



**Government  
of South Australia**

**RESPONSE TO THE PRODUCTIVITY  
COMMISSION'S POSITION PAPER**

**FOR THE**

**REVIEW OF THE AUSTRALIAN AUTOMOTIVE  
MANUFACTURING INDUSTRY**

**FEBRUARY 2014**

## INTRODUCTION

The Productivity Commission's Public Inquiry into Australia's Automotive Manufacturing Industry is of great interest to the South Australian Government, given the strategic importance of this sector to South Australia's economy in terms of investment, employment, R&D and skills development.

In its initial submission to the Inquiry the South Australian Government outlined its strong support for the Australian Government to continue to provide assistance to the automotive manufacturing industry because of this strategic importance.

Since the South Australian Government submitted that submission late last year, General Motors (GM) Holden and Toyota announced that it would cease manufacturing vehicles in Australia from 2017. These announcements bring an end to the automotive manufacturing industry in Australia and will impact thousands of workers, hundreds of businesses and the communities in Adelaide's north, west and south.

In responding to the Productivity Commission's Position Paper, this submission focuses on the draft proposals, draft findings and information requests of the Position Paper and reiterates the views and positions outlined in South Australia's initial submission. Given the scale, nature and location of the pressures created by the closure of Australia's automotive manufacturing industry, industry and labour market adjustment, additional assistance measures, on top of those generally available through existing government programs, will be required.

That is why the South Australian Government has already responded to these announcements with an integrated package of measures to assist workers, communities and businesses affected by the closures to transition to new jobs and markets.

The key points that the South Australian Government wishes to make in this submission are:

- The South Australian Government does not accept the Productivity Commission's arguments that there is no rationale for industry specific assistance, and highlights the high levels of assistance provided to the industry by other countries.
- Any significant changes to existing industry assistance measures should be informed by rigorous cost benefit analysis so as not to prematurely withdraw assistance and harm the industry and the communities that depend upon it.
- When determining its options on assistance, the Productivity Commission is asked to give due consideration to the regional impacts, including an examination of the distributional effects of changes.
- The scale, severity and duration of industry and labour market disruption expected to flow from the closure of vehicle manufacturing plants, combined with subdued general economic conditions, suggest that generally available adjustment assistance currently provided by the Australian Government will not be sufficient.

- A well-resourced and holistic response, including industry and labour market adjustment and local community building, is required in view of the severity of the adverse economic and social impacts arising from the closure of automotive manufacturing plants.
- The South Australian Government has already committed \$60 million to *Our Jobs Plan* and seeks a contribution of \$333 million from the Australian Government. This level of funding is only a proportion of the Australian Government Funding that would have flowed to South Australia had GM Holden not closed.
- The Australian Government ensure that its labour adjustment programs are adequately funded and that current programs available to retrenched automotive workers be extended beyond their scheduled expiry date.
- The Australian Government amend the eligibility criteria for the Automotive Industry Structural Adjustment Program (AISAP) so that workers slated for retrenchment can access training and other program benefits before formally receiving a notice of retrenchment and that the scope of assistance available under AISAP be widened to help the reskilling of workers employed by automotive parts suppliers who are diversifying into other markets.

## DRAFT FINDING 2.1

*The Commission's net combined assistance estimates suggest that about \$30 billion (2011-12 dollars) was provided to the automotive industry between 1997 and 2012. Despite reductions in the absolute level of assistance over time, the automotive manufacturing industry remains one of the most heavily assisted industries in Australia.*

The Productivity Commission estimated that the automotive manufacturing industry received total assistance of \$1,116.8 million in 2011-12<sup>1</sup>. This included \$579.9 million in budgetary assistance and \$785.2 million of net tariff assistance. Adjusting for a sector's contribution to the economy shows the automotive manufacturing industry's net effective rate of assistance was 9.4 per cent in 2011-12, reduced from 12.5 per cent in 2006-07.

Table 1 following compares the net effective rates of assistance for Australian industries. It shows assistance to the automotive industry is not as high as is commonly believed, with the effective rate of combined assistance to manufacturing as a whole (4.1 per cent) not much higher than for primary production (3.3 per cent).

It should also be noted that this analysis excludes the Fuel Tax Credit Scheme, which allows a number of industries (including mining and agriculture) to claim a rebate on excise paid on certain types of fuel (including diesel).

The Productivity Commission records assistance to mining as low (\$492.8 million in 2011-12, a substantial increase from \$150.7 in 2010-11). However, the Commission does not count the Fuel Tax Credits or Statutory Depreciation Lives for the Oil and Gas sector as concessions.

Recent research by the Australia Institute<sup>2</sup> indicates that Australian Government support to the mining industry could be as high as \$4 billion per year. This is significantly higher than assistance to the automotive industry.

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<sup>1</sup>Productivity Commission, 2013, *Trade and Assistance Review 2011-12*, Annual Report Series <http://www.pc.gov.au/annual-reports/trade-assistance/2011-12>

<sup>2</sup> Grudnoff M 2012 *Pouring Fuel on the Fire: The nature and extent of Federal Government subsidies to the mining industry* Policy Brief No. 38. The Australia Institute.

**Table 1: Effective rate of combined assistance by industry grouping, 2006-07 to 2011-12**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Primary production<sup>b</sup></b>	<b>5.9</b>	<b>6.4</b>	<b>4.7</b>	<b>4.4</b>	<b>3.4</b>	<b>3.3</b>
Horticulture and fruit growing	4.1	4.2	4.4	4.0	3.7	3.5
Sheep, beef cattle and grain	5.7	6.3	6.3	5.2	3.4	2.7
Other crop growing	7.6	6.9	2.0	2.1	1.2	1.6
Dairy cattle farming	12.5	13.2	4.5	4.3	2.6	1.8
Other livestock farming	1.8	1.7	1.2	1.0	0.9	1.1
Aquaculture and fishing	12.0	6.9	3.5	3.8	3.9	3.3
Forestry and logging	6.9	6.8	-1.3	4.5	5.5	7.2
Primary production services	-0.1	0.2	0.3	0.1	0.1	0.1
<b>Mining</b>	<b>0.2</b>	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>
<b>Manufacturing<sup>b</sup></b>	<b>4.4</b>	<b>4.4</b>	<b>4.6</b>	<b>4.3</b>	<b>4.0</b>	<b>4.1</b>
Food, beverages and tobacco	3.2	3.2	3.4	3.3	3.3	3.3
Textile, clothing and footwear	12.4	12.2	13.8	11.0	9.0	7.3
Wood and paper products	4.8	4.9	5.2	4.6	4.6	4.6
Printing and recorded media	3.4	3.4	3.5	3.4	3.4	3.4
Petroleum, coal & chemicals	2.7	2.7	2.9	2.8	2.9	2.8
Non-metallic mineral products	2.9	3.0	2.9	2.9	2.8	2.8
Metal and fabricated products	4.6	4.4	4.5	4.3	4.3	4.7
Motor vehicle and parts	12.5	11.9	13.1	11.6	8.7	9.4
Other transport equipment	0.8	0.8	0.9	0.9	0.9	0.9
Machinery and equipment	3.2	3.1	3.2	3.1	3.0	3.0
Furniture and other products	4.8	5.0	4.6	4.4	4.4	4.4

<sup>a</sup> 'Combined assistance' comprises budgetary, tariff and agricultural pricing and regulatory assistance. <sup>b</sup> Sectoral estimates include assistance to the sector that has not been allocated to specific industry groupings.

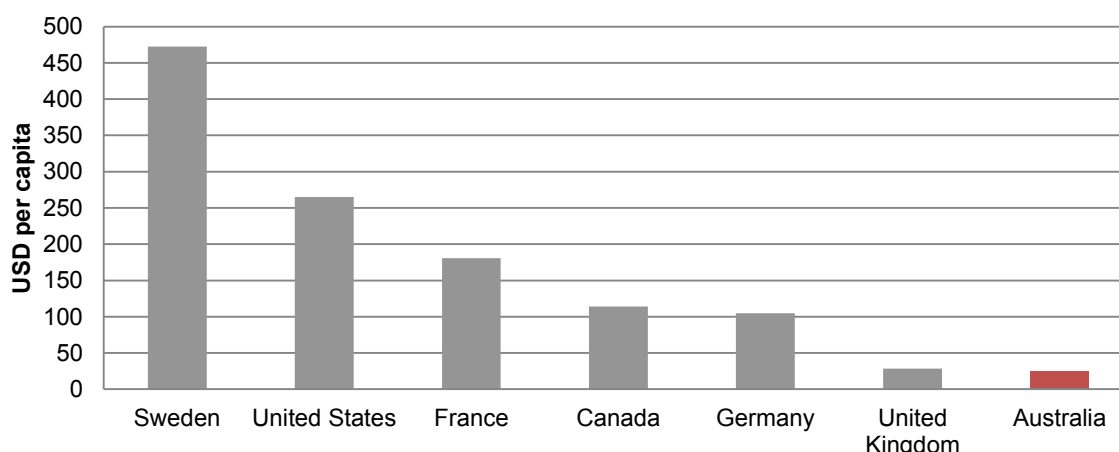
Source: Commission estimates.

## 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.*

The Sapere group (as depicted in Figure 1) compared the level of budgetary assistance provided to the automotive industry in 2008-09—a figure likely to have been inflated by the severity of the financial crisis—and found that the level of direct budgetary assistance provided to the Australian sector was quite low, at around USD18 per person.

**Figure 1: Budgetary assistance for the automotive industry 2008-9, USD per capita**



Source: Davey (2011), adjusted for recent exchange rates.

By any measure available, assistance to Australian automotive manufacturers is extremely low by international standards.

The South Australian Government urges the Productivity Commission to not dismiss the feasibility of cross-country comparisons of industry assistance. South Australia further contends that not making this comparison is not sufficient grounds to dismiss the importance of the assistance which other governments give to their automotive sectors.

A series of observations of specific government assistance programs should be enough to alert the Productivity Commission to the size and scale of overseas industry protection. From the Allens Consulting Report of 2013:

*Despite the Thailand–Australia Free Trade Agreement, Ford Australia has exported the Ford Territory to Thailand, but the Thai Government imposes a non-tariff duty, making the Territory’s price in Thailand an unattractive \$100,000, which is far above the price of a comparable locally made product. This, it should be noted, is after the conclusion of an apparently trade liberalising agreement between Australia and Thailand.<sup>3</sup>*

Elsewhere, Japan, China, the United States and European nations all heavily subsidise domestic automotive production. The French government has subsidised green vehicles and Germany implemented a ‘cash for clunkers’ scheme worth €5 billion.<sup>4</sup>

While a direct and accurate comparison of the levels of assistance across all countries is difficult, it is possible to determine the various forms of industry assistance. We operate in a world with substantial industry protection—it is often repeated that there is no car on the road which did not benefit from government subsidy.

<sup>3</sup> Allen Consulting, 2013, The Strategic Role of the Australian Automotive Manufacturing Industry, [http://www.acilallen.com.au/cms\\_files/FCAI\\_26September2013.pdf](http://www.acilallen.com.au/cms_files/FCAI_26September2013.pdf), p.vii

<sup>4</sup> Fox, J. “Life on the other side of cash for clunkers”, *Time Business & Money*, <http://business.time.com/2009/08/05/life-on-the-other-side-of-cash-for-clunkers/>

Governments subsidise their automotive industries for many reasons, including the recognition that manufacturing correlates with prosperity creating significant benefits including technology transfer, research and development, new product development and skills transfer. There is sufficient evidence to conclude that Australia is a nation where there is comparatively little assistance to the domestic automotive industry. This is the context within which domestic automotive manufacturing and supplier firms operate.

Given the magnitude of assistance offered to foreign automotive firms, and the importance of this term of reference to the overall report, the South Australian Government urges the Productivity Commission to re-examine the issue.

The South Australian Government also urges the Productivity Commission to examine the policy rationale used by other governments around the world that provide significant industry assistance to their automotive industries.

### **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.*

In our previous submission the South Australian Government advocated that a close examination of opportunities to address impediments to industry competitiveness was warranted.

Like other trade exposed industries in Australia, the Australian automotive industry's capacity to compete is affected by a vast array of 'business environment' issues many of which are outside its direct control. Relevant policy settings that significantly impact on the ability of Australian industry to compete globally for investment and sales include: exchange rates, interest rates, skills and training, bilateral and multilateral trade agreements, transport and energy costs, taxation and regulatory arrangements and other microeconomic reform issues.

The Productivity Commission is asked to give further consideration to the impact of these sorts of factors on competitiveness and Australia's attractiveness as an investment location for manufacturing activity.

### **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.*

Australia has historically been recognised as a low sovereign risk nation with a record of stable and generally sound policy-making. However, domestic manufacturers have cited some recent policy decisions that potentially threaten this reputation. The frequency of the changes, the lack of industry consultation and the level of impost on industry all threaten the industry's competitiveness and lead to confusion and uncertainty for the industry. Further details were provided in South Australia's original submission, including: CO2 Emissions Standards, Green Car Innovation Fund, Automotive Transformation Scheme and Climate Change policy.

There is also uncertainty regarding the longevity of support for redundant automotive manufacturing workers. Several of the existing Australian Government programs including Automotive Industry Structural Adjustment Program (AISAP), Move 2 Work and Local Employment Coordinators and Priority Employment Areas only have funding until 30 June 2014 and 30 June 2017. These programs will expire prior to the many workers requiring their support. The South Australian Government urges the Australian Government to consider the extension of these programs.

### **DRAFT FINDING 3.1**

*The policy rationales for providing industry-specific assistance to the automotive manufacturing industry are weak.*

Disagree. The Productivity Commission should fundamentally reconsider this approach.

Over the last decade the Australian automotive industry has been an important contributor to the national economy through direct employment and investment, R&D and technological advances, and spill-over effects into other industries.

The automotive industry plays an integral part in developing and maintaining the essential skills and technology base that drives modern industrial economies. Only 13 nations, including Australia, can integrate all of the technology and resources to manufacture a car from concept to production. The spill-over benefits, or positive externalities, include the following:

- Technology transfer – As multinational automotive companies invest in Australia they bring new or improved technology. The process is two-way: technology developed in Australia also finds its way into the global industry through parent companies. This results in increased international competitiveness in the domestic industry but also can provide Australian branding to developments transferred out.
- Research and development – The automotive industry is a large source of research and development activity. New developments in components, manufacturing techniques, design and development processes sourced from the automotive industry have application elsewhere. In the case of components companies, for instance, transferability may be as close as the adjacent workshop serving another industry sector, such as defence or food processing.
- New product development – while increasing export opportunities, new product development also provides the consumer with vehicles that are, amongst other things, safer, more fuel efficient, and produce reduced levels of emissions, all of which have benefits to the broader community. The car industry is one of the few industries in Australia to deliver a reduction in CO<sub>2</sub> emissions well above the Australian Government's overall target of 5 per cent by 2020. Both product improvements and their associated developments in production techniques are transferable across industries and find application in other industries. Once transferred domestically, these deliver greater international competitiveness across the economy.
- Skills transfer – The automotive industry supports a growing pool of highly skilled people available to other manufacturing industries.



Recent research undertaken by Deloitte for the World Economic Forum shows that the linkage between manufacturing, economic complexity and prosperity is highly predictive. Economic complexity (including having a strong advanced manufacturing sector) is much better at explaining the variation in incomes across nations compared to any other leading indicator: the more advanced a country's manufacturing capabilities, the higher its prosperity.

Without a strong advanced manufacturing sector the Australian economy will be reliant on primary production for export income and subject to the volatility of global commodity markets.

Government assistance and intervention are ubiquitous in those countries manufacturing automobiles. Not only firms, but also governments and nations, compete for the dynamic technological and other benefits that having a domestic automotive manufacturing capability brings.

Industry specific assistance to the automotive industry is required to counter such assistance provided by other countries, as well as broader policy parameters which combine to reduce Australia's international competitiveness, to attract industry investment.

### **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.*

The South Australian economy and the Australian automotive manufacturing industry have undergone significant structural change over recent decades. Industry assistance has allowed this structural adjustment to take place at a realistic and measured pace within a secure policy environment, which has promoted investment, long-term planning, and the adaptation of technology and new management practices.

Late last year the Australian Government reduced the Automotive Transformation Scheme (ATS) by \$500 million. Due to the announced closures of GM Holden's and Ford's manufacturing the Productivity Commission estimated that a further \$380 million will be saved from the ATS over the years to 2020. With Toyota now also closing in 2017 this figure is estimated to increase to \$633 million.

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<sup>5</sup> Deloitte. 2012. *The Future of Manufacturing: Opportunities to drive economic growth*. World Economic Forum. [http://www3.weforum.org/docs/WEF\\_MOB\\_FutureManufacturing\\_Report\\_2012.pdf](http://www3.weforum.org/docs/WEF_MOB_FutureManufacturing_Report_2012.pdf)

The Productivity Commission recognises the value of providing assistance with transition and reduce adjustment pressures (2014, 88) by suggesting a ‘smoothing’ of the proposed reductions in the ATS. South Australia supports this position and in addition recommends that the Australian Government reinstate the \$500 million removed from the ATS thereby reducing the risk of earlier plant closures by Ford, GM Holden and Toyota at a time of already major structural change.

Including the additional \$215 million which was committed to the Next Generation co-investment with GM Holden for its new platforms, the South Australian Government estimates that the closure of the Australian automotive manufacturing industry in 2017 will create \$1.3 billion cost savings for the Australian Government (see Table 3).

To the extent that the substantial funding already allocated to the automotive industry is no longer required as originally intended, it should be re-directed to fund proposed initiatives aimed at industry and labour market restructuring and boosting growth in the South Australian and Victorian economies. The \$333 million the South Australian Government is seeking from the Australian Government for *Our Jobs Plan* initiatives to assist restructuring and promote growth is a fraction of the significant saving to the Australian Government.

**Table 3: Australian Government Cost Saving from Automotive Industry Closure from 2017**

ATS (announced reduction)	\$500m
Next Generation co-investment	\$215m
ATS (savings from 2017 to 2020)	\$633m
Total	\$1,348m

### **DRAFT PROPOSAL 3.1**

*The Australian and Victorian Governments should not provide Toyota Australia with industry-specific assistance that is additional to the current schemes (which are phasing out).*

*The Australian Government should not extend or replace the Automotive Transformation Scheme after its scheduled closure in 2020.*

*The Australian Government should not extend or replace the Green Car Innovation Fund after its scheduled closure in 2014-15.*

*The Australian, Victorian and South Australian governments should not extend or replace the Automotive New Markets Initiative after its scheduled closure in 2015-16.*

*The Australian, state and territory governments should not provide any further capital subsidies to the automotive manufacturing industry beyond those already committed.*

These proposals are essentially obtuse given that the automotive industry will now not exist after 2017, or will exist only in a radically different form.

The Productivity Commission was asked to “quantify the costs and benefits, including at the economy-wide and regional level, of existing and alternative assistance mechanisms”. It appears that the Productivity Commission has not yet considered whether or not the benefits exceed the costs of making this draft proposal. As noted by the Productivity Commission:

*Assistance to the industry is now much lower than in the past. As a consequence, the purely ‘allocative’ efficiency gains that would ensue from further assistance reductions are likely to be small and ‘dynamic’ and other considerations assume greater significance.<sup>6</sup>*

The South Australian Government considers the appropriate basis for a decision by the Australian Government regarding support for the automotive industry should be an assessment of whether the net present value of the benefits from supporting the sector outweighs the net present value of the costs of that support, taking full account of the avoided costs associated with industry closure. This is required on a case by case basis and it is somewhat pre-emptive to make a decision in 2014 to cut funding from 2020 given the significant adjustment that the industry is about to go through.

### **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.*

Disagree.

Fleet demand for Australian made vehicles assists in maintaining volumes within the local industry, as well as fostering competition between local car companies. The Productivity Commission argues that a removal of preferential policies would lead to a loss of only 4,300 annual sales. This may be the case, however turning this around, if all Governments adopted preferential policies and reached domestic fleet proportions similar to those in South Australia and Victoria, sales would increase by around 14,700 cars per annum. The South Australian Government believes that the costs of continuing (and expanding) fleet procurement policies (administrative costs, regulatory burden on agencies, restrictions on choice) are minor compared to the benefits provided to the industry and that the policy should continue until the car manufacturers exit Australia.

Decisions regarding the removal of these fleet procurement policies should not be made prematurely. The industry, including the supply chain companies, should have the opportunity to continue to benefit from the stability of volume of sales to Governments until the withdrawal of Ford, GM Holden and Toyota from automotive manufacturing. Any premature removal of this policy could increase the risk of closures before 2017.

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<sup>6</sup> Productivity Commission, 2002, *Review of the Automotive Assistance Inquiry Report*

## **DRAFT FINDING 3.2**

*The policy rationale for prohibiting the large-scale importation of second-hand vehicles into Australia is weak. However, appropriate regulatory measures are required to ensure that consumer protection, community safety, and environmental performance standards are maintained before the restrictions are removed. These concerns are best dealt with directly, through regulatory standards applicable to all vehicles sold in Australia.*

*The \$12 000 specific duty on imported second-hand vehicles appears to be largely redundant, providing a prima facie case for its removal.*

## **INFORMATION REQUEST 3.2**

*The Commission is seeking further information on the benefits and costs of removing restrictions on the large-scale importation of second-hand vehicles. In particular:*

- *what would be the potential benefits of removing these restrictions?*
- *what are the potential costs of removing these restrictions and who bears these costs?*
- *how could compliance with Australian safety and environmental standards be most efficiently ensured?*
- *if the benefits are expected to exceed the costs, how should restrictions be removed and over what timeframe?*

## **INFORMATION REQUEST 3.3**

*The Commission is seeking further information on the costs and benefits of allowing importers to apply for tariff concession orders for automotive components.*

Before removing the restrictions on importation of second-hand vehicles into Australia, South Australia agrees with the Productivity Commission that a full Benefit Cost Analysis of the proposed change be undertaken. While providing a benefit to consumers this would have to be weighed against the impact on the local industry. South Australia's immediate concern would be the impact on the domestic manufacturers and the extent to which the local market would be inundated with second hand vehicles particularly from Japan, which has market distorting domestic policies discouraging drivers from owning older cars. For example, in Japan new vehicles are sold with a fitness warranty that is valid for three years. The costly and time-consuming process of warranty renewal results in many Japanese car owners replacing their vehicles after the three year period.

New Zealand has long since removed its barriers to the importation of used vehicles. Consequently used vehicle imports constitute most of all registered vehicles. As car manufacturing ceased in New Zealand in the 1990s it has not had to consider the impact such a policy would have on its local industry. Because of the Australia – New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) such vehicles can already make their way into Australia. As mentioned in the Productivity Commission Position Paper, New Zealand has also experienced a significant problem with tampered odometers of imported used vehicles. The extent of such

odometer fraud has been estimated to range between 10 and 70 per cent of all imported used vehicles.

#### **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.*

#### **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.*

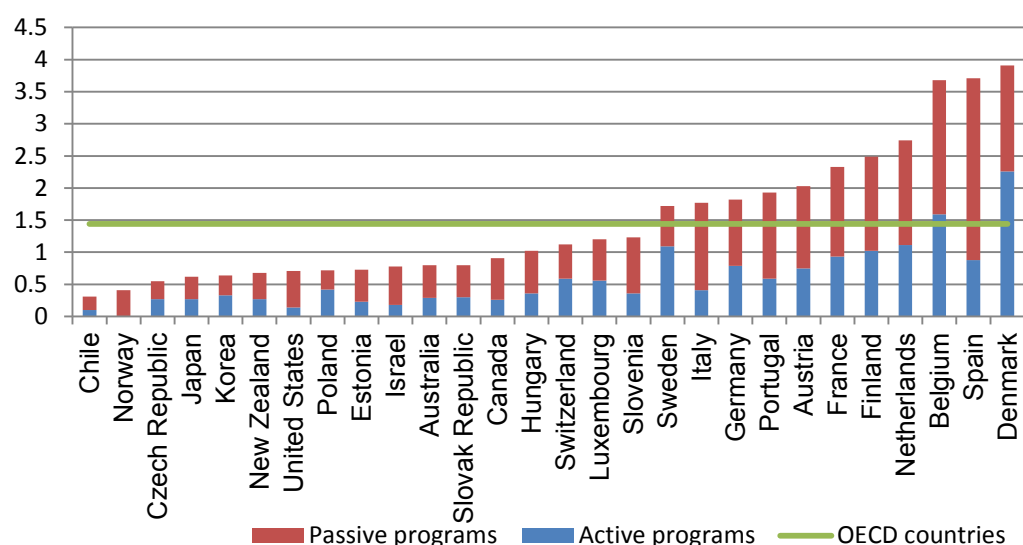
#### **DRAFT PROPOSAL 5.1**

*Governments should ensure that generally available welfare, training and employment services are adequately resourced to deal with the effects of structural adjustment in the automotive manufacturing industry.*

The South Australian Government agrees with the Productivity Commission's finding and proposal regarding the use of generally available welfare, training and employment services. However, this needs to be considered against the backdrop of Australia currently providing very low funding for economy wide labour market programs, compared with the OECD average. In 2011, as depicted in Figure 2, Australia spent 0.29 per cent of GDP on active programs and 0.51 per cent on passive programs (versus OECD average of 0.58 per cent and 0.86 per cent).

In addition Australian unemployment benefits are well below the OECD average. For a single person with no children the unemployment benefit is around 28 per cent of average income (the least generous in the OECD), versus 75 per cent in the Netherlands (the most generous).

**Figure 2: Public expenditure on labour market programs as a percentage of GDP, 2011**



Source: OECD 2013, <http://www.oecd.org/employment/database>

It will be important to closely monitor the take up of labour market adjustment and related assistance to ensure that programs are funded to levels sufficient to meet demands arising from the contraction of the automotive industry. Advice from the Productivity Commission on what it considers to be ‘adequately funded’ is also sought.

Generally available measures are typically reactive and generic in their response. Relying on generally available measures alone will mean that Australia misses the opportunity of being able to take advantage of the advance notice that we have received that structural adjustment and large scale redundancies will occur. The scale of the adjustment task also provides an opportunity for governments to develop some customised approaches that respond more closely to the specific needs of the situation.

## DRAFT FINDING 5.2

*Where governments determine that there is an in-principle case for providing adjustment assistance beyond that generally available, on efficiency or equity grounds, it needs to be demonstrated that such assistance would be cost-effective.*

The South Australian Government agrees that to the extent that the general welfare and labour support programs are deficient, there is a strong case for special interventions where regions face significant and or special structural adjustment tasks.

Economic modelling of the impact of vehicle plant closures (Allen Consulting, Spoehr and Burgan) suggest that the negative economic impacts which flow from these closures will be severe and prolonged. This will add significant additional adjustment pressures to those already at play in the Australian economy.

The scale, severity and duration of industry and labour market disruption expected to flow from the closure of vehicle manufacturing plants, combined with subdued general economic conditions, suggest that generally available adjustment assistance currently provided by the Australian Government will not be sufficient.

One example of an effective targeted program is the Building Family Opportunities (BFO) initiative announced by the South Australian government in 2009-10 as a demonstration program. The program was developed to help reduce long-term unemployment and address economic disadvantage through intensive support for families facing multiple and complex barriers to entering and remaining in employment. BFO case managers work directly with families to connect them with many state, Commonwealth, and community services in a 'joined up' and integrated manner. By meeting their immediate needs, families are then able to work towards goals and pathways that lead them to training and work, with family members supporting one another and drawing on the strength of the family unit.

During its demonstration period, BFO assisted 608 families across South Australia, working with 1,700 individual family members. The program has enabled 371 family members to enter or return to work, with 693 undertaking training (322 of these at a Certificate III or higher level). Benefit cost analysis by Deloitte Access Economics determined that for every 350 families assisted through the \$2 million government investment, based on the cumulative wage earnings of those family members entering a job through BFO, a net \$2.7 million is returned to the economy during the program's duration over three years; \$11.5 million three years after that; \$15.7 million at five years and \$25.3 million at ten years. A further \$2 million over the next three years has been approved to extend the BFO initiative to target 350 jobless families in Playford.

In South Australia adjustment assistance has been applied to the closures of Mitsubishi Motors Australia's Lonsdale (MMAL) engine plant (1,100 FTEs), Mitsubishi Motors Australia's Tonsley site (1,030 FTEs), Electrolux (700 FTEs) and Kimberley Clark downsizing (235 FTEs). Various Investment Attraction Funds operating over a 2-3 year period post the plant closures, resulted in new investment and job creation in the region which in most instances, "matched" the job losses associated with the closures.

The South Australian Government recently commissioned the University of Adelaide to examine the potential role that economic and industrial rejuvenation strategies might play in both mitigating and minimising the impacts of the closure and creating the conditions for sustainable development in the years ahead<sup>7</sup>.

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<sup>7</sup> Spoehr, J; 2013; *Foundations for Rejuvenation. Lessons from International and National Experience*. The University of Adelaide.

In summary, the report identifies the need to develop a sophisticated and extensive multi-faceted response that helps to minimise the negative impacts on the workforce, the supply chain and the community. More attention is required during periods of suppressed economic conditions as we are currently experiencing. Elements of the response need to include:

- focus on building industrial diversification, including investment around educational and technical institutions and their relevance to industry
- early intervention to support retrenched workers and their families
- need to foster knowledge intensive competencies
- build on existing strengths and add new ones especially in related supply chains
- modernising infrastructure and accelerating the roll out of projects which provide alternative short term employment
- flexibility in delivery
- strong partnerships across the region
- strong central co-ordination of the interventions

Walsh<sup>8</sup> also identifies overarching objectives and general principles of regional structural adjustment assistance. In summary, the provision of regional structural adjustment assistance should aim to help regions to manage the process of change in circumstances where there otherwise would be exceptionally abrupt, substantial and sustained disruption to regional economic activity, and hence to the viability of businesses, the employment prospects of workers, the lives of people and the vitality and sustainability of communities within them. More specifically, it should help to ensure that change occurs as smoothly as possible, at a manageable pace and with least (avoidable) transitional costs, while not interfering with resources (workers and business investment) being (re)allocated to their most productive uses wherever that might ultimately lead them to be (re)allocated.

In response to the announced closure of GM Holden's manufacturing operations, the South Australian Government released its *Our Jobs Plan*, which is based on the recognition that a broad-based approach to adjustment is required. The Plan provides for six key actions spanning from the present to 2017-18:

1. Support displaced automotive workers to secure alternative employment in new emerging sectors through retraining and employment services.
2. Support local communities most affected by the closure of GM Holden to generate local activity and employment.
3. Support the transition of automotive supply businesses into new markets.
4. Accelerate the transition of our manufacturing sector into advanced manufacturing.
5. Speed up growth in existing businesses and pursue new opportunities in the key sectors.
6. Accelerate significant infrastructure projects to create jobs during the transition, and lift the productive capacity of the State economy.

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<sup>8</sup> Walsh. C; 2010; *Assisting Regions and Communities to Cope with Change: Context, Principles and Good Practice*. The University of Adelaide.



The Australian Government's offer of \$60 million to \$100 million growth fund shared between South Australia and Victoria is inadequate. The proposed growth fund appears too narrow in its focus in providing grants to business and should be broadened to encompass a pack of separately funded initiatives that include labour adjustment, support for affected communities, and support for industry restructuring including investment attraction.

For comparison, the Australian Government has committed \$58 million in response to Ford's announced closure, which will have a far smaller impact than the closure of GM Holden and Toyota in terms of job losses and lost economic activity. When Mitsubishi closed (its engine plant closed in 2008), the Australian Government provided a total of \$80 million and this was entirely for South Australia. This was in more buoyant economic times and the MMAL workforce was much smaller at 930 FTEs.

The South Australian Government has allocated \$60 million to these six key action areas and has sought a contribution from the Australian Government of \$333 million.

### **DRAFT FINDING 5.3**

*There is little evidence that regional adjustment funds have been cost-effective, from a whole-of-economy viewpoint, in addressing the effects of adjustment arising from employment reductions in the automotive manufacturing industry.*

The South Australian Government disagrees with the Draft Finding 5.3. It is very likely that most regional adjustment programs would not be supported if assessed against a whole-of-economy perspective but equity is also an important policy consideration.

Beer et al<sup>9</sup> concluded that structural adjustment programs are a valid and necessary policy measure as the costs of not introducing such interventions are unacceptably high. In all cases studied without structural adjustment assistance confidence in the region would have fallen to a greater extent, investment in the region would have declined more dramatically, the process of adjustment would have taken a longer period of time, a higher percentage of workers would leave the labour market or spend long periods away from paid employment, local infrastructure expenditure would have declined and skills would have been lost from the region to a greater degree.

### **DRAFT FINDING 5.4**

*Available information suggests that targeted labour adjustment programs have had some, but limited, success in assisting displaced employees find future employment. Job search assistance and training appear to be among the more cost-effective options in many circumstances.*

*Given this, and that labour adjustment programs can have adverse consequences for jobseekers not targeted by the programs, the key issue is whether there is robust evidence that demonstrates that targeted labour adjustment programs would be an efficient and equitable response to the particular adjustment task facing employees from the automotive manufacturing industry.*

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<sup>9</sup> Beer, A, Bailey, D and Charlier, J; 2013; *Structural Adjustment Programs in Australia: Community Impacts and the Evaluation of Outcomes*. The University of Adelaide.

Traditional structural adjustment responses to major plant closures by Governments have included Labour Adjustment Support (up-skilling and other supply push programs) and Investment Attraction Support (demand pull programs).

The loss of the workforce at GM Holden will represent a significant and potential permanent loss to the manufacturing capability in the State. GM Holden workers, for instance, represent 44 per cent of all Product Assemblers, 25 per cent of Toolmakers in South Australia and 20 per cent of Product Quality Controllers in the State. It is unlikely these workers will be able to transfer easily to other manufacturing enterprises in South Australia.

Several of the existing Australian Government programs including Automotive Industry Structural Adjustment Program (AISAP), Move 2 Work and Local Employment Coordinators and Priority Employment Areas only have funding until 30 June 2014 and 30 June 2017. These programs will expire prior to the many workers requiring their support. The South Australian Government urges the Australian Government to consider the extension of these programs.

In addition the South Australian Government has requested that the Australian Government:

- Amends the access criteria of the existing AISAP to enable workers access to training or other benefits without a notice of retrenchment. This would enable AISAP to engage immediately with workers facing retrenchment and not wait until they receive a retrenchment notice which would typically be close to their exit date.
- Widens the scope of assistance of AISAP to help reskilling of workers employed by automotive parts suppliers which are diversifying into other markets.
- Ensures that labour adjustment and income support programs are sufficiently funded to accommodate demands arising from contraction of the automotive industry.
- Enables Job Service Australia providers to deliver more flexible and tailored services to affected workers.

## **DRAFT FINDING 5.5**

*Infrastructure investments may in some cases assist in overcoming bottlenecks to greater economic activity in regions affected by structural adjustment. The key issue is whether a proposed infrastructure project provides net benefits to the community as a whole (rather than only to a specific region), and given limited resources, whether it generates the largest net benefits from the available options (regardless of the project's location).*

*Our Jobs Plan* advocates the Australian Government fund a small number of significant productivity-enhancing transport projects, and proposes the creation of a Community Building Fund to fund small community infrastructure projects in the regions impacted most by the closure.

The large transport projects are all backed by business cases which demonstrate that they provide net benefits to the community. Those costing more than \$100 million either have been or are in the process of being formally submitted to Infrastructure Australia for assessment using their detailed 7 stage Reform and

Investment Framework. It is also envisaged that small projects seeking funding through the Community Development Fund would have to demonstrate that they provide a net benefit to the community as a condition of funding.

The Productivity Commission's draft finding that proposed infrastructure projects should generate the largest net benefits from the available options (regardless of its location), suggests that the Australian Government should limit itself to funding infrastructure in Australia's largest cities as these will typically generate larger net benefits than those projects in the smaller capitals or in regional and remote areas.

The Productivity Commission should recognise that in making decisions on investing in Infrastructure, the Australian Government considers a number of issues, including equity issues, and should not limit itself to making decisions solely on efficiency grounds. Otherwise, for example, it would not invest in infrastructure in indigenous communities.

In *Our Jobs Plan* the South Australian Government also calls on the Australian Government to reinstate Round five of the infrastructure grants allocated from the Regional Development Australia Fund. Grant funding ranges from \$12,000 to \$570,000 and encompasses local projects as diverse as upgraded recreation facilities, new community centres, bridge safety upgrades and the sealing of aerodrome runways.

## **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).*

The high incidence of socioeconomic disadvantage in Adelaide's northern suburbs, and an unemployment rate of 15.5 per cent (up from 13.2 per cent a year earlier) indicates that Northern Adelaide, in particular, is poorly positioned to withstand a major economic impact of the magnitude of the closure of the Australian automotive industry.

Joblessness amongst families with children under 15 years of age is particularly prevalent in Northern Adelaide. Playford has the highest number of jobless families in South Australia - 30.6 per cent of all families in the area are jobless and typically are experiencing unemployment intergenerationally. This compares with 14.7 per cent for South Australia as a whole and 13.3 per cent for Australia.

For the Northern Adelaide region more generally only 53 per cent of workers have a post school qualification, this compares to around 64 per cent nationally. For those without a qualification at Certificate III level or above in the Adelaide's north the unemployment rate is around 10 per cent. If these people can be retrained and can attain qualifications their unemployment rate would be around 4 per cent.

While about 31 per cent of GM Holden workers hold a Certificate III or IV qualification, which is higher than the state average of 23 per cent, around 50 per cent have no formal qualifications. There are also occupations of concern where current employees would find it difficult to find alternative employment in the same occupation. For example, almost 25 per cent of toolmakers and engineering patternmakers in South Australia work for GM Holden, suggesting there is limited opportunity to find work in these occupations outside of GM Holden and the supply chain.