The Secretary
Standing Committee on Employment, Workplace Relations and Workforce Participation
Parliemant House
Canberra ACT 2600

10 February 2006

Dear Dr Dacre

On the 8 December last year you wrote to Mr Ernest Rodeck, Patron of the Society for Australian Industry and Employment inviting the Society to make a submission to the Committee on the basis of its experience in these matters.

Documentation containing the Society's views has been developed within its Steering Commiittee and, on behalf of the Society I am submitting that documentation for the Standing Committee's consideration. It comprises an introductory paper, documents on the idea of quotas prepared by John Siddons and Ernest Rodeck, and a further paper develpoed by Craig Milne of the Australian Productivity Council. All are members of the Society's Steering Committee. We would welcome the chance to discuss our ideas with your Committee some time during the course of its deliberations.

yours sincerely

Colin Teese
Deputy Chairman
Society for Australian Industry and Employment
Victorian Equestrian Centre
PO Box 118
Upper Beaconsfield Vic 3808

Submission Number 10

Submission to the Parliament of Australia House of Representatives Standing Committee on Employment, Workplace Relations and Workplace Participation by the Society for Australian Industry and Employment.

Introduction.
The Standing Committee's enquiry into matters associated with employment in automotive component manufacturing is both timely and important. Furthermore, in coming to any decisions it might make regarding the future of the industry, it is essential that the Committee is in a position to draw upon as much expert opinion as possible- especially from sources with access to practical, as distinct from, theoretical knowledge of the industry.

The Nature of Automobile and Parts Manufacture in Australia.
The point cannot be made too strongly that the health of automotive component manufacture in Australia is inextricably linked with that of motor vehicle manufacture. Without a motor vehicle manufacturing sector there can be no support base for businesses sustained by the manufacture of automotive parts, In theory, it would still be possible to maintain motor vehicle manufacture on the basis of importing parts, but the practical reality is that no manufacturer would have any reason to continue to building cars in Australia on that basis. Effectively, parts and motor vehicle manufacture are part of the same industry. In the same way employment in one sector of the industry is tied to the health of the other.

Employment.
Given what has been pointed out above it follows that if there is to be a gradual winding down of vehicle manufacture in Australia, then the parts industry (and employment within it) will be directly and correspondently affected. In addition, other industry sectors incidentally associated with either motor vehicle or parts manufacture will also be adversely affected. The recently announced retrenchments of those employed in businesses making automotive parts has already engaged the attention of the Standing Committee, and, presumably, has been one of the driving forces for the Committee's concern. This concern is fully justified. It arises directly from a further decline in the local content of Australian made motor vehicles. Over a long period local content in Australian manufactured motor vehicles has been in steady decline. All of this decline has affected the health and viability of Australian parts manufacturers. The reasons why are discussed at length later in this submission.
If present behaviour is any indication, it is hard to avoid the conclusion that some at least of the existing local manufacturers have as a medium term objective (five or so years) to discontinue manufacture in Australia- except possibly, for some design work. Assuming this happens, the loss of employment in the motor vehicle and parts sector would be devastating.
Moreover, the decision of one manufacturer to leave could trigger a chain reaction resulting in the total loss of employment for both the parts and motor vehicle manufacturing sector. There can be no doubt that such an outcome would have seriously harmful implications for the Australian economy.
The running down of manufacturing industry in Australia over the last twenty-five years is an established fact. The result has been an ever increasing flow of imports to replace what we once manufactured here in Australia. And, as a further consequence, our capacity to generate foreign exchange earnings from manufactured exports has been seriously curtailed.
In nowhere has this become more obvious than in motor vehicles. Whereas under a previous quota regime local industry built about 80 % of our cars; now that figure is now around 30%. This change has added billions to our trade deficit on motor vehicles' transactions annually.

It is common knowledge that our foreign indebtedness is now both worrying and persistent. In order to sustain consumption at levels which will sustain acceptable economic growth and living standards, we have been obliged to import more than we are able to pay for from export earnings. We have been borrowing off-shore to make up the difference. Thus, unlike in the past, we have been incurring debt, not for the purpose of funding new productive investment- which are capable of paying for themselves- but for mere consumption.

If we lose motor vehicle and automotive parts manufacture the inevitable consequence will be a further increase in what already seems to be an unsustainable level of foreign borrowing.

But, serious as that is, there is a further worrying consequence. It is widely recognised that for a country to maintain its status as a manufacturing nation, it must have either a motor vehicle and parts manufacturing sector, an aerospace industry, an electronics industry or a chemical industry. At the moment, having none of the others, we are hanging on by a thread to motor vehicles. If we lose it we will surrender all pretense to having an industrial economy.

It is therefore highly desirable, and certainly possible, to make something much more than we now have of our motor vehicle sector. This will not only ease the pressure on our foreign debt, but also secure the future of manufacturing industry in Australia- and allow us to rebuild and expand the manufacturing sector and open up new employment opportunities.

This is not to deny that important and urgent changes will be needed if we are to save motor vehicle and parts manufacture in Australia. And we can safely assume that the operation of market forces will not, unaided, deliver the outcomes we must have. Fortunately, it seems that the government already accepts this reality: otherwise why would it have put into place support levels for the industry of some A$ 8 billion.

It is also worth remembering that no country in the world which presently has a car manufacturing industry has done so without government help of one kind or another. Unlike, for example, mining, comparative advantage in car manufacture does not derive from any natural endowment- it is created, and with the help of government. That has been so for Europe and Japan, as much as for the newly emerging producers.

Nor is it the case- again unlike mining- that foreign investment alone can be left to generate the right kind of industry policies for car manufacture. Any kind of government help must be predicated on the right policy settings. Because the right policies are not in place, is the view of the Society that our industry, as presently structured, is unlikely to survive- even with the government's present assistance package.

The Society believes, that in any consideration of policy, it cannot be denied that the past policy of quotas was successful in securing an ongoing future for the industry. Two of the Society's most senior members recently advanced a quota policy through the media which was favourably received. Those two proposals form part of this submission.

It is also possible that further and additional measures may also be desirable and these, too, are advanced for the Committee's consideration under the heading of 'The under-performance of the Australian Automotive Industry'.

The Under-performance of the Australian Automotive Industry

Despite record levels of new vehicle sales, automotive manufacturing in Australia is in relative decline and currently contributes less than 1% to Gross Domestic Product. Given Australia's considerable historical experience of automotive manufacturing, the depth of its technical capabilities and the extensive domestic and export market opportunities available, this share should be very much larger, perhaps 3% of GDP or even more.[1]

The relative decline of Australian automotive manufacturing is demonstrated by the spectacular rise of imports over the last twenty years from a quota restricted market share of 20% to more than 70% today, a rise that has not been offset by a corresponding rise in exports.

This decline has placed Australian automotive manufacturing at grave risk, facing threats and difficulties from emerging and established competitors and from an inheritance of defects in industry structure, technical and operational culture, strategic control and past industry policy. These defects have prevented the industry from reaching its optimal size, composition, technical capability and productivity. Given that the market is no longer effectively protected, these defects have weakened the industry's ability to counter the threat posed by new entrants and will have fatal consequences for automotive manufacturing in Australia if not addressed.

The enlargement of output to its "right" size, based on an industry structure that enables optimal productivity, should be the principal object of government policy and assistance directed towards Australian automotive manufacturing. Apart from securing a future for the industry and reversing the current debilitation of the supplier base, with the loss of businesses, technical capabilities, skills and jobs that this entails, a productivity-based enlargement would be highly beneficial for Australia's present and future net exports position.

The Reasons for Under-performance

The explanation for the poor performance of the Australian industry has three parts.

Firstly, the industry does not build the range of products needed to contend for all of the major segments of the domestic market. The four Australian manufacturers restrict themselves to the production of large cars and compete for a share of the same, steadily declining, market segment. Although large car specialisation made sense in the past, when market demand was greater than it is now, the principal reason for it was economic; large cars are more profitable to build than small cars. Indeed, given the defective structure of the Australian industry, small and medium cars have been uneconomic for any of the individual firms to build, and, as a result, these models have been progressively discontinued as protection levels reduced. Because small and medium cars are no longer manufactured in Australia, and large cars account for less than 30% of domestic sales, the major share of the national market has now been conceded to imports.

---

[1] That the Australian industry is too small is illustrated by comparative output data. In 2004 the Australian automotive industry built 341,000 units. If production had matched, on a per capita basis, the output levels of the most successful automotive manufacturing nations, namely Japan, South Korea, France and Germany, Australian output would have been 1,245,000 units.

Although local manufacturers dominate the large car segment, it is not large enough to support them all. In an ideal world of productivity, the Australian large car market, at its present size, would support one globally competitive producer, not four.

The large cars built in Australia are all different and share few common components or systems. Of the four platforms built here, two are Japanese and two are locally developed. For the Australian platforms, this four way market fragmentation has harmed economies of scale, compromised design choices and extended the model change cycle, all factors which have combined to progressively erode the competitive position of the Australian designs. Export sales opportunities for the models currently produced in Australia are limited by the relatively small number of markets that favour large vehicles and the fact that the largest of these, the United States, is closed to significant Australian exports.[2] Although the next Holden Commodore, developed in Australia as a global platform design, is expected to sell as many as 400,000 annual units, most of these will be built in other GM plants. Even for the versions built in Australia, a high level of imported parts will place the local content of Holden's principal model at a lower level than at any time in the company's post war history.

Secondly, Australian customers have come to prefer imports. A progressive loss of confidence in local products has been driven along by the greater variety, value and attractiveness of imported substitutes. This shift in customer preferences is a feature commonly observed when national automotive industries are in decline. It presaged the collapse of the British automotive industry, there caused by poor quality and productivity, a militant and embittered working class, management incompetence and the often bizarre product designs contributed by its engineers. It is now a feature of the US industry as well, where an ever increasing number of Americans are discovering the innate deficiencies of the native school of automotive design and the inherent shoddiness of its manufacturing processes. Instead they opt for the products of Japanese and European firms, often produced in US plants. In contrast, wherever the national industry is in good condition, customers overwhelmingly buy local. In Japan, for example, imports make very little headway. Why would they?

In Australia, the situation is mixed. Holden and Ford, the largest and most important of the local manufacturers, have been slow to match emergent product trends from Europe and Japan. As the only local firms with the capability to fully design unique models, they provide the institutional and technological ballast of the Australian industry. Over many years, however, Australian customers have been drifting away from the products of these firms, not only because these have grown too large for their needs and pockets, but also because of a (correct) perception that imports offer better quality, design, technology and reliability. In delaying their response, these two firms have held for too long to obsolete values and technical systems, like coarse, old-fashioned engine designs, harsh four speed transmissions, primitive suspension designs and the near-enough-is-good-enough American-style build concepts that have long been rendered obsolete by Japanese and European innovations.

This delayed response has meant that the general quality of build, the standard of design integration, fit and finish, assembly, the quality of mouldings, pressed metal parts, trim, indeed the whole rendition of the product, in all of its manifest parts, has revealed a lack of carefulness and attention to detail. As a result, Australian products have been placed well below contemporary international par for much too long.

[2] Toyota and Mitsubishi build Camry and Galant (380) in the US already. GM and Ford will not permit Australian-built cars to compete against similar US-built models, produced in under-utilised plants that are already under intense pressure from superior Japanese models.

Although marked progress towards parity with the standards of Europe and Japan is evident in the latest Australian-designed products,[3]the change has been resisted and the progress slow, grudging and desultory. As the direction of the competitive threat posed was obvious decades ago, a more timely and energetic response was called for then. In the meantime, these delays have meant that a large cohort of Australian buyers has now lost confidence in local products. Assiduous efforts, underpinned by real work in design, technology and quality, together with careful brand management will now be required if the market share that has been lost is ever to be regained.

Although the two Japanese producers in Australia can be largely exempted from these criticisms, domestic sales of their local models are not very strong. The difficulty for them is different from the US-based firms, namely that the large, fairly bland, front wheel drive sedans that they build here do not have much appeal in the Australian market. Local customers choosing large cars display a strong preference for rear wheel drive models, and for good reasons. Front wheel drive is best applied to compact, low powered cars where space efficiency is important and the inherent defects of this mechanical layout are less intrusive. For large, heavy vehicles with high torque engines, front wheel drive is much less satisfactory, and the best designs in this class, judged by their ease of handling, poise, agility, steering tactility, balance and traction are always rear wheel drive.

The third factor that accounts for Australian industry underperformance is that the structure of ownership and control of the industry has inhibited the development of firms with the freedom of action needed to respond to domestic challenges and international opportunities. The essential feature of this structure is the dissonance between the interests of the global firms that operate local subsidiaries and the policies needed to establish a dynamic, large scale and secure Australian industry.

This structural problem is manifested in a number of ways. The most obvious is that the concentration on the production of large vehicles, a key obstacle for improving Australian-made volume, is not a problem for the global firms operating here at all. These firms can augment their ranges with small and medium cars, SUVs and light trucks sourced from their other plants in Europe, Asia and South Africa. Given that these firms operate with a global rather than an Australian focus, such product procurement policies are entirely rational and appropriate. From an Australian industry development standpoint, however, they are not helpful at all.

The product design processes undertaken in Australian subsidiaries are further distorted through inherent conflicts of interest between local and global management groups. The Australian commitment to large car production partly derives from the continuous local effort required to convince foreign managers that nothing in the available global product inventory of the parent company matches the main needs of the Australian market. Corporate pressures to replace unique local designs have always been present in Australia and they are resisted by pointing to supposedly

[3] The VT Commodore of 1997was a great step forward, although it retained until recently an obsolete drive train, carried over from previous models. The next Commodore, the VE, due later this year will certainly mark a further advance. The BA Falcon confirmed a major shift in direction in Ford's new Australian product, and the Ford Territory is an even stronger indication of this. The Territory is an Australian designed and built SUV that is world-competitive in its class. Innovative, very well conceived and executed. This design, although not copied from any other model, closely follows German practices in styling, build concepts, drive train, electronics, suspension design and performance. Not surprisingly, the Territory has been very successful, indicated by a higher proportion of private over fleet buyers than Falcon and strong sales into those affluent market segments that would normally avoid Australian products. The success of this model against imported equivalents proves that Australians will enthusiastically support the home product, but only if it's good enough.

unique Australian requirements. It would be surprising if the local firms would be building the same products that they do now if these historical arguments had not been needed to maintain an Australian design and build capability.

This industry structure adversely affects management competencies. It imposes sub-optimal design and operational ideologies, advances strategic doctrines developed elsewhere to meet different criteria, in different times and places and that are not the best suited to Australian needs. It contributes to management instability through the turnover of expatriate executives and the transferring out of Australian-trained talent to mitigate the threat of capture by localising interests, a perennial problem for the subsidiary firms operating here. Now, as past errors and strategic miscalculations threaten the continuation of some of the parent organisations, so the continuation of the Australian industry is also threatened.

As with any essentially colonial structure, local interests are subordinated, although not without internal conflict, to the interests of the colonising agent. This is not to say that uniquely Australian features have not entered the organisational and technical practise of the local industry, rather that these would have progressed in different, more complete and probably more fruitful directions, had an independent industry been able to successfully develop in Australia.

The Right Size For The Australian Automotive Industry

A useful rule of thumb to measure the health of automotive manufacturing in the context of a mature national industry is that its total output should be approximately equal to the size of the domestic market.

This output will be made up of both domestic and export sales, as the national firms cannot expect, in an open market, to command all of the local business. Even so, well managed local firms should be expected to perform better in their own markets than their imported competitors. This is because they have the advantages of local knowledge, their products can be more carefully optimised to domestic preferences, their sales and service organisation is likely to be better and, unless the products are unsatisfactory, they benefit from the loyalties that customers will naturally bestow upon the products of their own land.

Although a proportion of domestic buyers, in any market, will always prefer imports, the sales lost to the national industry can be offset by compensating exports into foreign markets. In an approximate sense, the sales lost at home to imports should be at least matched by an equivalent number of exports.

When the output of a national industry, as a proportion of the domestic market, starts to fall, as it has in Australia, emergent problems with competitiveness or industry structure can generally be assumed; the home industry is starting to lose its way. Similarly, when the proportion is rising, the industry will be improving, or doing well.

On the basis of this measure, total output of the Australian automotive manufacturing industry, divided between domestic sales and exports, should be about one million units per annum; about three times the current level. If achieved, this output would place the per capita production performance of this hypothetical Australian industry in the middle range of the mature automotive manufacturing nations. If the Australian industry were able to perform at the level of the best producers, output would be about four times the current level.

In terms of the economics of automotive manufacture, a domestic market of more than one million units would be better than the one we have now, but even so the Australian market is certainly large enough to support a competitive automotive industry; as indeed it has been since the 1920s. It just needs to have a structure a little different from the one it now has.

At the current level of output, about 340,000 units per annum, there is room for one or one and a half models produced with globally competitive economies of scale. If the objective of the Australian industry was to see output progressively expanded towards the one million annual units that should by now be expected of it, then there would be enough volume to build three or four distinct model families with world competitive economies of scale.

Getting productivity through scale is much easier for nations like Japan with a domestic market six times the size of Australia's. Achieving technical efficiency under these conditions is straightforward; a proliferation of firms, models, platforms and supplier networks is possible.

For Australia, while technically rational production solutions are feasible, the demands of managing innovation, achieving competitive productivity and economies of scale, all on a smaller market base, impose a narrower range of choices. In mitigation, it should be said that scale isn't everything; differentiation matters too, indeed it is essential in affluent markets. An observation on the Australian industry is that the current firms do neither scale nor differentiation particularly well.

How the Australian Car Industry can be Competitive

There are a number of ways that a better result for the Australian industry can be achieved. Given the present structure, one means would be for government to exert more pressure on the existing firms to expand exports of the models they currently produce, asking the firms to become, in effect, a world source of large cars for each of the global manufacturers represented here. Government could also encourage the firms to look upon local suppliers more favourably, while working to encourage and expand the supplier base. This might include the suggestion that more inter-firm technical co-operation on achieving component commonality would be appropriate, on engines and transmissions for example. This "global" and "integrated" solution would have the Australian industry specialise in large, probably rear wheel drive, models. It is a direction for the industry that has already been advocated, but given the nature of the existing firms, their foreign connections, divergent strategies, histories and priorities, it is fair to say that the prospects of permanently achieving any of this, even with grants and subsidies on offer, is fairly remote.

Many other industry structures are possible, however. As an example, a more strategically promising model for Australia would be to facilitate a steady enlargement and restructuring of the domestic industry into a form that would build a wider and more diverse range of vehicle models and sizes. While this industry could still comprise a number of firms, or "prime contractors", to use an aerospace term, they would share between themselves three or four different sized vehicle platforms.[4]

[4] A platform is a set of mechanical and base structure parts. These parts do not constitute a complete car in themselves but the set of key under body pressings, drive train and suspension components that represent the most expensive and scale intensive parts of the vehicle to develop. Quite different cars can be built off this set of parts. For example Ford Focus, Mazda 3 and Volvo S40 all share the same platform. the Holden (Opel) Vectra shares with Saab 9-3 and Cadillac BLS, and the VW Golf shares with Skoda Octavia, Seat Leon and Audi A3 and TT.

These platforms could be developed either by the individual firms, obtained under licenses, developed by industry design bureaus or contracted through consultancy arrangements. Platforms could be embedded with a few industry-agreed technical characteristics and with inter-firm exchanges, individual firms would avoid the economic penalties incurred by having to concentrate on low margin small vehicles or slow selling mid-size vehicles.

As the Australian industry is currently organised, no individual firm can prepare a convincing business case for a small or medium platform vehicle, but with industry-wide platform collaboration, possibly within a mixed-marque manufacturing model, each firm could. Thus firms could offer a wider range of locally built vehicles, as they once did, and Australia would have a much larger and more productive car industry, better able to stand up against international competitors. Platform sharing is not the same as model sharing, a policy that failed under the Button Plan, because it permits individual firms to configure products to their own design values and corporate styles.

Platform sharing enables economic volumes to be built off the most expensive, but unseen, parts of the vehicle. Because these parts are shared across the whole industry, they can justify world-competitive levels of engineering development, in their level of innovation, technical design and the capital intensity of the manufacturing solutions applied to bring them to fruition. Such an industry model would complete the virtuous circle of reducing costs, improving design, technology and quality while enlarging output. It would provide a basis for the Australian industry to compete through productivity, the Philosopher’s Stone that has, for every successful firm in the history of the industry, provided the means of turning the base metals of automotive manufacture into gold.

A variation on this structure would be to facilitate a shift from an industry formed around the four key firms, operating with quasi-vertical integration and dominant party relational contracting with suppliers, towards an industry based on horizontally connected component and system providers. This model would build on a number of supplier firms concentrating on the various automotive systems; engines, transmissions, electronics, HVACs, braking systems, steering and suspension components, with other firms pressing metal, welding body structures and completing assembly work for different brands.

A structure like this would enable a proliferation of brands, sizes and models, with a high level of differentiation, thus maximising the prospects of increasing the domestic market share by driving off imports. The brand management companies would undertake, or commission, design and product development processes, marketing and perhaps distribution. These firms would deal with a network of contractors and suppliers on a more equalitarian and predictable basis than that which currently operates. An industry configuration something like this could well have emerged from the structure mooted in Australia prior to WW2, under the auspices of the first Menzies government. This proposed the establishment of an Australian engine plant, which, given the pre-war form of industry organisation with various body building companies producing a range of styles, supported by the gradual accretion of other component suppliers, could have facilitated a diverse range of Australian brands.

By concentrating on flexibility, modularity and the sharing of optimised systems, an Australian industry organised on these principles could not only offer a much wider and more differentiated range of models than it does now, it could do so at a lower cost of production and with better design, engineering, technology and quality than is currently achieved. This would provide a realistic basis for the Australian industry to win back the domestic market, export as it saw fit, and in time become a global industry participant on its own terms, as a sovereign player, rather than as a subject.

In sum, an arrangement like this would constitute an Australian productivity model for automotive manufacture, flatter, more collaborative, responsive, open and more democratic, as distinct from the American and Japanese models of the type that has historically, and often imperfectly, been applied in Australia.

This is not an exhaustive list of the better alternatives that exist for the future of Australian automotive manufacturing; there are many others. It does, however, point to the inadequacies of the structure currently in place and the need for reform.

Why the Current Industry Structure Is Unsatisfactory

Although there are any number of potential arrangements that would answer the needs of productivity, even with the continuation of multiple firms, it is fair to say that the current industry structure is not one of them.

This is because the current structure inhibits the inter-firm rationalisation needed within Australia to gain competitive economies of scale, provide a viable basis for developing new models, extend component commonality and create a more secure investment environment for suppliers. At present, each of the four firms looks to an offshore corporate resource base for technical, organisational and product support, rather than towards a general industry resource within Australia. While each firm has a finger in the Australian pie, the rest of the body, the heart and the head are all elsewhere. The presence of these firms has always been obtrusive enough to prevent the emergence of domestic alternatives, but it does not answer to Australian needs. This is a structure that lacks any convincing incentive to develop the local industry. In fact, because the parent organisations of the four Australian firms are now looking elsewhere, and working to their own differing global strategies, the real incentives are to progressively wind Australian operations down.

That the four Australian firms are parts of trans-national entities that are mostly looking to global production solutions is unsurprising. As far as Australian operations are concerned, with protection gone and emergent opportunities elsewhere, their various attentions are directed towards China, India, Korea and, to a lesser extent, Eastern Europe, Russia, Thailand and Latin America. As a result, all of the Australian operations are now living on borrowed time.

The global production solution has a great attractiveness for any manufacturing business; the ability to build where costs are lowest and sell everywhere else, without impediment, is very appealing. Shifting goods and services about the world provides opportunities to operate transfer pricing schemes. Locating plants in the developing world can achieve deep cost reductions, and if prosperity is rising, the opportunities that flow from proximity to growing markets. There are the benefits of favourable investment incentives; tax holidays, lax environmental controls, low regulatory loads and access to cheap labour offered by governments as an inducement to the establishment of automotive industries on their territories. As a high labour cost, highly taxed, over-regulated, mature market of medium size, Australia does not currently figure in any of these plans, except to the extent that the capable product design skills that have been developed here over many decades, can be used to jump start the industry in other places.

Despite all of this, the global model is not necessarily the “one best way” to operate the automotive manufacturing business. There are risks attached to transferring operations to China, for example. These include the problems of corruption, the theft of intellectual property, the uncertainties of operating in an institutional environment that does not offer the certainties or level of integrity expected in most Western countries. More than that, the automotive manufacturing business is capital intensive, diminishing, to a point, the problem of labour costs. It demands a high level of skill and knowledge, particularly in product design. For emergent automotive nations several model cycles, stretching over twenty years or more, are usually required before products become competitive, by which time the initial cost advantages may well have been dissipated. These factors work in favour of producers located in the developed countries, where the theory and practice of automotive design and manufacture has been long established.

Thus there are still good prospects for an Australian automotive industry, but If it is to achieve long term viability, increased volumes are needed. This means that it must either improve domestic market penetration, by building new small and medium models, or it must substantially improve exports of the models it currently produces. The managers of the global firms, for very good reasons, given their alternative strategic commitments, are not particularly interested in doing either. Therefore, to secure the viability of automotive manufacture, Australia needs to have an industry development strategy suited to its national interests rather than the interests of the global firms. They should be left to look after themselves.

Time For An Australian Firm

The key element of a strategy to recover the Australian automotive industry should be the facilitation of a significant local firm in place of one or more of the current entities. Realistically, the emergence of this firm can only be based on the acquisition by Australian investors of one or more of the existing firms. This investment would need to be supported by an indication from government that the continuance of automotive manufacturing was deemed to be important and would be supported with appropriate policy and transitional assistance.

An emergent local firm, based on such an acquisition, would catalyse and eventually transform the dynamics of industry structure, supplier relationships, operational style, brand management and the Australian product design culture into a form more conducive to achieving the output potential of the whole industry. The existence of this firm would place consequent pressure on the remaining foreign firms to adjust their dealings with Australian suppliers, while fostering a more independent role for their local managers.

The local firm could aspire to the leading role in the Australian industry for a number of reasons. It would be advantaged by an ability to optimise Australian product and production strategy, without the need to accommodate the political, technical and organisational factions that wrack the global firms. It could develop different and better relationships with suppliers. It could attempt foreign markets on merit and commercial prospect alone, without need of the permission of external principals, hedging among competing interests and conflicting strategies. Above all, it would succeed because Australians would want it to be so. Over time, the remaining foreign firms might take on the nature that the foreign firms operating in Germany and Japan have taken on; they would adapt to the national industry practices rather than seek to determine them.

The successful Australian car company could serve as an inspiration to other industrial venturers, the investors and entrepreneurs in different industries, who could take confidence from the fact that a people capable enough to organise themselves in a business as difficult and challenging as automotive manufacture, and succeed, could take on anything. It could stimulate a much needed renaissance in Australian manufacturing, an entry to a new productive era based on confidence, capability and competitiveness, rather than tariff protection.

The presence of wholly foreign-owned automotive manufacturing firms in Australia is not the problem. It is the fact that they are *all* foreign owned that is the problem. Some foreign firms can be highly beneficial. They can provide competitive discipline and a conduit for challenging product and process innovations to test and pressure the local firms. They can force Australian firms to match their design, quality and productivity standards to an exemplar of global manufacturing, operating within their own domestic market.

Of the current firms, the most useful in this sense is Toyota. This company is a major exporter, it facilitates the transfer of knowledge, technology and expertise into the Australian automotive industry, particularly in terms of managing supplier relations. It is the world's most efficient and profitable car company, evidenced by the fact that Toyota profits last year were equal to two thirds of the total capital valuation of the entire global business of General Motors.

The other companies contribute much less. All are in difficulty, for a number of different reasons. The position of General Motors is particularly parlous. Although well endowed with cash reserves for the moment, the company is incurring heavy losses and has a stock price at its lowest point for over twenty years. Industry perceptions are that the current management, having grown within the jaded structure that contributed to placing the company in its present state, does not have the ability to lead it back. The position of Ford is not much better.

It is now in Australia's interests that one or more of Holden, Ford or Mitsubishi be encouraged to sell their local assets to Australian investors. Any of these firms could provide a viable basis for a revitalised industry.

Australian Productivity Council

Craig Milne
February 2006

The Imperative of Balancing Imports with exports. 28.11.2005

Australia now has the largest foreign debt in the industrial world as a percentage of gross domestic product (GDP). The following figures make this abundantly clear.

Country	**Denmark**	**Finland**	**Norway**	**Sweden**	**UK**	**France**	**Germany**
Population mill'n	5.4	5.2	4.5	8.9	59	60	83
Life expect. yrs	77	78	79	80	78	79	78
GDP $US billion	168	141	175	247	1606	1620	2256
Curr.Acc./GDP%	*2.8*	*5.5*	*12.8*	*6.6*	*-2.1*	*0.8*	*2.2*
Unemployment	6.0	8.9	4.6	6.0	4.9	9.5	9.2

Country	**Spain**	**Japan**	**USA**	**Canada**	**Mexico**	**China**	**Australia**
Population mill'n	41	128	294	32	103	1304	20
Life expect. yrs	79		77	79	73	71	80
GDP $US billion	903	3518	10626	977	929	6354	556
Curr.Acc./GDP%	*-2.8*	*3.2*	*-4.9*	*2.1*	*-1.5*	*2.1*	*-6.0*
Unemployment	11.2	5.1	5.9	7.5			5.8

Figures from L'état du monde, 2005

Australia now owes over 440 billion to other countries. We must stop borrowing before we go broke , as Brazil and Argentina did in 2001 with disastrous consequences for their country.

Our foreign debt increased by 56 billion dollars in the year to June 2005. The biggest loss ever! We must match imports with exports and switch that amount of goods and services from imports to local origin (or drop our standard of living). I believe, most must come from manufacturing! Wages are such an important part of the total manufacturing cost, that we cannot compete with our minimum wage of $ 12.75 per hour, against Chinese wages of 50 to 75 cents per hour for process workers. Also, if wages are low, overhead is low.

We simply cannot match Chinese costs. Instead, we must do what the OECD countries have been doing all along: controlling imports by quantity!

Article 12 of the General Agreement on Tariffs and Trade says" …. in order to safeguard its external financial position and its balance of payments [a country] may restrict the quantity or value of merchandise permitted to be imported". The USA, perhaps the most vocal country on "Free Trade" has absolute quotas and Tariff-Rate quotas on an incredible range of agricultural and manufactured products. On the 7th of November 2005 Washington announced "China has agreed to US imports curbs on 34 textile and clothing categories through the end of 2008, …, a US industry official said.". Australia is facing the possible collapse of its currency and must introduce quotas immediately.

The advantage of quotas over tariffs.

1. Quotas do not directly increase the cost of goods to the public.

2. Local Car manufacturers have at least two local suppliers to maintain competition. This continue under quotas and keep prices under control. We would, of course, not apply quotas where there was no local production
2. Car manufacture in Australia will disappear unless quotas are introduced.. If our car industry disappears, it will not be the car manufacturers that are to blame, but the stupidity of our Government.
3. Products from China will always be somewhat less expensive than the locally produced product. Wages average about one third of our cost of production, so we have no hope of competing with China, irrespective of our productivity.
4. Tariffs are really a tax on goods and as we already have GST, a further tax on imported goods is not acceptable politically. Quotas are by far a better way of controlling imports than tariffs. Also, because of the large difference in wage rates, jumping a tariff barrier would be petty cash for the Chinese.
5. Payroll tax is the biggest single cost Australian industry has to carry, that is not common to other countries.

Why is the Car Industry in Australia in danger of disappearing?

Car makers, globally, are currently facing an acute crisis of over supply.
The industry, over two decades, has operated under a “double cost squeeze”. Volume kept increasing and the industry has felt justified in demanding its suppliers reduce prices on average 4 to 6 % a year. The component industry has been able to accept this “cost down philosophy”. They have invested in expensive and more efficient machinery. The computer has been a magnificent cost saver, as have other more innovative means of production.

For a hundred years the car industry has led manufacturing innovation around the world. Many of the advances in engineering were developed as motor car patents. The inventions from gear change to today’s highly reliable computer controls, have been pioneered by the auto industry,

In addition to the “cost down pressure”, the industry has been subjected to the “cost up” pressure of wage increases of about 4 to 5% each year. This two way squeeze has now squeezed the lemon dry. The only solution the industry has open to it, is to move to cheaper wage countries. The only thing stopping this movement becoming an avalanche, is import quotas, as applied in every industrial country in the world.- except Australia.

If we lose the car industry, this would cut us off from a vital part of future invention development. This has been recognised in the past by Australian governments and many have stated that, whatever happens, they want to keep car manufacture in this Country. It seems that crunch time is nearing, unless we act now!

Employment is at risk. The official unemployment figure is about 6%. It’s been estimated that it is closer to 20%. The move to free trade has decimated industry here. The dedication of our forebears enabled us to build a sound industrial base in Australia. In 1975 industry employed 26% of the work force, it has now dropped to 11%.

Manufacturing develops the skills of our young and the managerial capability of our older people. When the government is telling us we can live as a nation of shop keepers, it is very hard for industry leaders, not to take the government's advice, and turn to importing as the easy way out.

John R. Siddons
Former Federal Senator and
CEO of Siddons Ramset Ltd.
Hon. Chairman
Society for Australian Industry and Employment Inc.

Text 977 words.

LIVING WITHIN OUR MEANS 30.11.05
and turning Australia around.

Our Prime Minister says Australia can't go broke because our governments owe little money. If persons or businesses owe the money, that is their affair! He is skating on thin ice. Is he right?

In theory, yes. In practice, no. Here is the reason: Half the foreign debt is owed by our banks on short term revolving loans. The loans are denominated in foreign currency and nearly all fall due within six months. No Australian government could allow our banks to go broke. Our Credit Standing would be shot for years to come!

Something like this happened to Argentina and Brazil in 2001, to Russia in 1999, to Thailand and Indonesia in 1997, to Mexico in 1982 and to many other Countries before that. It usually means that something unexpected and damaging happens to a Country. Then, the local currency loses its value, most people lose their savings and many their jobs. Years of depression follow.

If that concerns you, please read on. Former Chief Executive of the Westpac Bank: Mr. Bob White AO. gave the Key Note address at the "National Summit on Foreign Debt" in 1990. He said:

"I have been alarmed by the myth and misinformation about Australia's foreign debt problem …That deficit is in foreign dollars, not Australian dollars. If you want to drink French wine, drive BMW's or eat Californian oranges, you might have the Australian dollars to pay for it, but someone else has to find the foreign dollars to pay the French, German or American producers.

There are only three sources from which these foreign dollars can be found. They can be borrowed- we can sell a bit more of the farm- or we can increase our foreign dollar earnings. It is painfully obvious that endless borrowing and endless sales of bits of the farm will ultimately destroy us. …"

Since then our foreign debt has increased from 40% to 50% of our Gross Domestic Product.. Yet, no disaster has struck us. Was Bob White wrong? Of course not. What he said is just plain common sense. It is a disaster waiting to happen.

I remember our treasurer driving a "Foreign Debt Truck" around the country before the 1996 elections. He was evidently concerned. The debt has risen since but the treasurer no longer seems to worry. Why?

We owe 440 billion Australian dollars. A meaningless figure to me. Let us look at it in terms of an average Australian family of Father, Mother and two children. How much do they owe? We have 20 million people or 5 million such groups of four. The answer is 440 billion divided by 5 million, or $ 88,000 for each family of 4! At 5% interest that is $ 85 per week.

What can we do to correct it? Here is the good news: if we live within our means from here on, we will gradually reduce our risk, due to the inflation of the money owing.

Why should a richly endowed Country like Australia to borrow? Our mineral and food sales are booming. What are we doing wrong? We love imported goods and our government does not restrict us. It is like giving the kids open slather in the sweet shop! Other Industrialised Countries control imports and we don't.

"Fortress Europe" has strict quota controls of imports. The United States not only control imports by quota, but control the imports from each foreign country separately. (Import quotas are sanctioned. Article XII, GATT, adopted by WTO).

How did this come about? Some twenty years ago when "Economic Rationalism" was new and exciting, our Government dropped all quota controls. We led the "Cairns Group on Agriculture" and wanted to give the example. We probably expected, the European manufactures to reciprocate and let in our food. However, the plan failed and many of our current problems followed. The European Common Agricultural Policy (CAP) is continuing with little change. We should now acknowledge the failure and re-introduce import quotas. SURELY, IT IS TIME!

That would not affect the bi-lateral trade agreements we are planning. We just have to ensure that our imports exceed our exports. Study the new two-way agreement between Chile and China. Quotas? No, better than that, Chile has "152 products excluded to protect domestic industries!"

Need I say more? We just have to re-introduce quotas or go broke. Let us copy the US system!

Shortage of workers? We are only short of skilled workers, mainly in the trades that were threatened by imports. Lots of unskilled workers who are "casual" or part-time and are willing to work longer hours. Also, the unemployed and those that have given up looking for work.

Will costs increase with quotas due to more expensive local labour? There are two answers: firstly, costs have no meaning except in relation to income. If we produce more at home, more people will be employed and earn the money to buy the goods they produce locally. So, while costs will go up, so will income. Secondly, if our foreign debt does not increase further, the Australian dollar will be more valuable internationally and will buy more imports for the same amount of our currency. In any case, we can't keep increasing our foreign debt even further, without dangerously mortgaging our future.

"Economic Rationalism and the Global Village" may have seemed a smart idea at the time, but that it is but a far-away dream! Meanwhile, we still have to live with our local currency to avoid disaster. "Cash is king" and, as a Country, we must stop spending more than we are earning. This means we must not import more than we export. We can do this without dropping our standard of living, by using the present slack in our economy. But if there is a slight drop for a while, surely, that is better than a financial Tsunami.

Ernest Rodeck AM
Patron, Society for Australian Industry and Employment,
Former National President, Australian Institute of Management and CEO Fler Co,Ltd.

Text: 976 words.