



**Senate Economics Legislation Committee Inquiry
into the ATS Amendment Bill**

AMWU October 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 various processes this government established to forge an industry policy that would enable Australia to retain and grow an advanced manufacturing and engineering capacity. The challenges faced by our manufacturing sector are not isolated to automotive manufacturing but affect the entire sector and as a result the entire economy. Yet our repeated calls for an active government industry policy to meet these challenges has fallen on death ears.

Instead of formulating a policy to deal with the continuing hollowing out of our nation's manufacturing capacity, a situation which we believe threatens Australia's status as an advanced economy,¹ the government's actions show its indifference to this situation. Whether we look at an automotive manufacturing policy that through inaction has triggered the announced departure of vehicle manufacturers in this country, or the government's woefully inadequate response to this closure, or its refusal to secure the future of the nation's shipbuilding sector, or its Competitiveness Agenda which represents little more than a fig leaf; the government's record will result in tens if not hundreds of thousands of jobs lost, as well as a much less advanced and balanced economy.

The Bill this inquiry is considering represents the latest example in this sustained attack on the manufacturing sector. It seeks to cut \$900 million from the Automotive Transformation Scheme (ATS), with \$500 million of cuts to occur in the near future, while \$400 million are to occur after the closure of automotive manufacturing by Ford, Holden and Toyota.

In light of the government's woefully inadequate 'Growth Fund' package in response to the closure of the automotive manufacturing sector, the AMWU is of the strong view that rather than be dramatically cut as is envisioned in the Government's Bill, the ATS should be expanded in scope to assist as many automotive supply chain firms as possible to diversify their business and provide support to a greater portion of the manufacturing sector.

By expanding the scope of the ATS, the impact of the closure of automotive manufacturing, both on jobs, communities and the broader economy will be mitigated as much as possible. In addition, as the ATS supports R&D as well as capital investment, broadening its scope could play a significant role in lifting the sophistication and competitiveness of our manufacturing sector; which is exactly what is required.

¹ A belief that is shared by others, including respected academics such as Goran Roos, Roy Green and John Spoehr.

Impacts of the automotive industry's closure

Based on current statistics, the loss of the automotive manufacturing sector means the loss of just under 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 we can expect.

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 that support automotive manufacturing, while lower incomes will flow through communities as workers are laid off or see their hours fall. 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 it takes into account the direct impacts as well as 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 and management processes 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 Productivity Commission (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 does not lack credibility, as it is sometimes presented. For example, a recent paper in the Journal *Econometrica*,² one of if not the most prestigious economics journals, has concluded that due to spillovers the total benefits of R&D to the economy are twice as large as the private benefit, 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

² N bloom, M Schankerman and J.V. Reenen: Identifying Technology Spillovers and Product Market Rivalry. *Econometrica* Vol 81 no 4 July 2013.

other activities. For example, Dr. Phil Toner in his submission to the PC review of the automotive industry 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 automotive industry 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 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 of the impacts of closure on the Australian economy was commissioned by the Federal Chamber of Automotive Industries (FCAI), and was performed by Allan Consulting.³

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 will be hit by a 1.4 per cent fall in GRP and both economies won’t fully recover 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. The estimated employment impact of 0.78 per cent equates to over 90,000 jobs based on the latest ABS employment statistics. It is interesting to note that based on current labour market figures, such an employment impact would see the national unemployment rate at 6.8%. In

³ This study was lodged with the FCAI submission into the PC review of the automotive industry.

addition, it should be noted that the PC, in their automotive review⁴, puts the total number of job losses at 40,000.

In contrast to these impacts, 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" and labelled carbon pricing as an "economic wrecking ball", while the same government has called the closure of the automotive manufacturing industry "liberating" for workers and a "pity" for the economy at large.

The most detailed regional impact analysis of automobile manufacturing closure has been performed by the National Institute of Economic and Industrial Research.⁵ 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.

Table 6: Impacts from Automotive Industry Closure.

FCAI modelling impacts calibrated according to NIEIR analysis		
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 but currently do not include the Governments of both NSW and QLD as a minimum.

⁴ Available at: <http://www.pc.gov.au/projects/inquiry/automotive/report>

⁵ Available at: <http://www.adelaide.edu.au/wiser/docs/GMClosureNIEIR.pdf>

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,⁶ 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.

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. However, whether its inadequate support for research, innovation and commercialisation, a withdrawal of support for renewable energy or broken election promises about naval shipbuilding not being offshored; every indication is that the government either doesn't understand the magnitude and nature of the problem, or they simply don't care.

The possibility of early closure

The announced closure of Holden and Toyota manufacturing in 2017 does not guarantee either company will continue operating till 2017. While all MVPs have stated it is their intention to continue operations until their announced closure dates, they have also made it clear that whether this will be achieved or not depends on the ability of suppliers to stay open and on future volumes.

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. In particular, 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.
- Early closure will also abandon the supply chain just as supply chain firms are seeking to avoid closure through diversification into new products and markets. It

⁶ Available at: <http://www.pc.gov.au/projects/inquiry/automotive/public-hearings>

will inevitably cause more of the supply chain to fail in these efforts, increasing the jobs, economic and social impact of the industry's closure.

For both of these reasons, all of the economic impacts of closure outlined above would be significantly increased were the industry to close early. Yet it appears that the government, having secured the closure of automotive manufacturing, is now doing everything in its power to bring about that closure as early as possible.

As an example, the government has rushed into Free Trade Agreements with Korea and Japan that see tariffs on imported cars go to zero just as Australia's car makers are especially sensitive to decreased volumes and early closure risk. However, even if we account for this FTA effect, the ATS Amendment Bill being considered by the Committee is the single greatest threat to operations at Ford, Holden and Toyota continuing till their respective announced closure dates. This is not just because of the impact this Bill would have on the level of support the Motor Vehicle Producers (MVPs) receive, it is primarily because 45% of support under the ATS goes to supply chain firms, most of which are under extreme pressure as they try to secure a post automotive future for themselves and their workers.

Holden is on the record⁷ warning the cuts included in this Bill may cause the entire industry's early closure due to the added pressure it will place on the supply chain. When asked about the risk of early closure due to these planned cuts, Holden's new Managing Director, Mr Gerry Dorizas said: "That's a risk that I think everybody is looking at, especially the suppliers that are invested,". He went on to say he hoped "logic will prevail" and the cuts will be scrapped.

Likewise, the CEO of the Federal Chamber of Automotive Industries (FCAI) has stated:⁸

"If this cut passes parliament, it will intensify the financial pressure on the supply chain, which has already factored ATS funding into their long-term business and investment decision-making process,".

The government's Bill not only represents a serious risk to the auto supply chain and early closure of the industry, it represents a clear example of sovereign risk, where legislated industry policy, which influenced investment decisions, is being undermined in a cheap quest for funds.

Inadequate policy response

Faced with these impacts of closure, the government established its 'Growth Fund' as an attempt to mitigate employment and other economic costs. However, this fund, at a total of

⁷ Available at:

<http://www.goauto.com.au/mellor/mellor.nsf/story2/702F73274B497BAACA257D35000A6E1D>

⁸ See footnote above.

\$155 million, of which only \$100 million is Federal Government funding, is obviously grossly inadequate for the task at hand.

In particular, only \$20 million has been allocated to diversification of the entire automotive supply chain, and to add insult to injury, \$17 million of this funding was already allocated to auto supply chain diversification under the Automotive New Markets Initiative, which has been scrapped. So in reality, in response to the closure of auto production, the government has increased funding for supply chain diversification by only \$3 million.

In comparison, the government allocated \$5.5 million, or nearly twice as much, for a new Prime Minister's Science Prize in the budget.⁹ In another comparison, the government announced funding of almost \$12 million (or 4 times the amount) for studies into future ownership options for Australian Hearing, Defence Housing Australia Ltd, the Royal Australian Mint and registry functions of the Australian Securities and Exchange Commission.¹⁰ To be clear, the government has spent 4 times as much on studies into selling 4 assets (not on their actual sale, but studies into their potential sale) than it has on diversifying the automotive supply chain in response to its potential total collapse.

A final comparison should be made with the then government's response to the announced closure of Ford in 2013. This announcement, which affected 1,200 jobs, prompted an additional \$12 million for diversification of the supply chain.¹¹ Taking the Ford diversification assistance as a base and calibrating it to the jobs impact of the larger closure as estimated by the PC,¹² a diversification package consistent with the Ford package and the PC's jobs impact estimates would be worth \$400 million, or additional funding of \$380 million. This puts the government's additional diversification funding of \$3 million at 0.75%, or less than 1 %) of an equivalent Ford and PC based package, or put another way, it is more than 99% inadequate based on the Ford package and the PC jobs impact estimate.

The above analysis is only concerned with diversification support, but it should be noted that on other dimensions, namely support for affected communities and workers, the government's Growth Fund also falls far short. To continue the comparison above, based on the Ford package, which was valued at \$76 million in total, as well as the PC jobs impact figures, an equivalent package in response to the entire industry's closure should be valued at over \$2.5 billion. Put another way, the total package is equivalent to only 6% of the Ford package calibrated to the entire industry's closure, where the calibration is based on the government's own jobs impact estimates. This is a striking example of how the government continues to fail to recognise the magnitude of the situation, let alone develop a policy response that is commensurate to the situation.

⁹ While also slashing funding for research agencies by almost \$150 million.

¹⁰ See Budget Paper Number 2, page 117.

¹¹ And a total package worth \$76 million, \$55 million of which was federal government funds.

¹² Which again at 40,000 jobs is viewed as a massive underestimate by the AMWU.

Far from being only the AMWU's view, this is shared by respected analysts and academics alike. For example, Professor John Spoehr of Adelaide University has said:¹³

"When you look at the magnitude of the problem and the impacts on Victoria and New South Wales and South Australia, you really need around about \$1 billion or thereabouts over the next five years to make a real difference," he said.

The AMWU has presented a detailed adjustment policy package, both as part of the PC auto review¹⁴ and as part of the Government's review into the SA and Victorian economies¹⁵. Our total assistance package called for funding of \$3.5 billion, the majority of which was off budget items and would thus not affect the government's deficit position.

An opportunity to correct a wrong

Rather than support the passage of the ATS Amendment Bill, the AMWU and others see this Bill as an opportunity to correct the policy mistake of not providing support for auto supply chain diversification.

The ATS scheme allocates 45% of funding to registered supply chain firms, which equates to \$405 million of the \$900 million slated to be cut under the governments proposed amendments. Rather than cutting this funding, the government should increase its effectiveness by ensuring it can be used to greatest effect in supporting the transition of the auto supply chain to new products and markets. However, in order for this to occur, several obstacles with the current ATS scheme design need to be overcome. In particular:

- the restrictive registration requirement for participation in the ATS should be modified to allow for a greater number of firms to access assistance under the ATS, including firms in the aftermarket sector,
- ATS R&D and investment support criteria should be expanded with requirements that R&D and investment be linked to auto component manufacturing removed to allow firms to use ATS support to diversify into new products,
- Unless new automotive manufacturing operations are established, the 55/45% MVP/supply chain split in ATS funding should be lifted post 2017 so ATS support from 2018 on is entirely allocated to supply chain firms,
- The 5% sales cap should be lifted (at least to 10%) in light of falling sales volumes for supply chain firms.

¹³ Available at: <https://au.finance.yahoo.com/news/holden-closure-impact-studied-northern-225008785.html>

¹⁴ See the AMWU Final submission at: <http://www.pc.gov.au/projects/inquiry/automotive/submissions>

¹⁵ Unfortunately, the government has not published submissions into these inquiries, but the AMWU submissions are available upon request.

These changes would see the ATS not only support automotive manufacturing through to 2018, but it would see the ATS function as an effective and well resourced auto supply chain diversification program, allowing supply chain firms the greatest chance to re-invent themselves and save the jobs they currently support.

Conclusion

The AMWU holds grave concerns for the economic future of Australia. Only a little more than one year into its term, the government has presided over the announced closure of the automotive manufacturing sector, has effectively stopped the renewable energy sector in its tracks and is refusing to secure the future of the shipbuilding sector. Australia's advanced manufacturing and heavy engineering sectors are either slated for closure or are under extreme pressure, and the government is showing no inclination but to increase these pressures through its decisions.

The ATS amendment Bill is the latest example of this ongoing trend and as a result we strongly urge you to reject this Bill. In addition, the opportunity to amend this Bill, so it will help, not hurt, the ability of supply chain firms to survive the closure of MVPs is open to you and we urge you to take it. This will not only save businesses and jobs, it will help to mitigate the continued hollowing out of our manufacturing sector. Unless this hollowing can be stopped, future generations will grow up in a poorer, simpler and more fragile economy, and wonder why our generation allowed Australia to lose its status as a rich advanced economy.