

**Productivity Commission Review into the  
Australian Automobile Industry**

**Final Submission  
AMWU February 2014**

## Introduction

The Australian Manufacturing Workers' Union (AMWU) represents approximately 100,000 members working across major sectors of the Australian economy. AMWU members are primarily based in manufacturing industries, in particular; metal, vehicle, and food manufacturing, but also in the industries of mining, building and construction, printing and graphic arts, repair and service and laboratory and technical services. We have nearly 15,000 members employed in Ford, Holden, Toyota and several hundred auto component suppliers who are first, second or third tier suppliers of components and services to Australia's automotive manufacturing industry.

The AMWU has actively engaged in the Productivity Commission's review into the Australian automotive manufacturing industry, providing submissions and testimony through the review process. However, in light of the recent announcements by Holden and Toyota that they plan to cease manufacturing in Australia by 2017, it is clear that the PC review process will not live up to its intended role; to provide the Government with an economic analysis on which to base a new automotive manufacturing policy. The announcement by Toyota has effectively signalled the end of Australia's historic automotive manufacturing industry, which obviously negated the need for a new automotive manufacturing plan.

A number of stakeholders, including the AMWU, were concerned that the PC review process was not compatible with the necessary steps required to secure next generation investments from Holden and Toyota due to a conflict between the PC review's timing and the timing of investment decisions required by Holden and Toyota<sup>1</sup>. It was clear that neither Holden nor Toyota could delay their investment decisions till post March 2014 when the PC review process was to end.

The AMWU expressed these concerns publicly and in private to the Industry Minister in November 2013. We were provided assurances by the Minister that the issue of a conflict of timing would be overcome by the Government through direct negotiations with Holden and Toyota. We were encouraged to constructively engage the PC review process, which the AMWU has done, and we were re-assured that this process would lead to the development of a new automotive policy.

To our great regret, events have proceeded as the AMWU and others feared, with the industry's closure being confirmed prior to the completion of the PC review. As an obvious implication of these events, it is clear that the Government did not secure an extension on investment decisions from either Holden or Toyota and did not secure these companies support for the Government's intended automotive policy process.

The AMWU views this as a tragic example of gross derogation of the Government's responsibility, not only to the workers, businesses and communities who rely on the industry for their livelihoods, but of the national interest as a whole. Rather than engaging in a cooperative policy process with the companies and workers involved, that seeks to attain

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<sup>1</sup> For example, see: <http://www.amwu.org.au/read-article/news-detail/1295/Car-industry-running-out-of-time-Canberra-warned/>

the goal of a competitive and viable industry, the Government proceeded with a unilateral process which it is now clear never adequately took into account the constraints of the industry and has as a result seen the closure of one of the most important industries in the country's history.

The PC review now has little choice but to re-focus on what measures can be put in place to minimise the impacts of the industry's closure. In particular, measures that will ensure transition to new jobs as soon as possible for displaced workers and as many supply chain businesses as possible are able to successfully diversify their businesses to new markets and new products.

## **Workplace agreements and the automotive manufacturing industry**

The AMWU notes that the Commission intends to 'examine the role that the workplace relations framework may have on competitiveness and productivity in the auto manufacturing industry'.

Accordingly, this section of the AMWU submission responds to the Commission's Position Paper comments and conclusions on this issue in some detail.

In particular the AMWU will show that workplace arrangements are not 'limiting efforts to promote workplace flexibility and increase productivity' as the Commission argues in Draft Finding 2.3.

The AMWU will show this finding is unreasonable given the evidence that substantial productivity improvements have been achieved in recent years across the automotive manufacturing industry, and that considerable workforce flexibility has been provided to the industry in that period.

Finally we will consider whether changes to workplace arrangements could have prevented the collapse of Australia's automotive industry.

### **Workplace Agreements in Manufacturing**

The PC Position Paper's examination of workplace arrangements in the automotive industry began by remarking that, "instead of relying on the relevant award, employers and employees in the automotive manufacturing sector have generally opted to negotiate enterprise agreements."

The Commission finds it remarkable that employers in the industry should have 'opted' to negotiate and register industrial agreements, but the fact is that awards determine the wage rates for only a minority of employees in both manufacturing as a whole and across the entire economy, as the ABS data summarised below makes clear.

**Table 1: Methods of setting pay**

(Percentage of all employees by Industry)

	Award only	Collective agreement	Individual arrangement	Owner manager of incorporated enterprise
Manufacturing	11.3%	34.3%	51.4%	2.9%
All Industries	16.1%	42.0%	38.7%	3.3%

ABS 6306.0, Employee Earnings and Hours, Australia, May 2012

The Position Paper goes on to note that enterprise agreements in the automotive manufacturing industry ‘frequently do contain wages that are higher than those in the relevant award’.

The Paper then gives examples of the differences between the Ford and TI Automotive agreements and the relevant Award as though this was somehow unusual.

Once again, the evidence from ABS data contradicts this assumption.

Across manufacturing workers paid the Award minimums receive earnings that are only slightly more than 50% of average weekly total cash earnings, whereas workers employed under collective agreements (usually Union negotiated agreements) are earn around 107% of average weekly total cash earnings.

Workers paid Award rates in all industries receive a slightly higher percentage of average weekly total cash earnings (56%), and a slightly lower proportion of average weekly earning when employed under the terms of a collective agreement (102%).

**Table 2: Average weekly total cash earnings by Industry**

(As a percentage of all methods of setting pay)

	Award only	Collective agreement	Individual arrangement
Manufacturing	50.4%	107.1%	106.2%
All Industries	56.5%	102.5%	113.8%

ABS 6306.0, Employee Earnings and Hours, Australia, May 2012

In manufacturing, Award covered employees are largely non-unionised. In manufacturing and across the economy generally collective agreement covered employees are usually, but not exclusively, members of their relevant union.

In all likelihood collective agreements negotiated by Trade Unions also set the bar for the employer determined remuneration rates in individual agreements<sup>2</sup>, both in manufacturing and, to a lesser extent, the economy as a whole.

An overview of the current enterprise agreements which cover manufacturing operations at the three major manufacturers<sup>3</sup> also demonstrate significant flexibilities which go well beyond what is allowable or contemplated by the modern awards which cover the industry (notably the *Vehicle Manufacturing, Repair, Services and Retail Award 2010* (“Modern Vehicle Award”) and the *Manufacturing and Associated Industries and Occupations Award 2010* (“Modern Manufacturing Award”).

The Modern Awards, which are designed to provide a fair and relevant *minimum* safety net of terms and conditions<sup>4</sup>, provide basic infrastructure to the employment relationship only. It is, at least in part, for this reason that the Modern Awards Objective expressly contemplates the need to encourage collective bargaining<sup>5</sup> as a means of developing enterprise-specific flexibilities.

As will be detailed below, enterprise agreements in the vehicle manufacturing industry are characterised by significant flexibilities that have been developed in bargaining over time and which provide manufacturers with the ability to manage market fluctuations while minimizing the impact on employees. These arrangements also recognise that job security is essential to employee well-being and to providing long-term stable employment and income security<sup>6</sup>. This is particularly important to the automotive manufacturing industry which relies on stable, multi-skilled workforces.

### **Factors affecting employee remuneration in the automotive industry**

The Commission notes Australia is ‘among the highest cost countries in terms of labour costs in automotive manufacturing’.

The AMWU accepts that this was the case in 2012, but we point out that this was chiefly a factor of the high Australian dollar, and as such Australia’s labour costs will have fallen since then in line with the depreciation of the Australian dollar’s exchange rate.

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<sup>2</sup> Individual arrangements include both registered and unregistered individual arrangements. Unregistered agreements are effectively over award payments while the registered agreements would be residual agreements still in effect from the period when such agreements were able to be registered during the *WorkChoices* era.

<sup>3</sup> *Holden Enterprise Agreement 2011, Toyota Motor Corporation Australia Limited Workplace Agreement (Altona) 2011 and Ford Australia Enterprise Agreement 2012 (Vehicle Division and General Salary Roll) 2012*

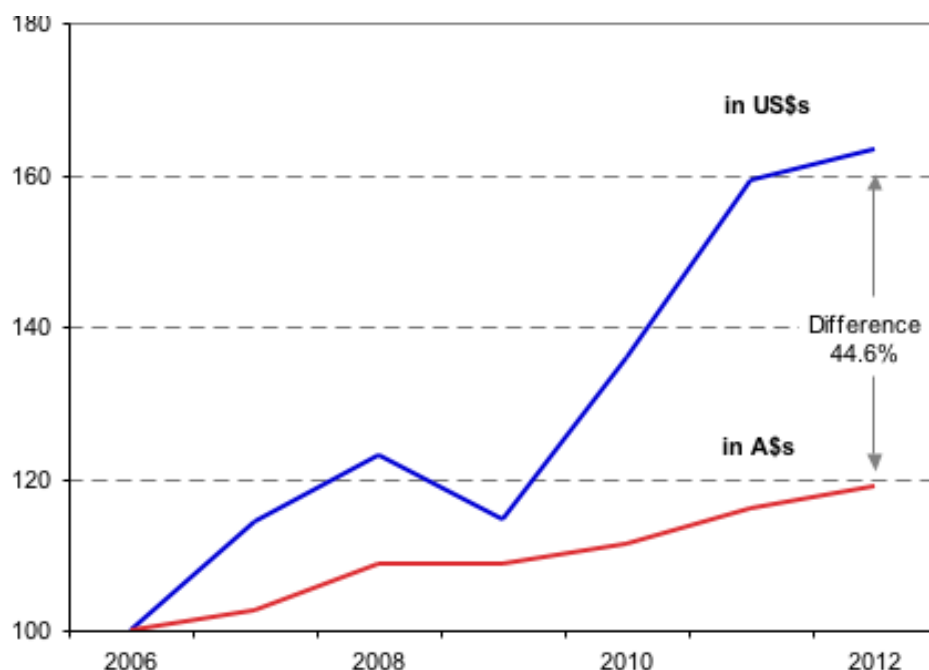
<sup>4</sup> Consistent with the Modern Awards Objective contained in s134 of the *Fair Work Act 2009*

<sup>5</sup> s134(1)(b) of the FW Act

<sup>6</sup> E.g. see cl14 of the *Toyota Motor Corporation Australia Limited Workplace Agreement (Altona) 2011*, cl 4.15 of the *Holden Enterprise Agreement 2011*

Data from the US Bureau of Labor Statistics<sup>7</sup> shows that the appreciation of the Australian dollar meant that Australia's labour costs rose by more than 63 percent between 2006 and 2012 when measured in US dollars, whereas they increased by just under 19 percent in Australian dollars, a difference of nearly 45 percent.

**Chart 1: Growth of Australian manufacturing labour costs, 2006 to 2012**



US Bureau of Labor Statistics, August 2013

As the Australian dollar falls in value against the US currency Australia's labour costs fall in US dollar terms making our manufactured products cheaper in overseas markets.

The Australian dollar has so far fallen by around 18% from its peak of \$1.10 against the US dollar in mid 2011.

We will return to the value of the dollar and its impact on manufacturing more broadly below.

### **'Government Assistance' and Wage Rates**

Before turning to the Commission's comments on workplace agreements and productivity in the automotive industry, the AMWU feels obliged to respond to the scurrilous assertion that the payment of wages that are higher than those in other industries 'may also be influenced by the extent to which automotive manufacturing employers and employees anticipate ongoing government assistance'.<sup>8</sup>

<sup>7</sup> International comparisons of hourly compensation costs in Manufacturing, August 2013

<sup>8</sup> Position Paper, pp 68

Immediately before making this statement the Commission notes that employees in automotive manufacturing internationally commonly receive higher wages and conditions than employees in other sectors, citing Germany and Japan as examples.

Given this admission there is no justification in any way for the Commission to stoop to the level of a talk back radio show 'shock-jock' who doesn't let the facts get in the way of a good story.

At this point we take the opportunity to respond to particularly egregious remarks by some government Ministers and other commentators in the media who have made similar claims about the wages and conditions of manufacturing workers in general and auto industry workers in particular.

The claim is made that that growth in manufacturing wages accelerated ('even exceeding the growth rate of wages in mining' according to one such commentator<sup>9</sup>) even as the industry struggled to compete due to the high Australian dollar.

Elsewhere claims have been made that workplace agreements in particular manufacturing businesses contained provisions that were 'overly generous' and so on.

To deal with these claims in general terms the AMWU cites the following data on Average Annualised Wage Increases (AAWI) in workplace agreements from the Department of Employment<sup>10</sup> which shows that:

- Wage increases in manufacturing have been broadly in line with those in other industries over the long term, but
- The rate of wage increase contained in workplace agreements in manufacturing has moderated since 2008 as competitive conditions became harder.
- Wages rates in manufacturing are growing slower than in industries containing similar occupational groups, including mining.

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<sup>9</sup> Henry Ergas, The Australian, 15 February 2014

<sup>10</sup> Only industries with similar occupational groups to manufacturing are included in the table

**Table 3: Average Annualised Wage Increases (%) per employee, by Industry**

ANZSIC DIVISION	Average 1993-2008	Average 2008-2013	Ch. between periods (pts)
Mining	3.8	4.4	0.62
Manufacturing	4.3	3.8	-0.44
Non-metals Manufacturing	4.1	3.8	-0.31
Metals Manufacturing	4.4	3.9	-0.52
Utilities	4.2	4.3	0.14
Construction	5.1	5.2	0.08
Transport & Warehousing	4.1	4.1	0.00
All Industries	4.1	3.9	-0.12

Source: Trends in Enterprise Bargaining, Department of Employment

### **Workplace agreements and productivity**

We now turn to the issue of productivity in the automotive industry.

The Commission states that relatively higher wages and allowances can (only) be justified where they are matched by ‘commensurately higher productivity, supported by, for example, flexible workforce arrangements’.

The Position Paper noted that automotive manufacturers and industry groups had ‘suggested that the current (legislative) framework can limit workplace flexibility and the scope for productivity improvements.’

Evidence from the car companies that their Australian workforces are in fact highly productive was effectively ignored or dismissed by the Commission.

The Position Paper noted that Holden’s submission said its ‘line operators [are] among the most productive automotive workers anywhere in the world’, and that Toyota noted it ‘has achieved record efficiency levels and, for the first time in its history, it is performing at or above Toyota’s global target in terms of production efficiency’.<sup>11</sup>

Both of these pieces of direct evidence from the manufacturers themselves were dismissed, with the Commission citing ‘flexibility’ issues in the collective bargaining agreements.

Other evidence of improving productivity levels in the car assembly plants was available to the Commission, including data collected by the Department of Industry, for its annual publication, Key Automotive Statistics,

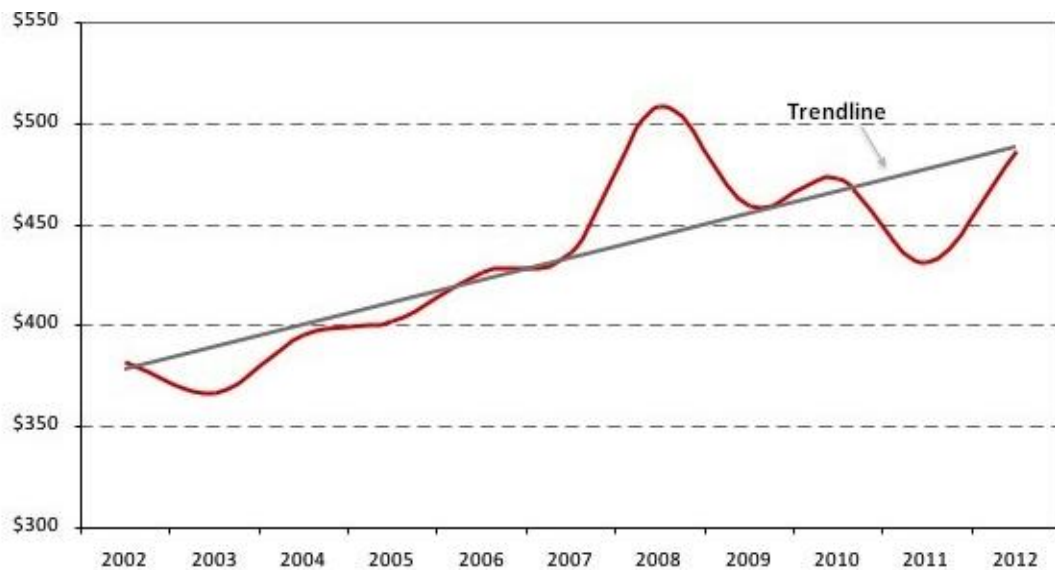
According to the Department of Industry, production value per employee in the car assembly plants has increased steadily over the last ten years, save for the period of the Global Financial Crisis, between 2009 and 2010.

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<sup>11</sup> Position Paper pp 67



**Chart 2: Assembly plant production value per employee (\$'000's)**



Source: Department of Industry, Key Automotive Statistics 2012

These results indicate that the car makers' workplace agreements are not holding back productivity improvements in the car assembly plants.

### **Productivity improvement in the Components sector**

The most comprehensive evidence of productivity improvement in the components sector was supplied by FAPM in its initial submission to the Commission.<sup>12</sup>

As FAPM noted, in 2007 the Automotive Co-operative Research Centre (AutoCRC) commenced the Automotive Supplier Excellence Australia (ASEA) Program to assist the Australian automotive suppliers in achieving international competitiveness.

The FAPM submission noted that ASEA estimated that the productivity improvements achieved through the program had so far resulted in potential savings opportunities of more than \$2 million per supplier.

The ASEA program also measured the performance of the Australian sector against its global counterparts, finding that the Australian sector is on par and in some cases exceeds the global average for the competencies measured by the program.

<sup>12</sup> FAPM Submission, pp 16-18

**Table 4: Comparison of Australian supplier capability with global averages**

Competency	Global average	ASEA Overall Average 2012
Cost structures and analysis tools	3.3	3.6
Financial systems and practices	3.9	3.9
Supply chain integration	3.4	3.5
People and Performance	2.9	3.5
Management and Leadership	3.8	4.0
Manufacturing and Quality	2.7	3.2
Safety	4.5	4.2
Global sourcing and marketing strategies	3.4	3.9
Customer focus	3.0	4.4
Technology Investment	2.8	3.6

Source: ASEA

Most significantly for the purposes of this submission ASEA found that the “People and Performance” capability measurement placed the Australian sector well ahead of the global average.

Over the five-year period of the ASEA program the component industry as a whole achieved enhanced performance in each of the areas measured by ASEA, with the “People and Performance” capability measurement improving by 16% in that time.

**Table 5: Competency improvement as % of the ‘average’ ASEA participant**

Competency	Improvement achieved (%)
Cost structures and analysis tools	45%
Financial systems and practices	37%
Supply chain integration	22%
People and Performance	16%
Management and Leadership	14%
Manufacturing and Quality	12%
New model introduction capability	11%
Safety	8%
Global sourcing and marketing strategies	8%
Customer focus	7%
Technology Investment	4%

Source: ASEA

These results indicate that workplace agreements in the components sector are not only compatible with productivity improvement in the components sector, but as much of the literature on collective bargaining and productivity indicates, they can support productivity improvements by fostering a more focused and trusting relationship between management and workers.<sup>13</sup>

### **Flexibility and workplace agreements**

As we have said, the evidence of on-going productivity improvement across the automotive manufacturing industry was effectively ignored by the Commission in its Position Paper.

The Commission preferred to concentrate on provisions in workplace agreements that, it was alleged, reduced flexibility 'with particular effect on employers' decision-making on a range of operational matters'.

The Position Paper provided some examples of these provisions including:

- Holden having 'to obtain union agreement before hiring casual personnel';
- Toyota having to obtain union agreement to 'significant organisational change including restructuring and outsourcing'; and
- "Other conditions" that can effect workplace flexibility such as leave and attendance provisions, including Toyota's provision for an annual closedown of 21 consecutive days' duration.

These allegations do not stand up to scrutiny. They are misleading and unhelpful because they are cited out of the context to the relevant agreements, when taken as a whole.

In relation to the Holden agreement, although the company is required to consult in relation to the hiring of casual employees, Holden is not precluded from engaging any casual employee it deems necessary if agreement cannot be reached with the union, and the union cannot unreasonably withhold consent<sup>14</sup>.

The Holden agreement also contains provisions which allow for supplemental labour pools (casual employment facilitated through a labour hire company) and temporary (fixed-term) employees.

Moreover, it is important to note that the use of casual labour has never formed a significant part of the employment practices of any of the major manufacturers precisely because it is a form of employment which is not suited to the industry. The level of skill needed by operators requires a permanent, skilled workforce and the major manufacturers have, accordingly, made large and sustained investments in training their employees in order to maintain a cross-skilled workforce which can be rotated within their respective departments. Casual employment is not conducive to the consistent level of skill required to produce a high-quality product. It is a simplistic notion to think that such a technologically

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<sup>13</sup> For example, see: <http://ideas.repec.org/p/iza/izadps/dp322.html>

<sup>14</sup> Undertaking dated 22 May 2012

advanced piece of equipment such a motor vehicle can be assembled by a workforce which is anything other than highly skilled, highly trained and highly competent. Stable manufacturing cannot be achieved by a significantly casualised workforce which has no ongoing commitment to, or security within, the industry.

In relation to the Toyota agreement the Position Paper failed to note that the relevant clause (Clause 15 Business Structure Change) contains a provision that specifies that “... agreement will not be unreasonably withheld.”<sup>15</sup> The Modern Awards also compel consultation in relation to major workplace change.

In relation to the issue of shutdown, it is correct that the agreement provides for two operational shutdowns one of which is at least 21 consecutive days. Operational shutdowns allow the company to schedule production days flexibly in response to market fluctuation. Relevantly, the agreement also provides a consultative mechanism which allows for the reduction of the 21-day shutdown (traditionally taken over Christmas).

What the Commission’s examples fail to cite are the significant flexibilities which the agreements which have been negotiated currently provide. For example, the Toyota agreement allows for significant flexibility in order to respond to demand fluctuations by facilitating:

- employee rotations between jobs, groups, departments, shifts and sites including short term job rotations;
- planned or short term overtime to make up for shortfall or fluctuations in market demand;
- variations in scheduling start and finishing times in response to external emergencies, disruptions to parts supply, or disruptions caused internally by factors outside the company’s control; and
- flexibility in relation to the scheduling of programmed and rostered days off in response to changes in plant operating days (where days are either increased or decreased).

The Holden agreement allows the company to schedule shifts on a 7-day per week, 24-hour basis, including shifts which are longer than 8-hours, through alternative shift arrangements which are able to deal with the needs of the business that are not anticipated by the agreement. This allows for flexibility in meeting business requirements while optimizing OH&S and employee preferences in a consultative manner.

All of the major manufacturer agreements allow for the use of temporary and casual employees and contracted labour where appropriate (taking into account the practical necessity for a stable, skilled workforce).

Perhaps most significantly, the “market response” mechanisms which have been negotiated in agreements over time allow the manufacturers to flexibly respond to market fluctuations

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<sup>15</sup> Decision [2011] FWAA 8133 25 November 2011

and disruptions of supplier deliveries. These arrangements maximise the long-term viability of the business while minimising the potential impact on employees.

For example, the “market response mechanism” written into the Holden agreement was developed through enterprise bargaining negotiations and was expressly designed to support the long-term viability of the business and, therefore, the long-term interests of Holden employees<sup>16</sup>. The mechanism provides significant flexibility by allowing Holden to take appropriate action to reduce or avoid the buildup of inventory by reducing the number of scheduled production days in a calendar year. Where demand for product has reduced to the extent that unexpected excess inventories of finished product exist or are accumulating, under the terms of the arrangement Holden is able to reduce the scheduled number of plant working days. Where there is a need for a reduction in plant working days, employees are required – upon the provision of notice – to deplete their leave accruals (including annual leave, PDOs and RDOs) and, thereafter, ‘Market response days’ are also able to be scheduled where workers are stood down at significantly reduced pay.

Similar arrangement operate at Toyota and Ford under their respective agreements.

It is precisely these types of flexibility which allowed Holden to implement a two-crew, one-shift roster throughout most of 2009 and 2010 in response to the Global Financial Crisis. This resulted in some employees taking pay cuts of up to 40%. While such decisions are undoubtedly difficult for workers, the automotive workforce has shown itself over time to be extremely flexible and willing to work with the manufacturers to help ensure the long-term viability of manufacturing operations.

Indeed, in the AMWU’s strong view, workers in the automotive industry have bent over backwards to help the industry by agreeing to flexible workplace arrangements.

Mike Devereux described the financial sacrifice that Holden workers made during the Global Financial Crisis in the following terms:

*“During the GFC ... our people went on a two crew, one shift operation and some of them took pay cuts of 25, 30, 40 per cent during the GFC to bridge the gap until we were able to launch our new Cruze small car ...”<sup>17</sup>*

Members employed by Ford and in the components sector made similar sacrifices during this period.

The flexibility provided by AMWU members to Holden and the components producers during the Global Financial Crisis is an example of the lengths workers were prepared to go to help the industry through hard times, supported by their union.

The fact that the Commission chose to ignore this evidence and to concentrate all of its attention on a few clauses that allegedly restrict flexibility in the industry is disgraceful and leads the AMWU to the unavoidable conclusion that the Commission has been less than fair in its approach to these issues.

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<sup>16</sup> CI 4.13

<sup>17</sup> Inside Business Sunday interview, 23 June 2013

It seems that, like the current Government, the Commission has been motivated by an ideological belief in the inefficiency impacts of unions on productivity rather than the available evidence, either evidence presented to it by the Australian automotive industry in this review or by empirical evidence on the positive efficiency effects of cooperative relationships between organized labour and employees<sup>18</sup>.

Page 70 of the Commission's Position Paper also refers to Toyota's comment on "the need to address risks posed by industrial action" and the consideration of "changes to the industrial relations framework [which] should be contemplated". The Commission notes that such changes "may also be difficult to enact without affecting other sectors of the economy".

No evidence has been presented to the Commission which indicates that the taking of protected or unprotected industrial action has had any significant impact on the viability or productivity of vehicle manufacturing in this country. Anecdotally we estimate that, across the three major manufacturers, less than 10 working days have been lost of industrial action over the last decade. Although ABS data on lost days is not available which is specific to the vehicle manufacturing sector, general ABS data indicates that the number of days lost to industrial action in manufacturing (and beyond) are at low historical levels.<sup>19</sup>

There is no compelling evidence that any change to the legislative framework relating to industrial action is necessary and – in these circumstances – it would be a nonsense for the Commission to recommend or condone any such changes.

The AMWU further considers that it would be inappropriate for the Commission to make any comment or recommendation in relation to any proposed change to the laws relating to the content of enterprise agreements (proposals which have not, in any event, been outlined with any specificity in the Position Paper). As demonstrated above, the relevant enterprise agreements - which have been negotiated in good faith - are characterised by flexibilities which have enabled the manufacturers to deal with market fluctuations and other matters and which have facilitated highly productive workforces. There is no evidence before the Commission which justifies the vehicle manufacturing industry being treated any differently to other sectors in this regard, and any changes would be impossible to enact without affecting other sectors of the economy. These matters are more appropriately dealt with in the foreshadowed enquiry into the broad workplace relations framework which the Commission has been asked to (separately) undertake.

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<sup>18</sup> For example, see: [http://www.deakin.edu.au/buslaw/aef/workingpapers/papers/swp2004\\_12.pdf](http://www.deakin.edu.au/buslaw/aef/workingpapers/papers/swp2004_12.pdf)

<sup>19</sup> ABS 6321.0.55.001

### **Could changed workplace arrangements have made a difference?**

We conclude this section of the AMWU submission by examining whether variations to workplace agreements applicable in the automotive industry could have prevented the collapse of the industry in Australia, as some members of the Government have implied.

Last year the AMWU negotiated an agreement with Holden management designed to help the Company to proceed with the \$1 billion Next Generation project which would have seen two new global vehicles manufactured at the Holden's Elizabeth assembly plant.

As Holden told the Commission in its submission, the final agreement approved by members included a three-year wage freeze, extra production time each day, and agreement on overtime and a range of other flexibilities.

From information provided to the Union, these measures would have saved the Company around \$15 million a year, representing a considerable proportion of Holden's manufacturing wage bill at Elizabeth.

The AMWU estimates that these savings would have reduced the price of each car manufactured at Elizabeth by about \$180.

However, Holden needed to cut its manufacturing costs by \$3,750 per car, so the \$15 million in savings represented less than 5% of the total cost savings Holden needed to proceed with the Next Generation project.

In addition, Holden made it clear that it sought continued Government assistance to fill an unspecified portion of the remaining 'gap' in order to continue manufacturing in Australia.

We all know how the story ended at Holden.

Even with a three year wage freeze, the savings achieved through the variation to the Holden agreement were not sufficient to save the jobs of the 1,600 strong manufacturing workforce at Elizabeth. Only continued Government assistance would have saved Holden's manufacturing operation. Assistance that was not forthcoming.

The variation to the Toyota agreement proposed by the Company is similar to the final agreement reached at Holden except that no wage freeze is proposed, and some other cuts to entitlements are included in the Toyota proposal.

Chief among these is the removal of the 17½ % annual leave loading.

Given that this matter is still before the Federal Court, the AMWU does not intend to comment on the issues that will be tested in that jurisdiction, rather we will restrict our comments here to the likely overall effect of the proposed variation.

The savings measures proposed by Toyota would have produced savings slightly higher than Holden would have achieved, around \$17 million per annum or about \$160 per car.

Thus the savings that would be achieved through the changes to the Toyota workplace agreement would again have been only a small fraction (slightly more than 4%) of the

\$3,800 cost savings per car that the Company needed to continue manufacturing in Australia.

The only conclusion possible is that a variation to the Toyota agreement would not have been sufficient to save jobs at Altona, just as the Holden variation was not able to save jobs at Elizabeth.

Again, Toyota, like Holden, made it perfectly clear to the Commission that they sought continued Government assistance to close a portion of this 'gap'. Assistance that was, again, denied.

Notwithstanding this reasonable conclusion, the AMWU repeatedly stated that it was willing to discuss changes in working conditions with Toyota in return for assurances on job security, but in the end Toyota was unable to provide those assurances for a raft of reasons, not least of all the Government's position on continued assistance for the sector.

Mark Skulley summarised the real causes well in the Daily News when he wrote:<sup>20</sup>

*"The beginning of the end for the Australian car industry came a few years ago when the opposing leader Tony Abbott revealed that he would cut \$500 million in tax payer funding if he won office. Like everyone else, the car industry could read the opinion polls and expected the Coalition to defeat Labor at last years federal election. They tried to engage with the Coalition's manufacturing spokesperson Sophie Mirabella but got nowhere and reportedly got lectured for their pains"*

As demonstrated above, the greatest failure lay at the feet of a government that was eager to cut industry assistance to the industry regardless of the consequences.

## **Impacts of the automotive industry's closure**

In order to assess the necessary policy response to the closure of the automotive manufacturing industry, a quick assessment of the likely impact of closure, in the absence of mitigating policies, should be considered.

Based on current statistics, the loss of the automotive manufacturing sector means the loss of 50,000 direct jobs, many thousands of related jobs (through both industry expenditure and income multiplier effects), the loss of over \$5 billion in industry value added annually, and the loss of the largest source of manufacturing research and development in Australia, worth almost \$700 million annually as well as \$3.6 billion in exports.

While these statistics present a disturbing picture of the potential impacts of closure, they only present a very partial picture of the broader impacts that can be expected.

As the industry leaves, the economic impacts will be magnified as they filter through the economy, through multipliers on both the industry and the income side. Lower activity will flow through the manufacturing and other industries while lower incomes will flow through

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<sup>20</sup> Available at: [http://thenewdaily.com.au/news/2014/02/10/costs-lack-political-will-forced-toyotas-hand/#/?&\\_suid=139346176026305705021252971774](http://thenewdaily.com.au/news/2014/02/10/costs-lack-political-will-forced-toyotas-hand/#/?&_suid=139346176026305705021252971774)



communities. In order to estimate these impacts, economic modelling which takes into account flow on impacts is needed. Ideally such modelling should be of the Computable General Equilibrium (CGE) type, so as well as taking into account the direct impacts, it also takes into account changes in relative prices and their consequences for the behaviours of all economic agents.

In addition, longer term impacts on the economy's innovation, productivity and skills capacity will also result, as the automotive industry plays a central role advancing and disseminating innovation, new production processes, advances in organisational structures and methods and skills. However, these impacts are not able to be estimated through standard modelling techniques, for the same reasons that the magnitude and importance of these impacts are disputed generally.

A lack of observability of spillover impacts leads some, like the PC, to conclude their magnitude is not significant. Others such as the AMWU - citing both literature and the testimonies of both workers and business people - maintain these impacts are not only significant, but form a core rationale for industry support of the automotive sector.

While this dispute will continue, it is worth noting that the view that spillovers are significant is not the view of a lunatic fringe, as it is sometimes presented. For example, a recent paper in the Journal *Econometrica*,<sup>21</sup> hardly a fringe economics journal, has concluded that the total benefits of R&D are twice as large as the private benefits from this investment, presenting a strong case for public support for R&D activity.

In the case of automotive manufacturing, these benefits are proportionately greater than other sectors as the R&D intensity of automotive manufacturing is significantly higher than other activities. For example, Dr. Phil Toner in his submission to this enquiry noted that:

*"The auto industry each year invests around \$620 million in R&D...In 2011-12 the R&D intensity of the auto industry (R&D as a proportion of value added) was 11%. By contrast the R&D intensity of total manufacturing was 4.4%; mining was 3.1%; agriculture 0.8% and electricity, gas, water and waste services 0.98%..."*

As the PC itself pointed out in its position paper:

*"From a policy perspective, the relevant consideration is whether government assistance would yield additional benefits that would otherwise go unrealised"*

In fact, the entire benefits of auto related R&D rely on Government support since, as flagged by the AMWU and others and as borne out by recent events, without government support the industry will close down. Due to this, the entire R&D stemming from the industry, and its significant spillover benefits are "additional" in the sense that they would not occur without

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<sup>21</sup> N Bloom, M Schankerman and J.V. Reenen: Identifying Technology Spillovers and Product Market Rivalry. *Econometrica* Vol 81 no 4 July 2013.

the support required to maintain an Australian automotive industry. It is these benefits that are now to be lost as a result of the industry's closure and due to the difficulties in their measurement; these benefits will be additional to any impacts from closure estimated by standard economic models.

The most comprehensive analysis on the impacts of closure on the Australian economy was commissioned by the Federal Chamber of Automotive Industries (FCAI), and was performed by Allan Consulting.<sup>22</sup>

This CGE analysis concluded the industry's shutdown will result in a permanent loss of welfare equivalent to \$21.5 billion in net present value terms. In addition, the study found:

- Australia's GDP would be \$7.3 billion smaller by 2018.
- Employment losses in Melbourne would equate to some 33,000 jobs in 2018, and around 6,600 in Adelaide, with employment levels not returning to pre-closure levels until around 2027 for Melbourne and 2025 for Adelaide.
- The economies of Adelaide and Melbourne by a 1.4 per cent fall in GRP and both economies not recovering until 2031.

On a national level, the analysis shows the national capital stock falls by 0.29 per cent, employment falls by 0.78 per cent and GDP falls by 0.52 per cent by 2018.

In contrast, it is interesting to note that according to Treasury modelling, carbon pricing was estimated to have a 0.28 per cent impact on GDP by 2018. A much smaller impact than the closure of the auto industry, yet the Government's rhetoric on carbon pricing included predictions of vast "economic devastation" as a result of carbon pricing, while the closure of the automotive manufacturing industry has been called "liberating" for workers as a "pity" for the economy at large.

The estimated employment impact, of 0.78 per cent, equates to 90,000 jobs based on the latest ABS employment statistics.

The most detailed regional impact analysis of automobile manufacturing closure has been performed by the National Institute of Economic and Industrial Research.<sup>23</sup> While this research focused on the national, state and regional impacts of the closure of Holden, it is useful as an estimate of the dispersion of impacts from the auto industry's closure nationally, especially given Holden and Toyota's reliance on a shared supply chain.

Applying the dispersion of impacts from the NIEIR analysis (for GSP and employment impacts) to the magnitude of the impacts from the FCAI/Allan Consulting analysis, produces Table 6 below.

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<sup>22</sup> This study was lodged with the FCAI submission into this enquiry.

<sup>23</sup> Available at: <http://www.adelaide.edu.au/wiser/docs/GMClosureNIEIR.pdf>

**Table 6: Impacts from Automotive Industry Closure.**

<b>FCAI modelling impacts calibrated according to NIEIR analysis</b>		
State	Employment loss	Welfare loss (\$ million)
NSW	21,041	5,528
VIC	32,843	7,118
QLD	11,408	2,580
SA	16,095	3,833
WA	5,463	1,600
Other	3,151	842
Total	90,000	21,500

Besides the sheer size of the impacts from the industry's closure, perhaps the most striking thing about Table 6 is the impacts it shows for non-automotive states, in particular NSW and QLD. This is due to the impact of the collapse of the supply chain which is located nationally as well as the indirect income effects which are also dispersed nationally.

Over 21,000 jobs are lost in NSW and over 11,000 jobs lost in QLD due to the industry's closure. This implies that, as well as policies aimed at alleviating impacts in directly affected communities in VIC and SA, the totality of policies in response to the industry's closure need to be national in scope and should include the Governments of both NSW and QLD as a minimum. This is an issue that will be addressed in greater detail below.

It is again worth noting that the impacts outlined above do not include the broader loss of spillovers and R&D benefits that emanate from the automotive manufacturing industry. As Professor Roos pointed out to the PC in his testimony,<sup>24</sup> in order for an advanced economy to stay advanced, a critical mass of high technology, internationally linked manufacturing is crucial. Such a manufacturing core is crucial to maintain the required level of complexity needed for the economy to generate and take advantage of future growth opportunities. Without such a core, the economy's long term growth rate will be damaged with immense impacts for welfare and prosperity far into the future.

As Professor Roos pointed out, the automotive industry represented the only complete global manufacturing supply chain in Australia and its loss would present a severe blow to the complexity of the Australian economy. Given this, unless other manufacturing sectors can rapidly grow both in terms of size, international linkages and development and use of advanced technology, it is likely that the true impacts of the closure of the automotive industry will be much higher than any modelling analysis can indicate. Such an impact will be measured in a lower long term economic and productivity growth rate and will compound over time.

<sup>24</sup> Available at: <http://www.pc.gov.au/projects/inquiry/automotive/public-hearings>

As a result, it is the AMWU's strong view that policies aimed at supporting the growth, internationalisation and technological growth of the manufacturing industry are urgently needed to mitigate these long term structural risks to the nation's prosperity.

## **Dangers to 2017**

The announced closure of Holden and Toyota manufacturing in 2017 does not guarantee either company will continue operating till 2017. The timing of closure will largely depend on volumes up to 2017, with a significant drop off in volumes potentially causing an early departure of one or both manufacturing operations.

It is important for several reasons that early closure be avoided.

Early closure would undermine policies designed with a three year lead time to mitigate the impacts of closure. It would rob workers of the necessary time to have their skills recognized or to gain new skills through training programs that can run concurrently with employment.

It is known from historical evidence that a closure announcement has a negative impact on demand for cars. Some may conclude this is evidence of irrationality on the part of consumers as there is no evidence imported car owners suffer from a difficulty in obtaining service or parts for their cars. However, a more generous interpretation is that this is evidence of a 'made in Australia' premium that is withdrawn by the consumer once a closure announcement has been made. Regardless of the reasons, it is a fact that once closure announcements are made, car sales tend to suffer.

As a result, it is crucial that the Government not compound this fall in demand by policy decisions that will further damage volumes and increase the likelihood of an early closure.

The PC's position paper was full of policy recommendations of this nature that, if implemented, would likely lead to the early closure of both Holden and Toyota.

For example, the removal of Federal and SA Government preference arrangements for Australian made fleet cars would have a direct impact on the volumes of Australian made cars sold, for no real taxpayer benefit.

The removal of restrictions on the import of second hand cars will also change relative prices between second hand and new cars, leading to a fall in volume for new Australian made cars.

In addition, the implementation of the Australian Korean FTA and the possible concluding of FTAs with Japan and China will also impact on the competitiveness of Australian made cars and could contribute to a decrease in volumes and early closure. The Australian Korean FTA has a three year car tariff phasing, which will impact on volumes from 2015 on. Any FTA with Japan and China should freeze automotive tariffs at their current levels at least until 2017 so as not to impact on volumes and prompt early closure.

The interdependent nature of the supply chain leaves both Holden and Toyota vulnerable to supplier closures. Specifically, tier one suppliers represent a significant risk to the ongoing operations of both manufacturers. Were a significant tier 1 supplier to close pre-2017, the operations of both manufacturers would be put at grave risk. For this reason, it is crucial that the Government ensure the ongoing viability of these suppliers. In particular, bridging finance may be required to ensure the continuing operation of suppliers through to 2017. This issue is discussed in more detail below.

## **Minimizing the impacts of closure**

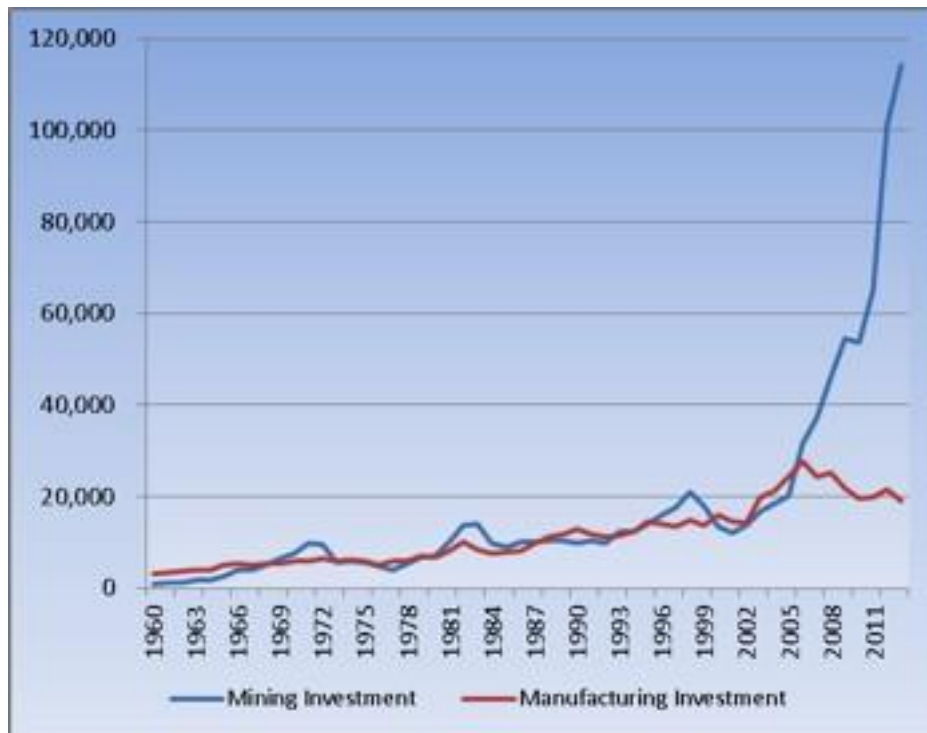
### **The manufacturing context**

The Australian manufacturing industry continues to be under incredible pressure from broader macroeconomic sources. The same sources of pressures which are responsible for the difficulties of the automotive industry are exerting themselves on the broader manufacturing industry. These pressures can be divided into two inter-related categories; the impact of Dutch disease, or pressures resulting from the mining boom and pressures resulting from an uneven trading environment.

As the Commission is aware, Dutch disease refers to the adverse impacts of a mining boom on industrial sectors, through both exchange rate effects and input price effects. There is no doubt that the Australian manufacturing industry has been experiencing pressures from both of these sources over recent years. Input costs as well as a persistently elevated Australian dollar has meant Australian manufacturing has struggled to compete with imports and in export markets, leading to continued relative decline of the sector.

Chart 3 below clearly shows the divergence in investment between the sectors, which is symptomatic of classic Dutch disease. It also clearly shows the magnitude of the current mining boom in comparison to the mining booms of the past; in particular the early 70's boom, the early 80's boom and the late 90's boom. It is the sheer size of this boom, and its unmitigated impacts on the manufacturing sector, that lead the AMWU to warn that without significant and urgent policies to support the manufacturing sector, the mining boom risks totally hollowing out our manufacturing sector, with devastating long term impacts for the economy.

**Chart 3: Mining and Manufacturing Investment (\$m)**



Source: ABS

The second category of pressures is the uneven trade playing field. As countries around the world attempt to recover from GFC inspired recessions, they have increasingly sought to expand exports and improve import competitiveness. This has lead to a flood of under priced imports being dumped into Australian markets, currency manipulations which further re-enforce the impacts of Dutch disease, and behind the boarder trade barriers which effectively lock out Australian exports.

Yet in response to these pressures, we have a Government which seeks to repeal a modest mining profits tax while signing trade distorting FTA agreements and cutting support from manufacturing programs. Rather than supporting a struggling manufacturing sector, which is crucial for our long term prosperity, the Government is increasing pressure on the sector. Neither cuts in support for the booming mining industry nor the finance industry are being contemplated, while manufacturing is the subjects of cuts, attacks on workers pay and conditions and accusations of excessive 'corporate welfare'.

The day before announcing its response to the closure announcement of Holden, the Government handed down its first budget update, the December 2013 Mid-Year Economic and Fiscal Outlook (MYEFO).

MYEFO contained a number of policy decisions which only increase the pressures faced by the manufacturing industry. In total and not including cuts to automotive support, MYEFO contained \$96 million of cuts to programs aimed at:

- Improving productivity of manufacturers through investment (Clean Technology Program - \$34 million)
- Improving access to new export markets and diversification (Buy Australian at Home and Abroad - \$0.3 million)
- Supporting the development, deployment and commercialisation of new technologies (Industry Innovation Precincts - \$26 million)
- Supporting high technology skills in manufacturing (National Workforce Development Fund - Enhancing High Tech Manufacturing stream - \$35.6 million)

The decision to axe the High Technology Manufacturing stream of the National Workforce Development fund is particularly troubling and puzzling.

This program supports industry led training in high tech manufacturing, so firms at the cutting edge can be supported in meeting their skills needs. One would think this is exactly the type of flexible business led initiative that would receive additional support from a Government that professes particular admiration and support for the high growth, high tech and high skills parts of the manufacturing sector.

During the election campaign, the then Opposition announced as part of their manufacturing policy the (re) establishment of Export Market Development Grants and Manufacturing Transition Grants, both of which were to be valued at \$50 million.<sup>25</sup> The AMWU supports both of these initiatives but was disappointed to see that unlike the additional allocation to the Export Market Development Grants, the \$50 million allocation to the Manufacturing Transition Grants program did not feature in MYEFO. We can only assume that these funds have been diverted to much the same purpose under the Holden closure fund. Such a redirection of funds would represent a cynical and opportunistic slight of hand, where an election promise is re-branded as a response to a major economic and social trauma for tens of thousands of Australians, alleviating the need for a genuine policy response. The AMWU has sought clarification from the Government on this issue on a number of occasions and has to date received none.

Table 7 below outlines the cuts to manufacturing and manufacturing related programs since this Government has come to power.

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<sup>25</sup> Line 7.19 in the Coalition's policy costings document, available at: <http://lpaweb-static.s3.amazonaws.com/2013%2009%2005%20TABLE.pdf>

**Table 7: Government Cuts to Manufacturing Programs**

<b>Programs</b>	<b>\$ m</b>
ATS auto support	500
Buy Australia at Home and Abroad	0.3
Clean Tech Program	34
Industry Innovation Precincts	26
National Workforce Development Fund - Enhancing High Tech	
Manufacturing stream	35.6
Holden co-investment fund	215
<b>Total cut in manufacturing support</b>	<b>810.9</b>

The table above makes clear that since coming to power, the Government has cut a total of \$810 million in various manufacturing support programs. Most of these cuts are to automotive industry programs, which explains the current situation we are faced with. However, other programs, aimed at supporting productivity improving investment, access to new markets, collaboration and innovation have also been cut.

This broader manufacturing context is relevant to the issues of how to best deal with the impending closure of the automotive manufacturing industry. Automotive workers have revealed a preference for working in manufacturing and as a result have skills relevant to the sector. Securing work in the sector offers the best possibility for these workers to maximise their economic contribution, find employment that matches their skills and preferences and find full time long term employment. However, in order for these workers to find such employment, manufacturing generally needs to be growing, not in a state of slow collapse due to broader economic conditions. As a result, it is crucial that the Government implement policies which support the sector more broadly and enable it to overcome the challenges it currently faces and reverse its current policy of cutting manufacturing support programs.

#### **What is needed: a comprehensive policy approach**

The AMWU notes the Commission's conclusion that past adjustment packages were of limited effectiveness in both supporting regions affected and assisting workers in gaining new employment. In our view, these Innovation Investment Funds were often poorly targeted and designed with a fundamental confusion as to their goals.

In response to the Holden closure announcement and the Government's subsequent review of the SA and VIC economies, the AMWU has put forward a much more targeted policy approach, with specific policies designed to mitigate every level of impact.

Our view remains that any policy package in response to the closure of the automotive manufacturing industry should address the broader pressures facing manufacturing and should include four distinct and well funded components:



1. direct support for workers, not only Holden, Toyota and Ford workers, but also supply chain and other workers affected,
2. direct support for communities affected, through local business grants and loans and urban and suburban renewal projects,
3. support for investment and diversification of supply chain and other manufacturing businesses, through financing assistance, investment grants, expert business advice services, and support for innovation and collaboration, and
4. policies to support broader economic activity, especially in the manufacturing sector and the states most affected through reforms to Government procurement and investments such as, bringing forward infrastructure projects and naval and non-naval shipbuilding projects.

### *Support for workers*

As a matter of urgency, the Government should extend the duration of labour market adjustment support under the Automotive Industry Structural Adjustment Program (AISAP). This program is currently due to expire on 30 June, 2017. It should be expanded to run to calendar year 2020, so workers have access to this support when they actually need it. As this is a demand driven program, it is not possible to accurately allocate additional funding to achieve a specific expansion in coverage and depth of service, but such an expansion will have an additional cost and this cost will need to be accepted and (for budgetary purposes) estimated by the Government.

The breadth of support available to workers also needs to be expanded. Currently, the AISAP program provides “job search and career advice, a comprehensive skills assessment, skills development and training relevant to the needs of the local labour market”. This should be expanded in collaboration with employers so workers have the flexibility to attend educational and training sessions during the work day to both learn new skills and gain new qualifications and have current skills certified.

In response to the closure announcement of Ford, the former Government extended access to training programs and job matching services to Ford workers through the National Workforce Development Fund in conjunction with Auto Skills Australia, the automotive Industry Skills Council. This support should be expanded to all automotive workers, whether from Holden, Toyota or component manufacturers.

Ultimately the outcomes for most affected workers will depend on the availability of well paying jobs which match the skills of workers. Most automotive workers have chosen to work in the industry due to a desire to work in a high technology manufacturing industry and to make and work on cars. These workers will likely want to stay in the broader manufacturing industry, both because they have revealed their preference for such work and because that is where they are most valuable given their experience and skills. As discussed above, the broader job prospects of these workers will depend on the

implementation of a manufacturing plan which adequately addresses the challenges facing the sector more broadly.

Adequate policies to support the economy more broadly (point 4 above) and policies to support the automotive supply chain and other manufacturing firms (point 3 above) will have the greatest impact on the job prospects of affected workers.

### *Support for communities*

As the Commission has noted in its position paper, automotive manufacturing workers are mostly concentrated in areas which already experience high levels of unemployment and other forms of socio-economic disadvantage.

Unfortunately, while noting this may result in increased adjustment costs, the Commission neither acknowledges the desirability of avoiding allowing areas of entrenched disadvantage to form as a legitimate justification for policy intervention, nor does it deem the mitigation of increased adjustment costs as a justification for policy intervention.

The AMWU, along with what we safely presume to be the majority of the Australian population, see the prevention of entrenched areas of disadvantage as something that justifies policy intervention, and this is before considering the adjustment cost mitigation aspect of such policies.

Due to already high unemployment rates, communities are likely to suffer significantly from both business closures and a loss of income of residents following auto closures. Local businesses, from the local newsagency to the local fish and chip shop will likely suffer significant reductions in revenue as their customers see their incomes fall.

In order to mitigate this impact on communities, it will be crucial that governments know which suburbs are affected by closure. In order to gain this information and make a targeted policy response possible, the Federal Government, working with state and local governments, should identify and officially designate suburbs which are home to concentrations of affected auto workers as 'closure affected suburbs'.

This designation should provide businesses located in these suburbs with financial support (interest free loans – jointly financed by the Federal and the state governments – working with private financial institutions) to overcome periods of lower business and cash flow pressures due to closures. In order to access these loans, businesses should provide evidence that their cash flow has been significantly and negatively impacted by closures.

As this program would not dispense grants but provide financial support to local businesses, its costs will be represented as an increase in Government debt not necessarily an increase in expenditure. However, at least \$1 billion should be set aside as capital to support these loans.

Such an intervention will save viable businesses from being driven to bankruptcy by the indirect economic impact of the GMH closure and will mitigate the flow-on income and

consumption effects of the closure, saving non-auto related jobs and preventing communities from becoming pockets of entrenched disadvantage. The short term nature of the intervention and the obvious public good and spill-overs associated with the intervention justify the use of the Government's access to low cost capital.

The fact this policy will likely not be needed until after the closure of Ford in October 2016 means that governments have plenty of time to both identify 'closure affected suburbs' and to implement the administrative processes necessary. In addition, as the impacts of closure are expected to be national, this is a process which will need to be repeated in most states.

In addition, 'closure affected suburbs' should have access to an urban renewal fund for urban renewal and business investment projects, established to support communities affected by the closures. This fund should have two streams; one to support public urban renewal projects and one to support local business investment (through co-investment grants), focused on the creation of new jobs. The business investment stream should be competitive and merit based, with merit criteria focused on productivity improvement and job creation.

Based on the proportionate size of the automotive employment impact of the Holden closure as estimated by NIEIR and using the Ford Regional Innovation Investment Fund as a benchmark, this fund should be worth a total of \$640 million and be national in scope as the impacts of closure on automotive job losses will be national in scope. This fund should be divided between states according to the proportion of job losses by state, which implies SA should receive 24 per cent of this fund, or \$156 million, Victoria should receive 54 per cent of this fund, or \$343 million and NSW and Queensland should together receive 16 per cent or \$102 million. Holden, Toyota and State Governments should be asked to make a contribution to this fund.

### *Support for the supply chain and manufacturers*

Based on the experience of supply chain businesses, and the testimony of Professor Goran Roos to the Productivity Commission,<sup>26</sup> it takes between 3 and 7 years for a supply chain firm to make enough progress in diversifying its business away from automotive manufacturing to be viable as a non-automotive business. This means that unlike the policies to support affected communities, there is a great urgency in providing support for the diversification of the automotive supply chain.

In order to support this diversification, and support it urgently, three types of support need to be provided.

First, firms need to be assisted in identifying areas of potential growth and diversification. Second, firms need support to develop these areas, both investment support and support in accessing new markets. Third, firms need to be assisted as their traditional automotive

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<sup>26</sup> Transcript available at: <http://www.pc.gov.au/projects/inquiry/automotive/public-hearings>

supply business winds down and they find it increasingly difficult to access finance and experience cash flow problems as they attempt to transform their businesses.

As outlined in our *A Prosperous Australia* document,<sup>27</sup> drafted as an initial response to the Holden announcement, The AMWU believes that the task of providing supply chain firms with expert advice is significant enough to warrant the establishment of a new service, drawing on the experience of the successful Enterprise Connect (EC) service. As we state in *A Prosperous Australia*:

“Such an expanded and specialist service will require engineering, as well as business expertise on the part of advisers and therefore the programs of EC and Austrade will need to be built upon, not simply expanded to auto component suppliers. A new Automotive Diversification Stream of EC, with expertise in engineering and other relevant fields should be developed, which could provide these expert services to firms in the sector wishing to transform into niche manufacturing businesses.”

All supply chain firms wishing to access this service should be encouraged to do so and firms wishing to access diversification grants should also access these business advisers as part of the grant application process. This expanded service will require additional administrative funding.

The Government already has a program designed to provide grants to automotive supply chain firms wishing to diversify their business into new products and markets. The Automotive New Markets Initiative (ANMI) currently has \$47 million allocated to it and is set to run to 2016-17.

This initiative comprises three elements, all of which should be expanded in depth and duration with the ANMI expanded until at least 2017-18. In particular, the Automotive New Markets Program, which supports grants for capital investment aimed at diversification, should receive the vast majority of an increase in funding. In *A Prosperous Australia*, the AMWU called for an expansion of this program to an allocation of \$150 million to 2016. Keeping the allocated funds per year constant (at \$37.5 million) will mean a total allocation under the ANMP of \$225 million to 2017-18 (\$178 million in new funding) or \$300 million (\$253 million in new funding) should the program run to 2019-20.

In addition to increased funding to support transformation in the entire supply chain, and an extended life, the ANMP should be reformed to ensure all viable projects will receive support through the program. Merit criteria need to be flexible enough to give supply chain firms every opportunity to expend and diversify their businesses.

In addition, and to support growth in the manufacturing sector more broadly, the Manufacturing Export Market Development Grants program and the Manufacturing Transition Grants program need to be expanded beyond the Government’s election commitment of \$100 million for both programs. As discussed above, the Manufacturing

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<sup>27</sup> Available at:  
[http://www.amwu.org.au/content/upload/files/publications/A\\_Prosporous\\_Australia\\_final.pdf](http://www.amwu.org.au/content/upload/files/publications/A_Prosporous_Australia_final.pdf)

Transition Grants program election promise (\$50 million of funding) was not reflected in MYEFO, an oversight that needs to be clarified and addressed. However, in order to provide the broader manufacturing sector with the support required so new growth opportunities can be accessed and new jobs generated, especially at a time of great external pressures, funding under both programs should be increased and the duration of each program expanded. A total quantum of \$200 million, split evenly between the programs with both programs running to 2018-19 should be a minimum requirement for this support (\$20 million under each program for 5 years, commencing in 2014-15). This is consistent with the additional support called for through these programs in the *A Prosperous Australia* document.

While automotive supply chain firms are making the transition to new markets and products, they will increasingly come under pressure from their financiers as these financiers take an increasingly pessimistic view of the future of their automotive manufacturing business, which will be represented by the withdrawal of credit or at best an increased risk premium.

In order to ensure a capital strike doesn't cripple the supply chain and inhibit the diversification of these businesses, financing support will be required. In addition, the sustained pressure exerted on the manufacturing sector, coupled with the impact of the closure of the automotive manufacturing industry will inevitably lead to tightening of credit for SME manufacturers more broadly, just at a time when the Government and economy needs these firms to expand, invest and create new jobs.

In order to mitigate this credit squeeze, *A Prosperous Australia* outlined a plan for a Manufacturing Finance Corporation (MFC), modelled on the successful Clean Energy Finance Corporation (CEFC) or the Export Finance Insurance Corporation. Such a corporation would work with current creditors to support SME manufacturers with loan guarantees and low cost finance while firms transition to new markets and products, ensuring negative perceptions and increased financial risk brought about by closures do not sabotage the transition of SME manufacturers. *A Prosperous Australia* outlines some detail of how such a corporation could be organized, stating:

"A board comprising business leaders, experts in finance and union representatives should oversee the work of this corporation to ensure it is providing the support necessary to the sector. This corporation should be endowed with at least \$2.5 billion dollars from the Federal Government."

The MFC could involve two streams, one for the support of firms diversifying away from supplying the automotive manufacturing industry and one to support SME manufacturers to invest in new technology, innovation and products, to support the broader growth of manufacturing. It is worth noting a MFC is consistent, but more ambitious than, a similar proposal put by the AIG to the Commission in its post-Position Paper submission.<sup>28</sup>

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<sup>28</sup> Ai Group 13 February 2014

In addition, as the MFC would be financed as a Government owned Corporation operating with a commercially based mandate, the \$2.5 billion equity injection would not impact expenditure in the Federal Budget.

The package presented above represents an integrated set of policies which would to some degree mitigate the impact of the closure of the automotive manufacturing industry and give manufacturing a chance at generating jobs for closure affected workers. Each component of the package is crucial and the success of each requires the presence of the others, with advice feeding into new product and market co-investment, both underpinned by financing support.

### *Support for the broader economy*

The realized impact on the broader Australian economy from closure will depend on whether the community and supply chain support outlined above is implemented or not. Both of these support packages are designed in part to mitigate the economic impacts of the closures by decreasing the transmission of the negative economic shock through the economy. Therefore if they are implemented, they will also mitigate the need for policies designed to counter the economic impact of the closures once these impacts have flowed through the economy.

It is better to implement community and supply chain support policies in the same sense that it is better to address heart disease with diet and exercise rather than wait till a bypass is required. These policies will minimize unemployment as well as business closures and the social and economic costs which result. And importantly, they will avoid the creation or communities of entrenched disadvantage.

However, even if these policies are implemented, there will be a broader economic impact from closure and resulting job losses on both state and the national economy. In order to further mitigate these impacts and support growth in manufacturing and new jobs a fiscal stimulus will be required; much like a fiscal stimulus is required when the national economy is subjected to a large negative shock.

The most effective stimulus available in response to closure is through government procurement policy. This includes a more industry focused Government procurement policy across the board, as well as specific decisions around projects such as shipbuilding, infrastructure investment and rail.

The Federal Government spent over \$41 billion through procurement tender processes in 2012-13, over \$18 billion of this was non defence related. In our submission to the Senate inquiry into Commonwealth Procurement Processes,<sup>29</sup> the AMWU stated:

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<sup>29</sup> Available at:

[http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Finance\\_and\\_Public\\_Administration/Commonwealth\\_procurement\\_procedures/Submissions](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Finance_and_Public_Administration/Commonwealth_procurement_procedures/Submissions)

“While it is true that the Government should make its procurement decisions with an aim of achieving the greatest value for taxpayers money, too often this translates into a overly narrow definition of ‘value’ which does not include considerations of; broader industry and employment impacts (and their employment, tax and spending implications), health and safety impacts, environmental impacts and national security impacts.”

A modified procurement policy which recognised the role procurement can play in supporting domestic industries is not only preferable, but can be implemented in accordance with Australia’s trade obligations due to the existence of curve outs (such as the carve out for preferential treatment for domestic SME’s under the USAFTA). The AMWU calls on the Government to use its massive procurement budget to support domestic industries through a re-focusing of procurement guidelines on broader economic, social and environmental objectives rather than just the contract price of the item in question.

Such a broad based change to procurement guidelines would have a profound impact on thousands of procurement decisions across government, potentially impacting thousands of businesses around the country across the whole range of industry sectors.

There is an estimated \$33 billion pipeline of rail stock investment over the next 20 years. While it is the states that are responsible for these procurement decisions, the Federal Government has an important role to play in ensuring there is a national industry focus to coordination of this work. For too long the uncoordinated nature of rail procurement by states has led to boom and busts in the rail industry, rather than a steady stream of work which enables businesses to plan and invest in capability and productivity improvements.

The development and implementation of a Coordinated National Demand (CND) model<sup>30</sup> for rail procurement would not only lead to the elimination of the boom/bust cycle in the rail industry, it would support the industry’s stable long term growth, crucially including growth in jobs. These jobs would be a good match for many displaced automotive manufacturing workers as there are significant skills overlaps between the two industries. In addition, automotive supply chain firms would be better able to diversify into supplying for the rail industry if the industry had a steady and known stream of work.

Shipbuilding procurement also represents a promising mechanism for the delivery of economic stimulus, especially to SA and VIC. Shipbuilding represents a good match with the closing automotive producers in terms of skills, experience and materials required. Some automotive supply chain firms will be able to diversify into supplying the domestic shipbuilding industry and displaced automotive workers will find their skills and experience valued by this industry.

The bringing forward of shipbuilding projects is already necessary to maintain our domestic shipbuilding industry, which is facing its own pressures due to the ‘valley of death’ implied by a short term shortfall in projects. Not only will bringing forward these projects provide a bridge that will preserve and improve the industry’s capacity and capability, it will provide

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<sup>30</sup> For more on the DND model, please see the AMWU submission to the Senate inquiry into Commonwealth Procurement Processes mentioned above.

significant stimulus as the value of projects over the next 30 years is expected to be around \$250 billion.

The AMWU has produced a detailed domestic shipbuilding plan<sup>31</sup> which calls for the bringing forward and domestic building of additional Air Warfare Destroyers, patrol boats, supply ships and civil projects such as the new ice-breaker. The fact that Port Melbourne and Adelaide are both centres of Australia's shipbuilding industry is a happy coincidence as the bringing forward of these projects will provide both specific industry and broader macroeconomic support where it is needed most.

An additional source of stimulus is the bringing forward of infrastructure projects, in particular projects which will improve productivity or are centred in affected suburbs. Both bringing forward of projects and approval of new projects will be required in order for infrastructure projects to provide significant stimulus to the economy. This is especially the case if the Government chooses not to proceed with community and supply chain support programs as outlined above.

**Table 8: Summary of AMWU policy package**

Item	Measure	Australian Dollar, Millions	Notes
New measures			
	Urban Renewal Fund	640	With GMH contribution
	Closure affected Suburb		Capital to finance interest free loans (off
	Finance	1,000	Budget)
	ANMI	178	To run to 2017-18
	Manufacturing Export		Considering \$50m election promise as new
	Market Development Grants		sped due to exclusion from MYEFO
	and Manufacturing		
	Transition Grants	150	
	MFC	2,500	Off budget equity injection
	Procurement reform		Better targeting of procurement to support
		N/A	industry
	Shipbuilding bring forward	N/A	Funding quantum not known
	Infrastructure bring forward	N/A	Funding quantum not known
Announced cuts			
	GMH co-investment	215	Funding set aside by previous Government
	Planned Holden Fund	60	Funding allocated to Holden closure response
	ATS	500	Announced cuts to ATS
	MYEFO	96	Counterproductive cuts
Total new spend		4,468	Only new policy proposals
Total new spend minus announced cuts		3,597	Net new spend (including off budget items)

Table 8 above summarises the proposed AMWU policy package.

The set of policies presented above may seem ambitious given the value of these policies is \$4.5 billion. However, this is significantly less than the economic value that is being lost. As outlined above, the automotive industry produces \$5 billion in value added per year, while the \$4.5 billion policy package is to extend over many years.

<sup>31</sup> Available at:

[http://www.amwu.org.au/content/upload/files/Ships\\_Campaign\\_13/AA\\_AUST\\_NAVAL\\_SHIPBUILDING.pdf](http://www.amwu.org.au/content/upload/files/Ships_Campaign_13/AA_AUST_NAVAL_SHIPBUILDING.pdf)



Only a lack of understanding of the devastating economic impact of the industry's closure could lead to a conclusion that a policy package of \$4.5 billion is too ambitious as a response. There is no doubt that even were this package fully implemented, the impact of closures would not be fully offset and would still result in workers losing jobs, businesses closing down and communities being adversely impacted.

## **Conclusion**

The Government has played a deciding role in the closure of the automotive manufacturing industry in Australia and owes it to the affected workers, businesses and communities to implement a set of policies that adequately address the impacts of this decision those workers, families, communities and businesses.

More broadly, the Government stands at a cross roads in terms of the future of manufacturing in Australia. It will be judged by future generations based on the decisions it takes in the next few months. It needs to decide whether it is willing to do what is needed to support a manufacturing sector through great but temporary external pressures, or whether it is content to allow the Australian economy to lose this crucial, high technology, high skills sector.

The AMWU will continue to advocate for a balanced and broad based economy with a strong manufacturing sector. In our view, only such an economy will ensure economic security for future generations, ensure a true career choice for current and future workers and only such an economy will support diverse and as yet unknown sources of future growth.