Efron Media Group

SUBMISSION TO THE:
AUSTRALIAN PRODUCTIVITY COMMISION

REVIEW OF THE AUSTRALIAN AUTOMOTIVE INDUSTRY

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Introduction

The premise of the review into automotive manufacturing in Australia is not merely based on the basic costs to the federal treasury but more importantly the "long term sustainability of the industry[1]. This statement shows the desire of the Australian Government to invest in the industry sector rather than merely providing temporary 'bail out' money. The term invest has been chosen with due consideration as we believe that the process is to create an industry that will eventually be completely independent of government funding and not require additional support.

Furthermore a sustainable manufacturing industry promotes job stability and creation, encourages investment and aids the Australian economy. It is therefore important to create a scope of how this issue should be reviewed.

This submission intends to deal with two criteria relating to the impact as a result of the conclusion of automotive manufacturing in Australia. The primary criterion encompasses the impact on unemployment and the opportunities for redeployment of employees directly involved with vehicle manufacturing.

Following this, secondary and tertiary employment reviews will be conducted. Thus providing and assessment and understanding of the true potential on employment and unemployment as a result the removal of this industry. We believe an understanding of the impact of employment and unemployment can create unforseen variables that need to be considered when assessing the viability of governmental funding.

The second area of review will include a review of manufacturing process and costing. The sub review will include labour, production and transport costing and provide an insight into the competitiveness of the industry. Moreover an assessment of the levels of production will be considered to provide a deeper and more meaningful understanding of the economies of scale and how any decline could send shockwaves of doubt and concern through the industry.

Finally, an outline of recommendations will be provided for review by the Productivity Commission. Additionally Efron Media Group directors will be made available to assist in further inquiries when required by the Productivity Commission.

PART 1: Employment

Direct Employee Assessment

There are approximately 17,000[2] employees directly employed by General Motors Holden, Ford Australia and Toyota. If this industry were to conclude then these 17,000 employees would be out of work with little to no prospect of replacement jobs within their own specialist areas. Further to this there would be a excess of job seekers entering into the market with comparable skills making re-employment a challenging experience possibly leading to negative cost bidding for jobs.

Negative cost bidding is a scenario whereby employees negotiate for less income than generally expected in the hope of securing a position. Having such a scenario devalues the individual's skills and perpetuates a negative growth scenario. When this is considered together with a lack of financial stability the results could be catastrophic, as we have seen in the recent examples of plant closures in the United States. High levels of localised unemployment result in the demise of localised housing prices and spending.

Additionally it may lead to higher criminal activity and crime rates, civil unrest and a further burden on governmental funding for education, healthcare and housing assistance, not to mention the increase in the requirement for the payment of unemployment benefits and related financial assistance.

It would also be prudent to assess what training should be provided to these employees and moreover, the costs incurred in retraining and which industries these employees could operate within.

Secondary Employees

We have classed secondary employees as those employed by parts manufacturers. The numbers of these employees would be approximately 33,000 this is based on government statistics[3] and the subtraction of the estimated 17,000 direct employees. We believe that the majority of these employees would be unemployed due the significant reduction in demand for goods. Some groups may indeed manage to survive the initial months. However, as production increases in foreign nation states the need to offshore these productions would also grow resulting in the complete demise of this sub industry.

We estimate the functional expectancy of this group to extend approximately 12 months after the closure of the last Australian Automotive Manufacturing site. After this period we would expect there to be almost no automotive component manufacturers remaining in Australia.

Tertiary Employees

The tertiary employee group are not directly related to automotive manufacturing many of them local businesses attached to the regions where automotive and related industries operate. They include transport providers, food service and entertainment related industries.

With the elimination of paid work for the primary and secondary groups there would be a further reduced need for longer hours in shopping centres as the local populous reduces spending. Under this scenario the reduced spending would lead many smaller businesses to eliminate their need for additional staff, as less customers essentially require less services.

The requirement for transport providers would also be reduced, as there would be little need to have components and vehicles transported between sites. This also includes private transport providers such as taxi's and limousines as the reducing spending ability will have more families remaining at home rather than going out.

Resulting changes in spending, impacts the local entertainment industries such as movie theatres, and entertainment parks and complexes. Family planning would also be reviewed and many younger families may decide to limit future family options or forgo them for many years.

Professional service industries such as legal, accounting, medical, dental.

The cost differential between the government funding and charges may in many circumstances result in a decline in health care facilities and professional services. Additionally trade services and supplies may be impacted both directly and indirectly.

We estimate job losses in these the tertiary group to be approximately 30,000-50,000 taking the total unemployed due to manufacturing plant closures to approximately 80,000 individuals.

Initial Costs to Government

Job Losses within and due to the closure of this sector are estimated in the press to be between 50,000 and 200,000.

Efron Media Group has estimates of approximately 80,000. When one consider the minimum NEWSTART benefit payment of AUD$501.00 and 80,000 people unemployed for 12 months the amount is AUD$480,960,000.00.

Additionally there would be a loss of tax revenue assuming when averaged, each employee pays AUD$5,000 in income tax per year the first year loss would equate to approximately AUD$400,000,000.

Total loss to the Australian treasury would therefore be approximately AUD$880,960,000.00 plus health benefits, retraining.

The Big Picture and Investment

We have so far provided an insight into the potential impact of unemployment as a result of a significant decline or complete conclusion of the automotive manufacturing and related industries within Australia. In so far as a general over view we wish now to review this from a more microscopic level. In this case we are not speaking of the large multi or transnational manufacturing organisation. We are in this case speaking about the average Australian and how this may impact their lives.

Unemployment within an individual regional sector impacts the entire community. It also threatens the future for employment skilling and career progress.

Large scale unemployment as we have discussed reduces spending, this inturn results in a reduction of jobs within the geographical region. The ripple effect[4] will continue to flow through all service related industries. This would mean a reduction in opportunities for apprenticeships, traineeships and career progression, thus leading to long-term unemployment for many people. The ripple effect may also prevent young Australians from aspiring to tertiary education and further studies. Put simply, children of work age may be required to obtain gainful employment to assist in the coverage of family expenses.

The lack of small business specifically in trade related fields limit the opportunities for young people to obtain trade-based skills. Furthermore many of these smaller business groups may depend on the automotive industry for some of their income. When GM Holden or Toyota requires plumbers and electricians to repair minor issues we would expect them to source from the local community.

These trade groups also find opportunities with other small businesses such as restaurants, clubs, shopping centres and local convenience stores that in turn may suffer due to the lack of available spending from their specific consumer base. This will result in an increase in costs to the end consumer. Yet a paradox would be created due to the end consumer not having sufficient funds to accommodate the price increase. Resulting in a lack of sales which inturn means less income, which means a significant reduction in cost to offset losses thus creating further losses.

What will families do?

Families faced with this future have a finite amount of options we believe there are two primary options available.

Option 1: Leaving this Geographic Region

As many of the families have been established around the automotive plants and related industry groups from a local basis. Many would be faced with moving to where they may be able to find employment. This would involve the sale of their family home. Which may be at a reduced price to facilitate a quick exit this loss may provide them with short-term stability. However long-term security has been sacrificed.

Why the reduced price for real estate exits? Simply because the market being 'free' would determine the price, the potential for employment in this region is low, the rental market near non existent thus not favouring the investment or development market. Thus pushing home prices down and may lead to an increase in mortgagee sales.

Moreover, where would these families move? The 'resource boom' is on the decline thus negating the rapid need for employment expansion within these industries. The development of industry within Australia is slow with the exception of corporate development, which since the 2009 economic decline has halted. The aviation and general transport industries in Australia are declaring record losses.

Option 2: Staying where they are:

In an attempt to establish employment within a new industry through retraining or further education, some families may choose to stay where they are. In this circumstance they will rely on savings and any assets or benefits paid to them. Yet which industry would they be able to go into? What options are there for them? How long will they be able to utilise existing savings?

The question that, as yet, we are unable to answer is where are the replacement jobs going to be for these people?

Part 2:

The Economy and the Automotive Industry.

Currently the Australian automotive manufacturing industry exports close to AUD$3.7 billion in parts and finished products[5] and provides AUD$694 million[6] towards manufacturing research and development .
The Australian Automotive Manufacturing industry has faced significant reductions in production levels over the past 10 years. In 2012 Australia produced 209,730 vehicles[7] compared to 2003 where 413,261[8] were produced.

Why is this? There are numerous schools of thought as to what is occurring. The clearest confirmable variables are the higher Australian dollar (AUD), the cost of labour compared to other vehicle producing countries, Australian manufacturers produce primarily for the Australian Market and finally the reduction in trade barrier and international competition. It is important to note that as individual components these issues are minor, yet when combined places a manufacturing industry under significant financial pressures.

The high Australian dollar:

This is understood as the final cost of the vehicle to be exported it is indexed to the internal costing of the state in which the vehicle was constructed. This means that a higher Australian dollar increases the final cost on a global market. Put simply, as the Automotive market is attached like many to the US dollar (USD) when the AUD nears or reaches parity it results in higher costs, by way of example an Australian vehicle is produced + percentile profit and sold at AUD$20,000 at parity this is USD$20,000 if the AUD was at 50 US cents then the market payment would be USD$10,000. This is a simplified expression but conveys the point of how the AUD impacts global sales of Australian products. The lower sale price as a result in the lower dollar places Australian made vehicles in a more cost effective and greater volume market. The greater the volume means greater production and an increase in the economies of scale. Thus reducing initial construction price, increasing profit and creating stability.

The high cost of labour:

Using the Holden Enterprise Agreement 2011 as the basis the minimum hourly rate for an entry employee within the manufacturing area is AUD$21 per hour. When allowances and penalties are applied and the hourly rate taken as an average and includes specialist skill provisions and experience increments are included the real value per hours is approximately AUD$35 per hour.

We are not expressing the view that every employee within the manufacturing area receives this as a minimum we argue this is the real pay average per hour. Once again at parity levels this equates to USD$35 plus sick leave, annual leave, payroll tax and superannuation payments. The estimated cost to an organisation approaches an average of AUD$55-60 per hour.

When competing against many of the other nations that operate within this sector it should be considered that Australia is among the highest costing per hour labour rate second only to Germany. Once again the higher cost of labour increases the final sale cost of the vehicle.

The low levels of production:

Low production levels stem from not higher costs but a reduction in domestic sales over 576,000 vehicles were sold in Australia in 2012. This is in excess of 5 times the national production. The Australian consumer is moving away from domestically produced vehicles. This may be due to prestige vehicles entering the market from European Automotive companies or alternatively it may be that Australian manufacturers has historically concentrated upon the larger family vehicle market and that domestic consumers are seeking smaller more fuel efficient vehicles.

Low production levels leads to a reduction in efficiency from a labour standpoint. Additionally, it reduces the economies of scale as suppliers also have fixed cost and therefore must reduce their production volumes to minimise the holding of excess stock. This results in an increase cost for component suppliers with regards to raw materials thus increasing the cost per unit required to maintain existing expenditure. This is of course passed onto the primary producer and then the consumer. Furthermore, it is difficult to compete when production numbers in China exceed the 4.4[9] million mark in 2003 OICA and in 2012 exceeded 19[10] million vehicles.

Reduction in protectionist measures for the domestic producers:

Historically Australia had high tariffs on vehicles and vehicle related components over the last two decades these have been reduced in accordance with World Trade Organisation agreements and free trade agreements. With the arrival of China, and now Indonesia as major industrial powers within the automotive sector, the Australian sector is finding it impossible to compete against the foreign produced vehicles that often fall well below the luxury vehicle tax barrier.

Additionally many European and US automotive manufacturing companies have now transferred some of their production to these nation states. These two states have lower base wages and smaller benefits and employee safeguards to attend and therefore they can produce the vehicles at a lesser price. This considered with the high AUD places Australian manufacturers in a precarious position. Unable to compete on cost and losing to the prestigious European brands assembling vehicles in these countries.

While many of the major automotive producing countries provide significant financial assistance. According to Sapere Research Group per capita assistance is one of the lowest in Australia at US$17.80, Germany at US$ 90.37 and the United States at US$264.62.[11]
Rather than direct funding we believe that indirect funding is economically better for the future stability of the industry.

Moreover, Australia's position within the World Trade Organisation (WTO) requires a "most favoured nation" position. Thus creating a market whereby we are further reducing tariffs to those nation states that hold memberships of the WTO. The irony being that these are highly competitive production based nations, which threaten production within Australia.

Australian Manufacturers

Australian Manufacturers these being Ford, Holden and Toyota, all produce vehicles primarily for the domestic market. The vehicles are generally of excellent quality and comparable if not better reliability statistics. Over the last twenty years there have been a significant improvements with regards to safety and fuel efficiency. Yet the majority of vehicles being sold in Australia are smaller vehicles, SUV's and there has been an increase in the volume of European luxury vehicles.

Since the bulk of vehicles built in Australia are for the medium to large vehicles market these being, the Toyota Camry, Holden Commodore Range and the Ford Territory. It places these groups and production facilities at risk from foreign imports of smaller vehicles.

GM Holden recently began production of the Holden Cruze small car in Australia although an excellent vehicle it arrives in a highly competitive market against the likes of the Mazda 3, Toyota Corolla, Nissan Pulsar, Suzuki, Hyundai Accent and i30, Renault and Peugeot Range to name a few. All of these vehicles or ranges are either within the price range of the Cruze or alternatively have vehicles competing directly in the Cruze market segment. It is therefore imperative that Australian manufacturers recognise this issue and begin the development of small vehicles for the Australian market.

The Australian manufacturers are generally building vehicles for a smaller market segments, The large car segment is also on the decline which places significant pressure upon their long term sustainability.

Recommendations

Efron Media Group believes that not only should the Australian Automotive manufacturing sector be saved, it can be saved. Yet merely defending the rights of Automotive Manufacturers to exist, we believe, is insufficient. It is for this reason that we provide the following recommendations or suggestions that may assist the Productivity Commission, Governments and Regulatory Bodies, in developing policy that supports the industry today and in the future.

1) Reduction in labour costs: We understand the Union Movement may be hesitant to propose this. It goes without saying that Efron Media Group believes in equality within the work force and stands by a "fair days pay for a fair days work". In the current environment however, the pay reduction and freeze may be exactly what is needed to develop the market. Moreover if the industry were to fail the unions involved would lose thousands of members, as they would be unemployed.

   Put simply, a strong union movement relies on member numbers, retaining the work retains the strength of the movement and therefore results in a win for all stakeholders. The manufacturers receive financial relief, the employees retain gainful employment and the unions retain members.

2) Governmental Assistance: It is the opinion of Efron Media Group that the Government must also be involved with the development of this industry through a variety of different measures:

   a) The implementation of manufacturing grant schemes that awards payment to organisations committing to developing manufacturing within Australia. We understand that there is a current grant scheme in place. However, it is our opinion that this system requires a significant review. The grants should be provided to those groups who seek to manufacture and develop manufacturing within Australia. They should not be made available to groups seeking design assistance for products.

b) The temporary reduction in taxes to the employees in the form of rebates within this sector and the manufacturing groups. This temporary tax relief would offset some of the payment issues for the employees and provide additional financial buffering for the organisations. Thus, creating positive cash flow return into the industry, which would therefore increase production rates, and tooling efficiency reduce costs of production and reengineer the design process.

c) Proactive buy Australian campaign: Both Media and financial incentives for buying Australian made vehicles. The implementation of this would require support of all Australian States and Territories as our suggestion would be a reduced cost of registration for the purchase of Australian vehicles for personal use.

> "Research published by the Industry Capability Network shows that for every $1 million of new or retained manufacturing business in Australia, the following effects flow through the economy:
>
> **$333,900 worth of tax revenue generated**
>
> **$985,000 worth of value-added generated**
>
> **$95,000 worth of welfare benefits saved**
>
> **10 full-time jobs created**
>
> It makes sense to buy things that have been made right here in Australia. 1 Industry Capability Network. Economic impacts of the manufacturing and services sectors 2008. (www.icn.org.au)"[12]

We also believe that the used car market places significant pressure on the domestic producers. This is relates to the desire and belief that European designed or built vehicles are better quality than the Australian made counterparts. The used car market provides and avenue for discounted European second hand cars to compete against new Australian built vehicles.

d) Singular rebates to reward large fleet businesses for purchasing Australian made vehicles. This would be in the form a percentage rebate for the number of Australian made vehicles within the fleet. In essence, a capped dollar value rebate whereby the rebate is reduced based on the percentage of Australian made vehicles within a fleet. This would be capped to fleets greater than 100 vehicles, if all are Australian made then 100% payment is made if 50% are Australian made then the organisation receives 50% of the rebate so on and so forth. Additional benefits for those whom operate a 100% Australian vehicle fleet could potentially have brand/logo inclusion within the media for the buy Australian campaign.

e) Implementation of the "Build it in Australia" program, This program would allow the Australian Government to provide significant tax rebates or incentives for global manufacturers to establish plants within Australia for the production of vehicles globally. This program of course need not be specifically related to the Automotive Industry however; we believe this industry would be an excellent starting point.

3) Union Activity: The Union movement would of course need to assist in this process with temporary reduction in dues for members within this sector. Additionally they would need to leverage their relationships with major consumer suppliers to offer these individuals special discounts. Organisations such as Wesfarmers and Woolworths may offer special discount cards to individual members of the union whom work within this sector. Training companies may also provide such assistance so as to up-skill employees again this would involve leveraging existing relationships and marketing to the business sector and membership.

4) Automotive Manufacturers: The two remaining automotive manufacturers these being GM Holden and Toyota, would need to commit to developing multi platform vehicles in the small, medium and large car segments. Additionally they would need to source their components from Australian suppliers and further develop their export potential with the assistance of government agencies and the Australian Parliament.

5) Reserve Bank of Australia: The Reserve Bank of Australia must assist domestic industry with a more aggressive currency control program. The higher Australian dollar places significant pressure on manufacturing and exporting. The IMF recently stated that "the real exchange rate still overvalued and weighing on the non-mining sector, and inflation within the target range, monetary policy should remain accommodative and act as the primary macroeconomic tool for managing the economy as mining investment begins to drop off"[13]

Conclusion

The loss to the Government in expenditure of benefits and the loss of income from just income tax payments from the estimated 80,000 employees exceed AUD$880 million. More importantly, where will replacement jobs come from for these people and at what cost? Is it reasonable to believe that there are 50,000 jobs that ex-automotive workers could obtain easily?

Furthermore, it is not merely the Australian Governments responsibility to rectify this issue every Australian will be either directly or indirectly impacted by the loss of manufacturing. It is for this reasons, that not just the automotive industry needs to be developed, but every industry.

Australia as a productive nation must address many of the challenges facing manufacturing industries. In doing so it is imperative that new policies are developed backed by effective management and supported by Government & Business Groups and Unions.

The Australian Government faces a critical tipping point, the decision to fund an industry or to merely let it go. The loss of this industry is catastrophic to current and future Australians. It places the Australian economy in a position where we will continue to import more and export less.

Over time due to this economic function, the Australia economic outlook looks less than promising. When one considers the decline of the resource industry, it is now a most critical time to establish what Australia can and will produce in the future.

On review of data available these being the changing face of manufacturing in Australia, the high Australian dollar and the rise of competition from foreign states with lesser employment relation systems. Efron Media group believes that the Australian Automotive Industry is worth investing in.

Reference

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