



**Professionals
Australia**

~ Submission ~

**Australia's Automotive Manufacturing Industry
Position Paper**

13 February 2014

Australia's Automotive Manufacturing Industry
Productivity Commission
LB2 Collins Street East
Melbourne Vic 8003

Via email: automotive@pc.gov.au

Australia's Automotive Manufacturing Industry – Professionals Australia's response to the January 2014 Position Paper

Professionals Australia is pleased to make this submission in response to the Productivity Commission's Automotive Manufacturing Industry Position Paper.

We note that you acknowledge the many challenges that automotive manufacturing in Australia would need to address and overcome should it remain a viable industry. In our view however, with so many jobs at stake, these are challenges which the government should have assisted it in meeting.

We believe the draft report overlooks many important factors, is excessively ideological and uses inadequate and inaccurate information, rendering many of its findings void.

Furthermore, the initial report does not take into account the recent announcement by Toyota to end production in Australia by 2017 – the final blow to the Australia car manufacturing industry facing dire conditions. The initial report may in fact have contributed to this outcome.

It is estimated that 50,000¹ will suffer loss of employment and this needs to be considered by the Commission. If this number of employees – at the lower end of estimates – will be displaced by the closure of the automotive industry in Australia, then the wider impact on the economy is great indeed.

The current fortnightly NewStart allowance for a partnered individual is \$452², which will equal nearly \$590 million per year in generally available payments to displaced automotive manufacturing industry employees. It is also important to remember that this cost does not include the cost of increased social services, education and other expenses which would be required to meet the needs of displaced workers.

¹ Wallace, R and Ferguson, J. "Toyota to stop making cars in Australia, follows Ford and Holden". The Australian, February 10, 2014. <http://www.theaustralian.com.au/business/news/toyota-to-stop-making-cars-in-australia-follows-ford-and-holden/story-e6frg906-1226822823246>

² Australian Government Department of Human Services. Newstart Allowance. <http://www.humanservices.gov.au/customer/services/centrelink/newstart-allowance>

While the Prime Minister may say “**while some businesses close, other businesses open, while some jobs end, other jobs start**”, Professionals Australia believes, particularly when dealing with large numbers of displaced workers, in the need for planned processes to manage the transition of workers from one job to another, without compromising existing industry, businesses or workers. This is especially the case for technical professionals who require specialised support services.

Identifying sustainable and viable solutions to further employment for these highly skilled employees should be a critical component of the Commission’s final report.

Additionally, there appeared to be no logic provided to why governments would not use taxpayers’ money to purchase Australian vehicles, which were the same or lower price and higher quality than overseas made models. It is hard to imagine anyone in the street comprehending such a position, which places the Commission open to ridicule.

This inquiry and the resulting findings are more important than identifying cost-saving measures for the Government; it is about creating an environment for our economy to prosper through innovation and the creation of new industries. It is about maintaining Australia’s position as a high-wage, high-skill economy, rather than competing with low-wage countries. The alternative is to allow a further narrowing of the breadth of industry in Australia, leaving us vulnerable to vagaries of international markets for our natural resources.

The automotive sector in Australia drives innovation and research and development and it is critical to ensure that those skills are not lost through a de-diversification of our manufacturing industries.

If we cannot provide enticing employment options and sustainable re-education/training services, our highly skilled engineers and technicians will disappear overseas.


We believe it is not too late to save vehicle engineering and design. Although Ford has announced it will cease manufacturing, it continues to maintain an engineering centre of excellence. We call on the Commission to urgently recommend efforts to maintain research and design engineering centres in Holden and Toyota. These centres, working closely with world-class universities, are essential to developing an innovative, high-value add manufacturing sector.

For those reasons, we urge the Commission to consider the feedback presented in this submission.

If you have any queries about the content of this submission, please do not hesitate to contact me.

Sincerely


Chris Walton, CEO
Professionals Australia



About this submission

This submission is in response to the Productivity Commission's Position Paper on Australia's Automotive Manufacturing Industry released in January 2014.

Points of concern for Professionals Australia within the Position Paper are:

- DRAFT FINDING 2.2
 - DRAFT FINDING 2.3
 - INFORMATION REQUEST 2.1
 - INFORMATION REQUEST 3.1
 - DRAFT PROPOSAL 3.2
 - DRAFT FINDING 4.1
 - DRAFT FINDING 5.1
 - INFORMATION REQUEST 5.1
- 

Response to recommendations

The following section details Professional Australia's responses to the findings details in the Position Paper with which we have conflicting views, or input that has not been considered and may be valuable.

"DRAFT FINDING 2.2

Governments, in Australia and overseas, use various assistance measures in attempts to encourage automotive manufacturing firms to invest and operate in their jurisdictions. Due to the vast range of measures used, and the lack of transparency in the available information, an accurate comparison of the levels of assistance across countries is extremely difficult to do on a like-for-like basis and is not feasible for this inquiry."

Professionals Australia believes draft finding 2.2 is neither adequate, nor acceptable given the significance of this inquiry. Point three of the Terms of Reference (ToR) for the Inquiry asks the Commission to "identify and evaluate possible alternative public support mechanisms" – without evaluation of international models of government assistance, the Commission's findings and recommendations on this matter should be considered void.

If the Commission was truly committed to delivering a comprehensive and accurate report, it would review the measures put in place by countries such as Germany and Sweden – both of which are high-wage, high-skill economies with robust automotive manufacturing industries.

Government assistance to automotive manufacturing industries can be successful. One example is that of the US Government's injection of US\$465 million in interest-bearing loans into Tesla Motors – the electric car and component manufacturer – through the Advanced Technology Vehicles Manufacturing Loan Program³.

Tesla used the funding to innovate, and subsequently, expand, enhancing productivity. It completely repaid the loan in May 2013 – the same year it recorded a profit⁴.

This demonstrates that effective measures to assist automotive manufacturing industries increase productivity do exist. This example also demonstrates the importance of supporting world-class research and development and innovation practices.

It is important that Productivity Commission acknowledges this, and undertakes a serious review of these alternative measures around the world and identifies properly which measures have best effect. The 'too hard' argument is not sufficient when the lives of many Australian's are at stake.

³ O'Connell, P.D. *Early Re-Payment of Tesla's ATVM Loan*, Tesla Motors Blog, Last modified: March 7, 2013. http://www.teslamotors.com/fr_CH/blog/early-repayment-tesla%E2%80%99s-atvm-loan

⁴ O'Toole, J. *Tesla shares surge after surprise profit*, CNN Money, Last modified: August 8, 2013. <http://money.cnn.com/2013/08/07/investing/tesla-profit/>

"DRAFT FINDING 2.3

The broader policy environment in which the automotive manufacturing industry operates directly affects the productivity and competitiveness of automotive manufacturers, and the capacity for firms and individuals to respond to changing market and competitive conditions. In particular, workplace arrangements are limiting efforts to promote workplace flexibility and increase productivity in some cases."

As detailed in our original submission, Australian automotive engineers do not receive a disproportionately large salary or luxurious workplace arrangements, nor do the working arrangements of automotive engineers limit or constrain the productivity of the industry.

The opposite is actually true: when compared with technical professionals in other high-wage, high-skill countries, Australian wages are average, and highly-skilled engineers actually drive productivity improvement and economic growth.

If a reduction of wages and a loosening of workplace arrangements for our technical professionals occurs, the prospect of international drift is significantly enhanced.

We do not presume the Australian Government wishes to see a low-wage, low-skill economy, but we do fear that a mass withdrawal of professional engineers from the workforce would encourage this outcome.

If the Australian Government values the input our technical professionals make to industry, the economy and society, it is critical that we act to ensure wages and conditions are not only comparable, but more enticing than what is offered internationally.

There is an assumption that engineers receive disproportionately large salaries – this assumption is unfounded. The average salary for an experienced automotive engineers is \$90,000 p.a..

"INFORMATION REQUEST 2.1

The Commission is seeking further information on the existence and nature of any policy or regulatory impediments to adjustment and consolidation in the automotive manufacturing industry, including for displaced employees."

In response to information request 2.1, Professionals Australia refers to the automotive manufacturing training package raised in the draft report. We believe the assertion that this is an adequate system for displaced employees to adapt to forced unemployment does not apply to technical professionals.

Most technical professionals, including engineers, are university educated and specialise in skills not taught through the VET system.

Without additional tertiary education options applicable to university educated professionals, many qualified professionals will be searching for lesser positions, at lower pay, which will only further enhance the appeal of moving. A system designed to assist displaced employees that does not take into account large segments of that workforce is inappropriate and should not be advanced by the Productivity Commission.

Even prior to the announcements from Holden and Toyota, there appeared to be a tangible softening in demand for engineers in Australia. Figures released last year show a collapse in demand across most of the disciplines that engineers in the automotive sector are qualified in.

Advertised internet vacancies⁵

	Sep-10	Sep-11	Sep-12	Sep-13	% decline 10-13
Chemical and Materials Engineers	106.0	81.7	66.7	26.0	75.5
Industrial, Mechanical and Production Engineers	1322.0	2149.0	1637.0	744.7	43.7
Other Engineering Professionals	736.3	745.7	513.0	270.3	63.3

What we are now facing is hundreds more engineers looking for employment as a result of the closure of Holden and Toyota.

In light of this fact, we would like to advocate that you advocate for the examination of the disciplines of engineering on the Skilled Occupation List impacted by automotive closures, and have them removed, at least as a temporary measure, so as to allow for our members to have the best chance at local employment. This would serve as a means to curtail temporary immigration, which so often becomes permanent.

⁵ Department of Employment. *Vacancy report*. <http://lmip.gov.au/default.aspx?LMIP/VacancyReport>

The maintenance of a highly skilled engineering workforce in Australia is key for a full range of industries that rely on the design skills which only these technical professionals hold. As our importation of engineering labour over many years should have taught us, engineers are highly educated global professionals, able to move to meet demand. With the departure of high-end manufacturing and the allied industries it enables, we also will see the departure of some of the most vital human capital we have, unless we implement practical public policy measures.



“INFORMATION REQUEST 3.1

The Commission is seeking further information on:

- the potential benefits and costs to the community from the Automotive Transformation Scheme (ATS) funding schedule resulting from the 2013-14 Mid-Year Economic and Fiscal Outlook (MYEFO) savings
- whether the funding profile could be reconfigured such that the net benefits to the community from phasing out assistance over the period to 2020 are maximised, taking efficiency and equity considerations into account
- whether the amount of funding withdrawn from the ATS as outlined in the MYEFO could result in adjustment costs greater than the savings benefits.”

Professionals Australia believes the assumptions made and the conclusions drawn in the draft report regarding the Automotive Transformation Scheme (ATS) are too general, and do not take into account technical professionals. We believe, as noted as a possible outcome by the Commission, that the Australian Government’s \$500 million saving in the 2013-14 Mid-Year Economic and Fiscal Outlook (MYEFO) was a contributing factor in the decision by Toyota to end production in Australia.

Australia’s automotive engineers are widely – and rightly – regarded as world class, as demonstrated by GM’s desire to relocate many of their Australian engineers to Detroit. Critical to that reputation has been access to the world-class research and development infrastructure we are blessed with in Victoria. This symbiotic relationship, upon which advanced manufacturing depends, would be severed should this engineering capacity disappear.

Mature relationships already exist with organisations such as the CSIRO, Deakin University, RMIT and Monash University. Car manufacturers could utilise the current skill base in Australia and take full advantage of funding leverage (for example the AutoCRC and the Automotive Transformation Scheme), to achieve significant advancement in vehicle features, advanced materials, production techniques and technologies.

Industry experts agree your main focus for engineering footprint should be where the capability exists⁶. The use of existing facilities which may soon be under capacity, such as the Automotive Centre of Excellence in Docklands, could be considered as a capital contribution.

Given the proximity to a burgeoning vehicle manufacturing industry in Asia, it is possible to imagine Australia becoming an engineering hub for this region. Our highly skilled engineers, supported by world-class research and engineering infrastructure, could achieve breakthrough innovation in vehicle features, materials and technologies. In turn, these advancements will flow to the broader high-value add manufacturing sector.

We call on the Commission to recommend that the savings under the ATS be used to assist the Ford Engineering Centre, and save the Holden and Toyota engineering departments and centres.

The Commission should recommend state and federal governments work collectively to ensure a vehicle industry Centre of Excellence or hub be developed in Australia, which would service the

⁶ John Moavenzadeh. The Changing Nature of Engineering in the Automotive Industry. http://books.nap.edu/openbook.php?record_id=12067&page=92 last accessed January 29, 2014.

world.

"DRAFT PROPOSAL 3.2

The Australian, Victorian and South Australian governments, by 2018, should remove fleet procurement policies that require government agencies to purchase vehicles manufactured in Australia."

We fundamentally disagree with the idea that Government agencies purchasing foreign vehicles would be beneficial to the Taxpayer. This assumption, to which no real evidence has been provided in the Position Paper, does not take into account a plethora of additional costs to taxpayers, including, but by no means limited to:

- increased welfare payments;
- increased welfare services expenditure; and
- loss of taxes from employees.

From our perspective this proposal and the associated findings have been included purely to justify the seemingly inevitable removal of the Australian-made requirement of fleet procurement policies. This proposal is simply unjustifiable on an economic, social or public policy basis and opens the Commission to ridicule.

There is no evidence that Australian vehicles are of a higher cost or lower quality than overseas made vehicle. So if the only argument is that some employees would prefer the taxpayer to fund their preference for an overseas vehicle, it is simply ridiculous. What possible logic could there be to purchasing an overseas made car in preference to an Australian made car if it is of the same quality and price?

"DRAFT FINDING 4.1

Adjustment pressures in the automotive manufacturing industry, including plant closures announced by Ford and Holden, will result in concentrated reductions in industry employment in specific regions in and around Melbourne and Adelaide. Relatively high rates of unemployment and social disadvantage in some regions, such as in northern Adelaide and in Melbourne's south east, will likely exacerbate adjustment costs.

The individual characteristics of displaced employees will affect adjustment costs. Low skill levels may be an impediment to re-employment for some displaced automotive manufacturing employees and older people who have been retrenched are less likely to find re-employment."

The lack of any robust support measures for automotive manufacturing employees, particularly technical professionals, recommended in the report, despite the acknowledgement by the Commission that social disadvantage and unemployment will increase significantly, suggests the Commission is content with encouraging social dislocation. Furthermore, it does not account for the costs to society from welfare, re-education and health costs associated with the recommendations. The recent announcement by Toyota, combined with the previous announcements of Holden and Ford, means severe social disadvantage and systemic generational *disadvantage* is at risk of occurring.

We also urge the commission to remember that while many low-skill workers will be disadvantaged, high-skill workers are equally, or even more, disadvantaged due to their specific skill sets, lack of Government assisted re-education initiatives, and smaller job market.

We do not believe generalising all automotive manufacturing employees into one category is acceptable, nor do we believe that it is acceptable to acknowledge the potential for dramatic increases in regional unemployment and social disadvantage without proposing any preventative measures or solutions.

Therefore, Professionals Australia reiterates its concerns that the Commission's current draft report:

- promotes lazy policy development without a focus on long-term industry and economic development;
- does not define different employee roles in the automotive manufacturing industry for transitional assistance; and
- takes an inhumane approach to employee displacement and adjustment measures.

The Commission seems to ignore the fact that most other successful countries have benefited from industry policy. The Commission's apparent position that the market alone will always achieve the optimum outcome, without government leadership or intervention, is not backed by historic fact. There is no analysis in the *Position Paper* of the costs to *the economy and community* of 50,000 job losses. The Commission has not done the most basic cost benefit analysis around the loss of tax revenue, the cost of unemployment benefits or the cost of social programs weighed against the cost of ongoing subsidies.

"DRAFT FINDING 5.1

Generally available measures have some distinct advantages in dealing with adjustment pressures, relative to ad hoc or special adjustment assistance. These measures:

- treat individuals in similar circumstances equally
- target assistance to those in genuine need whatever the cause
- address the net effects of the various factors influencing the financial circumstances of individuals and families
- support individuals and families rather than a particular industry or activity
- minimise the design, administration and monitoring costs of assistance provision."

Professionals Australia disagrees with the statement that the same treatment for all individuals is an advantage. Unfortunately for the Commission, not all workers are the same nor require the same services.

Our members, while thrust into the same situation as other workers, are specialised and require specialised services – such as non-VET, re-educational assistance.

We also believe that the overall expenditure required to provide generally available measures to displaced employees has not been considered, or if it has, has been deliberately overlooked.

As stated in the introductory letter, we estimate that the expenditure required to fund generally available measures for the 50,000 people who will be displaced by the closure of the automotive industry in Australia equals nearly \$590 million per year, without taking into account flow-on expenses.

We would like to work in partnership with State and Federal government to develop a transitional program for engineers that enable their skills to be utilised in other sectors.

This would involve several components:

- An allowance for engineers to undertake re-training at a tertiary education provider, recognising the fact that these professionals are not suited to re-training in the VET sector. Such an allowance would have to be of a quantum to pay for full-fee courses in understanding they already hold tertiary qualifications and neither deserve nor warrant further fees;
- A wage subsidy for employers. The majority of employers want experienced professional engineers. Despite further study, they will lack experience in the field they are entering and a wage subsidy will provide employers with a suitable incentive;
- Negotiations with GM, Toyota and Ford to allow employees to undertake study while still employed.

"INFORMATION REQUEST 5.1

The Commission is seeking further information on:

- specific characteristics and needs of some groups of automotive manufacturing employees that might warrant particular consideration if generally available measures appear to be insufficient
- whether there are different circumstances facing employees from the extensive and varied component manufacturing sector as compared to Ford and Holden employees
- options for designing adjustment assistance programs for automotive manufacturing employees and regions affected by structural adjustment (together with evidence of the costs and benefits, and the effectiveness, of those options)"

As noted throughout this submission, we strongly believe that technical professionals working in the automotive manufacturing industry in Australia, including in component design and manufacturing, face unique challenges from displacement. We also firmly believe that the unique skill-sets of these professionals present opportunities not yet realised by the Productivity Commission.

Firstly, we believe that the proposed re-training systems do not account for university educated workers.

Secondly, we believe that without effective forward planning, no equivalent jobs will exist for these workers, thereby encouraging a lower-wage, lower-skilled Australia.

We know that our automotive engineers are world leaders in driving innovation in vehicle and component manufacturing because of two recent outcomes:

1. Ford's decision to retain a design presence in Victoria, despite relocating the almost all other manufacturing and production facets overseas.
2. General Motors' decision to offer 100s of Holden designers jobs in Detroit.

As previously noted, our proximity to a burgeoning vehicle manufacturing industry in Asia, provides Australia with the opportunity to become an engineering hub for this region. Our engineers are highly skilled engineers, and, if supported by world-class research and engineering infrastructure, could achieve considerable breakthrough innovations in vehicle features, materials and technologies.

However, without special consideration for technical professionals, as is currently represented in the Position Paper, this opportunity will be squandered.

Additional feedback

The fact that no specific proposals, findings or information requests are present in the Position Paper relating to Research and Development, suggests that there is a complete lack of appreciation for the contribution this aspect of the automotive manufacturing industry makes in Australia.

The innovation, research and advanced technical work conducted in this sector forms the basis of the advanced manufacturing sectors that we hope to maintain and build into the future. Staying on the cutting edge of research and design enables companies to be profitable at the high-value end of the market.

Without a foundation such as an automotive engineering capacity, Australia is at risk of creating a low value sector which will be globally uncompetitive.

The opportunity to research, develop and bring to market new products that will build new specialist industries and manufacturing jobs which go with them needs to be capitalised on now. It is vital that we keep these highly skilled, global professionals in Australia. As such, appropriate support should be offered to allow them to prosper by their own means – to unleash their creativity for a national good.

With vision and leadership we can be renowned as an engineering hub of excellence, and by focusing attention on providing adequate support for workers in the space, we can ensure that automotive manufacturing has a prosperous future in Australia.

Professionals Australia thanks the Productivity Commission for the opportunity to present this submission in response to its Position Paper. Our concerns and recommendations expressed therein are based on fact, industry knowledge, and experience.

We believe that through our technical professionals, there is still an opportunity to ensure the automotive manufacturing industry in Australia maintains a presence, and we believe our proposed recommendations will assist in achieving this.

For that reason, we urge the Commission to seriously consider the content of this, and our original submission.



Professionals Australia

Street Address 163 Eastern Rd, South Melbourne Victoria 3205, Australia

Postal Address GPO Box 1272, Melbourne Victoria 3001, Australia

Phone 1300 273 762

Fax +61 3 9695 8902

Email info@professionalsaustralia.org.au

Web www.professionalsaustralia.org.au

