

A BRIEF REVIEW OF AUSTRALIA'S AUTOMATIVE MANUFACTURING INDUSTRY

A. THE ROLE OF GOVERNMENT

A statistical comparison of the Cwlth. Govt's likely costs and benefits has its place in determining the Govt's appropriate policy role, as seems to have been the PC's reaction to its Terms of Reference for the Inquiry, but if used alone, it is far too narrowly based for an adequate response to the Auto Inquiry. On that statistical test, it could be claimed that no Govt. spending should ever be made on Health, because all humans are destined to die anyway, nor on School Education, because the long-term cost/benefits of the products are entirely incalculable. Communities in modern economies now have firm expectations about the justifiable range of public expenditure and abhor weaknesses.

Additional criteria about public expenditure are needed where statistical analysis is an incomplete guide. One might advance four strategic principles: 1. the National Interest: (eg as adopted by the FIRB) or for the law, defence, etc; 2. the Locational Interest: where a key position occurs within an Industry, eg tree fruits, or within a State eg SA & Vic or within a Region eg the Murray-Darling; 3 a Long-term principle where temporary factors may apply or where the long term is not well calculable, eg in Agriculture; 4. the Social principle where there is an absence of adequate private involvement or where there is Community benefit which is not easily attributable to or cost payable by individual users, eg spending on roads, health, education, welfare etc.

Whilst it cannot be guaranteed that all govt. expenditure in the past fits under these or similar principles (or political brainstorm), what is certain is that in a democracy, every community has strong views on an appropriate role of govt., though not likely nor always unanimous views. The well-informed Australian community of 2014 has views, probably majority views, favouring assistance to the automotive mfg. industry, though these may perhaps be contrary to the PC's preliminary Position Paper.

B. GOVT'S CONSIDERATION FOR DIRECT ASSISTANCE

A preliminary point to be made is to submit the notion of the Cwlth. Govt. adopting the principle of always requiring consideration in return for its direct assistance unless there are special factors to the contrary, instead of such subsidies being valueless later to the Govt. in terms of interest etc or capital.

At present, assistance may be agreed to take the form of a cash grant or a loan with or without interest. Another approach which might have been appropriate for the auto industry in retrospect for past subsidies, could have been the issue of shares to Govt. trustees in return for assistance, based on market values, giving the Govt. the benefit of future dividends and the opportunity for Govt. representatives to participate in future managerial meetings with shareholders (Govt. acceptance of such shares might need to carry special conditions, eg to avoid the Govt having conflicts of interests). Though the Govt. has lost its earlier opportunity for financial compensation, it could consider any legal claim it may have on the departing auto. companies.

C. A GOVT'S ENTREPRENEURIAL ROLE

As well as considerable contacts and facilities with commercial businesses and industries within Australia, the Cwlth. and State Govts. have consular and other representatives in other countries. These local and overseas contacts and services could be usefully and more strenuously employed in discussions and networking with private sector counterparts.

The South Aust. Govt. is reported to have had discussions through its representatives, with overseas auto manufacturers about the possibility of a consortium in association with Australian interests taking over from GMH in SA. Apparently nothing firm has been achieved to date but the Cwlth. should add its greater weight to this avenue because the approach may well have prospects of success..

In short, the Cwlth. Govt. ought take a leading role in having a local or overseas consortium or a combination, replacing Ford, Holden and Toyota in Australia, possibly taking over existing plant and stock and component arrangements. Such a proposal would be in line with the PC's Terms of Reference and would counter the prevailing impression that the Cwlth's attitude hitherto has been passive, believing that the loss of local auto mfg. was inevitable and that an Inquiry might merely give it a stronger rationale for acquiescing.

D. THE FORM OF ASSISTANCE

The Button Plan was self-destructive. It involved tariffs diminishing whereas the longer-term Global scenario would have required Australia in order to maintain a local auto manufacturing industry, to hold tariffs steady if not to increase them, in the face of the capacity of developing foreign manufacturers to take greater advantage of their economies of larger scale, of changing needs/designs over time, and of their lower local cost structures than in Australia.

On the basis that foreign cars are "dumped" in Australia, the case could be advanced that these cars would warrant higher tariffs in Australia than at present, and closer to our luxury car tax.

If dumping was considered unsustainable, another option would be a special tax. At present, Cwlth taxes include a luxury car tax, wine, excise on petrol, diesel, beer, many other excise items, and the goods & services tax (GST).

Consideration could be given to foreign cars and parts being brought within the \$10 % GST, preferably at a new, higher rate than \$10 %.

E. THE FUTURE FOR THE AUST. AUTO. MFG. INDUSTRY

Three levels are possible:

1 Fully imported foreign autos. : This position is untenable. Cwlth. assistance is justified under the National and Locational principles mentioned in A above, aside from any likely adverse cost/benefit analysis. The loss to employment, skills, incentives, confidence and communities in the present deteriorating economic environment, would be disastrous.

2. Australia maintaining the present position of producing and servicing a complete vehicle but more suitable for Australian conditions and for export. This should be the optimum target to which the efforts previously described, should now be directed.

3. Key, ^{or selected} components manufactured in Australia, the rest imported and a local servicing industry substantially maintained. This would be a fall-back position to 2. Full Australian production/servicing. The cost/benefit of this arrangement would be dependent upon the precise auto components involved. This cannot be easily foretold nor assessed by statistical analysis because it would depend on the precise combination of local/imported components.

F. CONCLUSIONS

Australia should take a lesson from the past. The industry grew from importing complete cars (CBU). Cost savings, primarily in shipping, introduced "complete knockdown" (CKD) shipping packs of components. A consequent development was the use of locally-made components and modifications to suit Australian conditions. Full manufacturing developed from these operations. A statistical study of a reversion to CKD manufacture would be justified in current circumstances.

A proposed consortium would need to assess the feasibility of these factors:

1. The "right" model car for Australian conditions and markets.
2. Assess the cost of bulk component shipping, involving choice of, and consultation with overseas manufacturer(s).
3. Assess local component-saving, including possibility of tariff concessions.
- 4 Assess labour costs and savings potential (lower numbers and less skills).
- 5 Assess export potential and volume of sales required to achieve a profit against the costs of shipping, labour etc.

To conclude, the consortium concept would need to operate like any other public company, especially in decision-making. Govt. support would need to be tailored to enable exit as soon as feasible.

We believe Australian governments, managerial enterprise, skills and labour force have the will and capacity to succeed in this challenge along the principles outlined, but success in 2014 needs to start with strong, favourable responses and actions from all government authorities.