ($USD)
Australia	18	209,730	1,966
Germany	90	5,649,269	1,303
USA	96	10,328,884	2,908

(source: PBB Advisory – PBB Advisory Insights, Automotive May 2013 and The Conversation, 23 July 2013)

Whilst the above table offers a simplistic view of government subsidies to industry, it is clear that leading countries that have an automotive manufacturing industry provide a level of assistance over and above what Australia currently does.

However it does not necessarily follow that car makers should be given a 'blank cheque' of subsidy monies in order to make their local operations viable. Car makers are in business to make money, however the car makers also have a responsibility to address consumer demands and run an efficient business, particularly if they seek financial support from government.

When considering their current predicament, local car makers are not blameless as they have failed to account for the rapid consumer shift away from the staple large car segment, which is now a shadow of its former self, and corporate indecision and reversal of approved plans and strategies has hampered their ability to respond to these market shifts. This is an unsustainable management practice that cannot be supported in an environment where they are competing against 64 other brands in a minuscule new car market (compared to markets elsewhere in the world).

Conclusion

The Australian car manufacturing industry is a sector that is worth fighting for and worth keeping, however, any government support should be one part of a holistic approach to supporting the Australian car industry: practical policy, consumer incentives, and a degree of conditional financial support to manufacturers that encourages innovation and excellence.

The alternative is to allow the car manufacturing industry in Australia to fold, and with this, we lose a critical component of our manufacturing and production capability. The emphasis being capability, not capacity. Capacity is merely a measurement of output. Capability is the ability to do it, and that is what is important.

After all, making and growing things here keeps people in work, away from dole queues, paying taxes, contributing to the cashflow of the modern economy and generally supporting the overall skills and knowledge base you need to make your country a first-world leader. Not to mention make it a safe, pleasant place to live.

Real economic strength and wealth is not measured by how much money you have and how much is spent, but by your economic output and in turn, what you produce to support that economic output. So why would you not support your country's industries by making it easier for them to trade here? It is clear that it is not easy for Australian companies to trade in foreign countries, particularly when some countries – especially those Australia imports the bulk of our cars from – have significant trade barriers in the way to protect their local industries and primary producers.

These countries could be perceived as being unreasonable towards Australian trade interests, however, they are merely protecting their national interest – something we should be mindful of.