



A M W U

**Submission to the Australian Government
Economic Review of Victoria**

January 2014

Executive Summary

The AMWU views the currently proposed policy response to the closure of Holden and Ford manufacturing in Australia as inadequate.

Analysis by the National Institute for Economic and Industrial Research indicates 24,000 Victorian jobs will be lost in one year as a result of the Holden Closure, as well as \$2.7 billion in Gross State Product.

In order to minimise job losses and other impacts resulting from these closures and to maximise the chances of avoiding the closure of Toyota and with it the entire Australian automotive industry, automotive supply chain firms need to diversify their businesses, access new markets and improve productivity. Given the pressure these firms have been under in recent years, and the increased pressure closure announcements will inevitably bring, strong Government support for this process is needed.

In order to ensure the best prospects for affected workers, skills, training and job advice support programs will need to be expanded in depth and duration. In addition, flexibility by employers regarding worker time off to engage in skills and training programs needs to be secured.

In order to minimise the macroeconomic flow on impacts from these closures, and localised impacts on already vulnerable communities, strong and targeted support for affected communities is needed. This support should include urban renewal projects as well as support for business investment and job creation.

In order to mitigate the impacts of closures on the broader Victorian economy, broader macroeconomic stimulus is required. This support should be delivered through the bringing forward of defence (shipbuilding) and infrastructure projects, with a strong focus on shipbuilding as this industry offers the best match to automotive manufacturing in terms of skills and inputs needed and Australia's shipbuilding industry is already under threat from a collapse in projects over the next few years.

Yet the \$100 million fund proposed by the Government is notionally intended to address all almost all of these needs. Once recently announced cuts to support for the automotive industry supply chain (not including support to go to the major car producers) as well as MYEFO cuts to manufacturing programs are taken into account, the Government's "Securing Australia's Manufacturing Future" policy actually entails a cut of \$211 million in support for manufacturing.

The AMWU presents a set of policy options which cover each aspect of a response to closures, are complimentary and are significant enough to mitigate the worst impacts of closure.

This package includes; expanded training for workers, support for affected communities (both for urban renewal projects, business financial support and for local job creation), comprehensive support for supply chain diversification and investment (including financing support and advice for businesses as they diversify), as well as stimulus support through improved government procurement rules and defence and infrastructure investment.

Failure by the Government to embrace a much more comprehensive and ambitious manufacturing support package will lead to the collapse of the entire automotive manufacturing industry, mass unemployment and massive economic and social flow on effects across the entire country.

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. In addition, our Victorian membership numbers 33,000.

This review has been prompted by the decision of GM Holden (GMH) to cease manufacturing in Australia in 2017.

This decision will add to the economic dislocation already expected from the exit of Ford from manufacturing in 2016. The impacts on the Victorian economy from these closures, and in particular on the Victorian manufacturing industry, cannot easily be overstated. Automotive manufacturing represents the core of the Victorian manufacturing sector, providing the technological, skills and economic centre of gravity for the whole sector. In addition, passenger vehicles are Victoria's second largest international goods export, worth \$1.3 billion in 2012.

According to the Victorian Government¹, the Victorian manufacturing sector comprises over 25,000 firms, employs 295,000 workers, generated \$30.8 billion in value added and \$15.3 billion in exports and contributes \$1.5 billion to R&D annually. Victoria is the home of 25 per cent of the nation's manufacturing capacity.

However, the Victorian manufacturing sector, like manufacturing across the country, has been under extreme pressure in recent years. This pressure has largely come from the high Australian dollar driven by the mining boom, as well as increased international competition and high energy costs. In addition, structural impediments to innovation, deployment of new technologies and investment have also played their part. In 1990, 20 per cent of Victoria's wages were paid to manufacturing employees. In 2012, this stood at 9 per cent after a steady decline. Over the same period, manufacturing's share of Gross State Product has fallen from 14 to 8 per cent.

Addressing this longer term decline in manufacturing is beyond the capability and scope of the current review, especially given its rushed timing. However, this decline does urgently need to be addressed (and was the subject of the former government's Prime Minister's Manufacturing Taskforce), especially in light of the GMH and Ford closure decisions. In order for workers affected by the GMH (and Ford) decision to find viable jobs which take advantage of their skills, manufacturing needs to grow, not only in value added terms but in employment terms. In order for

¹ Victorian Government manufacturing policy statement: A More Competitive Manufacturing Industry. Available at: http://www.business.vic.gov.au/data/assets/pdf_file/0012/20712/prtl-manu-defc-A-more-competitive-manufacturing-industry.pdf

the Victorian economy to absorb the blow of GMH's and Ford's closure, and to sustain a manufacturing capacity, firms need to invest, improve productivity and grow.

The AMWU will present a plan for the broader manufacturing sector, endorsed by workers and drawing on the past work of the Prime Minister's Manufacturing Taskforce (PMMT), to the Australian Parliament in the coming months. The current submission focuses on the immediate task at hand, namely laying the ground work for a policy response to the GMH decision.

The purpose of this review should be three fold; to ensure the best outcome for workers affected by the GMH decision, to ensure the effects of the GMH decision on communities are mitigated and to ensure the broader Victorian economy and in particular the manufacturing sector are supported to create jobs for affected workers, avoid a local recession and avoid the further hollowing out and narrowing of the Victorian economy.

These goals are inter-related and will require a raft of complimentary policies and significant investment from the Federal Government. It is the strong view of the AMWU that a single fund cannot be designed to solve all the problems that need addressing. This submission provides an outline of such a broader policy response as well as providing the AMWU's views on currently proposed policies.

Where we are and how we got here

It is worth considering the process which has lead to the current state of affairs and the current review, in addition to how this process has lead to a situation where the current review is extremely limited in its ability to perform its allotted task.

After pledging to cut \$500 million from the Automotive Transformation Scheme (ATS) prior to the 2013 election, the Government commissioned a Productivity Commission (PC) Review into the automotive industry and its assistance arrangements, to be completed by March 2014. Only after this review was complete would the Government make clear its intentions regarding future levels of support to the industry.

The AMWU and others repeatedly warned that this funding cut and the timing of this review would not provide the support or certainty required by GMH to secure their manufacturing future in Australia, as a decision about future investments required to continue manufacturing was due to be taken in December 2013 by General Motors, GMH's parent company. These warnings were dismissed by the Government and the AMWU as well as the Australian people were reassured that the timing of the PC review would not prohibit timely policy development regarding future automotive assistance arrangements.

After an unprecedented display in Parliament on 10 December, where the Treasurer and Acting Prime Minister demanded GMH "immediately" announce a decision about their manufacturing future, a decision the timing of the Government's own PC review required to be delayed until at least April 2014, GMH announced on 11 December they would cease manufacturing in Australia in 2017.

That announcement prompted the Government to announce on 18 December 2013 a \$100 million fund in response to GMH's manufacturing closure, as well as this and a South Australian economic review which are to report to the Government in February 2014. That means that the review into both the South Australian and Victorian economies (not just the impact of GMH's closure) span from 18 December to (at the latest) 28 February, a span of 72 days which includes the Christmas and New Years holidays and traditional Australian Public Service shutdown period.

Having many years of experience with industry and economic reviews, both in response to events and as part of reform processes, the AMWU is extremely doubtful that the current review has enough time to give justice to the task at hand. Proper consultations with industry and workers require months not days and a proper development and analysis of policy options also requires months not days.

As a result, the AMWU fears that these reviews will not be comprehensive, will fail to take relevant stakeholder views on board (especially since stakeholders have not been allotted enough time to fully formulate and provide views) and will be approached as a political rather than a policy processes by the Government.

The AMWU has full confidence that the Industry Minister will do everything in his power to avoid these pitfalls, but given the increasingly political nature of these issues, the obvious divisions in Federal Cabinet regarding the importance of Australian manufacturing, the Government's record to date (especially its handling of GMH) and the rushed nature of the reviews, we fear that it will be beyond the Minister's power to avoid these pitfalls.

Notwithstanding these concerns, the AMWU will engage both reviews positively in order to offer our views on the challenges and opportunities ahead for the South Australian and Victorian economies, as well as the workers affected by the GMH decision.

Given the time constraints outlined above, the current review should embrace and seek to build on (not discard and dismantle as has been the case until now) the former Government's comprehensive review into Australia's manufacturing sector; the PMMT.

This review was established in October 2011 and provided a final report to Government on 16 August 2012. The taskforce consisted of industry and union leaders and drew on considerable expertise from academics, the CSIRO, state and local governments and a number of Federal Government agencies. It's in depth work culminated in the report by the non-government members of the taskforce to Government, *Smarter Manufacturing for a Smarter Australia*², which included 41 recommendations on how to support and grow a strong manufacturing sector.

The AMWU urges the Government and the current review to carefully review these recommendations, support their implementation and build on them, especially since they spoke to the very aims this Government professes to be working towards with respect to an innovative, high tech, productive manufacturing sector.

² Available at:

<http://www.innovation.gov.au/industry/manufacturing/Taskforce/Documents/SmarterManufacturing.pdf>

The issue of Toyota

While the future manufacturing operations of Ford and GMH have been decided, the future operations of Toyota are still in doubt and are extremely relevant to this review.

The AMWU urges the Government to do what is necessary to secure the future presence of Toyota as Australia's last remaining automotive manufacturer. Failure to do this will result in Toyota's decision to also exit Australian manufacturing. This would prompt the complete collapse of the entire automotive manufacturing industry, including the supply chain in Australia. This means the loss of 50,000 direct jobs, many thousands of related jobs, the loss of over \$5 billion in industry value added annually, the loss of the largest source of manufacturing research and development in Australia worth almost \$700 million annually and it would further devastate the national and in particular the Victorian economy.

Upon the announcement by GMH of their decision to cease manufacturing in 2017, Toyota immediately issued a press release stating the decision would create "unprecedented pressure on the local supplier network and our ability to build cars in Australia".³

In order for Toyota to maintain their manufacturing presence in Australia, the same issues which the Government failed to address in GMH's case need to be addressed for Toyota.

Paramount is the currently legislated sharp fall in Government support under the ATS for the industry, with support steadily declining to zero by 2020. As has been outlined repeatedly by the AMWU and others, no automotive manufacturing industry operates without Government support, anywhere in the world. Yet that is exactly what this Government has been asking Australia's automotive industry to do by refusing to address the legislated end of assistance. The current Government's refusal to address and rectify this end of assistance and the insistence on cutting an additional \$500 million from this assistance, is not compatible with Toyota continuing to manufacture in Australia and needs to be addressed as a matter of urgency.

In addition, Ford will still be able to draw on ATS support till 2016 and GMH till 2017, limiting the Government's ability to re-direct funding away from Ford and GMH to Toyota under the ATS to secure Toyota's presence. Coupled with the planned \$500 million cut in assistance, and the increased need for support of the automotive supply chain due to Ford and GMH's planned exits, this implies that additional funds will need to be found to secure the future of Toyota.

If these funds are not found and Toyota's future is not secured, the AMWU fears that a similar process will be required in 6 months time in response to the announcement that Toyota will cease manufacturing in Australia, bringing an end to the Australian automotive manufacturing industry.

³ Toyota press release, available at:

https://www.pressroom.com.au/press_release_detail.asp?clientID=2&prID=5193&navSectionID=2

Impact of GMH closure

In order to assess the best policy response(s) to the GMH decision, it is first necessary to gauge the likely magnitude of the impacts of this decision in the absence of policy intervention.

The most detailed and rigorous work done on this to date was performed by the National Institute of Economic and Industrial Research (NIEIR), commissioned by the University of Adelaide's Australian Workplace Innovation and Social Research Centre (WISer) in support of their submission to the PC automotive industry review. The NIEIR paper; *The impact on the Australian economy of the closure of GMH production facilities in Australia*,⁴ uses a detailed dynamic input-output regional trade flow model to assess the impact of GMH closing manufacturing operations, compared to a scenario where operations continue based on current volumes.

This work is particularly important not only because it is one of the few explicit analyses of the impacts of GMH's closure and it is extremely recent (released in December 2013) but it takes a national perspective while also being regionally detailed enough to assess impacts in given states and even local government areas (although only select local area results are reported).

The table below summarises the results of this paper.

Table 1: NIEIR estimates of GMH closure

Impact of GMH closure 4 years after closure			
State	Auto industry employment impact	Total employment impact	Annual GSP impact (2011 \$ m)
NSW	1,614	15,280	2,100
VIC	8,264	23,850	2,704
QLD	919	8,284	980
SA	3,753	11,688	1,456
WA	743	3,967	608
Other	116	2,288	320
Total	15,409	65,357	8,168

Several things are worth noting in this table.

States not directly affected by the GMH closure are nonetheless impacted by the closure, both because they are home to GMH suppliers impacted and because the negative income impact of the closure is transferred across the whole economy and to every state. For these reasons, over 45 per cent of the total employment impact and almost 50 per cent of the GSP impact is felt in non GMH states (outside of SA and VIC).

The results assume that unemployed workers are able to access social security payments, which mitigate the second round income impacts of closure to some degree. However, even with these payments, overall household consumption falls by an annual \$5.2 billion 4 years after closure. In addition, household disposable income is expected to be \$6 billion lower as a result of closure.

⁴ Available at: <http://www.adelaide.edu.au/wiser/docs/GMClosureNIEIR.pdf>

The consumption, income and output estimates are denominated in 2011 dollars. This means that in nominal terms, when the impacts will actually be felt, the impacts will be significantly higher. For example, by 2020, assuming an average inflation rate of 2.5 per cent, every 2011 dollar will be worth 1.28 dollars.

Finally, as the NIEIR paper points out, the base non-closure case assumes current production by GMH. If it were to be the case that the Australian dollar significantly depreciated over the period or some other economic fundamental changed that caused GMH production to increase above current levels, the impacts of closure increase. It is not unlikely that the dollar will moderate in coming years as commodity prices themselves moderate and US monetary policy tightens, so these estimates are likely to be biased on the negative side, or put more simply, they are likely to underestimate the costs of closure.

In terms of the impact of closure on Victoria, the NIEIR analysis makes it clear that these are severe.

The GSP impact estimated above equates to almost 1 per cent of current Victorian GSP, while the hit to household consumption equates to over 2.5 per cent of current Victorian household consumption. This fall in household consumption is significantly greater than the average annual increase in consumption since 1990.

However, the most important impacts for the review to consider, and focus policy on, are those on employment.

Almost 24,000 jobs are estimated to be lost in the state as a result of the GMH closure alone. Over 8,200 of these jobs are expected to be in the automotive manufacturing sector, but a further 15,500 jobs in various industries are also expected to be lost due to the broader economic flow-on effects of GMH's closure.

Currently, the Victorian unemployment rate is 6.2 per cent, well above the national rate of 5.8 per cent. If we impose the expected GMH related jobs lost (of 23,850 jobs) on the current Victorian labour market, we would see the unemployment rate spike to 7 per cent. This is an unemployment rate not seen in Victoria since August 1999. In addition, it should be remembered that this does not include the impacts of the Ford closure, nor a potential Toyota closure, nor other job loss events such as a potential closure of SPC Ardmona (1,000 direct jobs, 2,700 indirect jobs) or closure of the Point Henry Aluminium smelter (600 direct jobs).

To put this employment loss in even sharper context, it is greater than the average annual number of new jobs created in Victoria over the last 3 years (23,000 jobs per year). That means that the rate of job creation needs to be more than doubled compared to its rate over the last 3 years in order to absorb workers who will lose their jobs as a result of the GMH closure. Again, this does not include the impact of the Ford closure, a potential Toyota closure or other potential job loss events. This is not an easy task at the best of times and it is not possible without a more fundamental and ambitious policy response than that currently proposed.

The Government's policy response

The \$100 million Fund

As the core of its response to the announcement by GMH to close manufacturing operations, the Government announced the establishment of a \$100 million fund (the Fund) with \$60 million being contributed by the Commonwealth and the rest by the Victorian and South Australian Governments and by GMH.

Before considering the aims and operation of the Fund, it is worth considering how this fund compares to similar funds established in response to similar events in terms of the quantum of support. In addition, there are specific circumstances resulting from GMH's decision that are also worth considering.

The South Australian Government has expressed the view that the Fund is inadequate, flagging an allocation of \$50 million of South Australian Government money to a policy response to GMH's withdrawal, far greater than the \$12 million contribution to the Fund expected by the Federal Government. The Victorian Government has called the Fund a "good first step", while not elaborating on what further steps would be necessary.

In terms of comparison with the past, most recently, the then Federal Government announced a series of measures in response to the closure of Ford's manufacturing operations in June 2013. This response consisted of support for investment in the communities directly impacted (\$49 million), (additional) support for supply chain diversification through the Automotive New Markets Program (\$12 million) and (additional) support for worker training and employment support (\$15 million). This total package came to \$76 million, with a Federal Government contribution of \$55 million. It was in response to an announcement that affected 1,200 direct (Ford) jobs, as well as indirect supplier and other jobs.

The closure of GMH is expected to impact 2,900 direct GMH jobs and as the research presented above makes clear, many more indirectly.

If the Federal Government wanted to implement a fund that was consistent with the former Government's response to the Ford closure based on the number of direct jobs impacted, such a fund would need to be valued at \$184 million. Put another way, the \$76 million response to Ford's closure equates to \$63,333 per worker affected (noting that the actual function of these funds was not to be distributed to workers on this basis but to achieve broader policy goals). If the Government wished to replicate this level of support, it would require a fund worth \$184 million, or almost twice as large as the Fund currently announced. If the assistance fund is calibrated to the expected number of automotive manufacturing jobs affected, 15,000 as outlined in the NIEIR research discussed above, the fund would need to be worth \$976 million.

However, there are very good reasons why the response to GMH's closure should be broader, more comprehensive and larger in terms of industry and community support than the response to Ford's closure.

The impact of GMH's closure will be more severe on the automotive supply chain than the closure of Ford was anticipated to be. This is because at the time of Ford's announcement, it was assumed that both GMH and Toyota would retain their Australian manufacturing presence, providing support to the supply chain. The loss of GMH as a user of supply chain inputs leaves only Toyota as a major demander of goods from the automotive supply chain. This will disproportionately increase the pressures on firms in the supply chain and as Toyota have themselves flagged, it will make it increasingly difficult for critical mass to be retained in the supply chain. Indeed, the AMWU fears that this pressure will cause a broad and quick collapse in the supply chain, exacerbating the economic and employment impacts of GMH's closure and making it practically impossible for Toyota to retain their manufacturing operations in Australia.

For these reasons, it is clear that the automotive supply chain needs a greater proportionate (and absolute) level of support in response to the GMH decision than it did in response to the Ford decision. Only with a very significant package of support can enough supply chain firms be saved to allow Toyota to continue manufacturing. In addition, only with much greater support can those supply chain firms with diversification potential be allowed to diversify their businesses, access new markets and technologies and avoid closure, saving countless thousands of jobs in the process.

As a result of the larger impact on the supply chain, the impact of the GMH closure on indirect employment is likely to be larger than that anticipated with the Ford closure. This means that more skills and jobs services will be needed to provide workers affected with the best possibility of transitioning to new work. This will require additional funding above that already allocated to programs such as the Automotive Industry Structural Adjustment program as well as an extension of programs in time. It will also mean that the income and consumption effects from closure will also be larger. This implies that the impacts on communities will be disproportionately larger as more workers and their families see their incomes and spending fall.

For all of these reasons, it is the AMWU's view that the assistance package or fund that is called for in response to GMH's closure needs to be proportionately larger than past packages designed to deal with similar, but less significant, events.

The Government has outlined the purpose of the Fund as:

- Support for existing component manufacturers in Victoria and South Australia to adjust their business output or business model to non-automotive and overseas customers, or who commence or expand export activity;
- Grants to existing and/or new businesses that establish or expand manufacturing operations in South Australia or Victoria, with preference for those businesses that employ former automotive workers; and
- Grants to aid the commercialisation of research and development in the automotive component manufacturing sector, leading to new products or processes.⁵

⁵ PM statement: Securing Australia's Manufacturing Future. Available at: <http://www.pm.gov.au/media/2013-12-18/securing-australias-manufacturing-future>

For the record, it is also worth noting the aims of this (and the SA) review, which were stated as, “look at ways to boost the competitiveness of the South Australian and Victorian economies by:

- Encouraging investment and innovation in high growth sectors in the affected regions;
- Further investing in infrastructure to boost productive capacity;
- Where appropriate and cost effective, relocating Commonwealth public service functions to the affected regions.
- Considering the most pressing concerns of the shipbuilding industry;
- Supporting the diversification of automotive supply chain companies; and
- Supporting the training and redeployment of workers displaced by closures.”

It is interesting to note that even though the Prime Minister stated that the Fund will provide “support for the workers and communities impacted by the recent automotive closure announcements”, according to the description above the fund is not intended to support communities affected, nor is it intended to directly support workers in gaining new employment.

It is clearly intended as a broad manufacturing investment and automotive supply chain diversification fund. While the AMWU fully supports the Government devoting resources to support manufacturing investment and diversification, support for the workers and communities affected should also feature as part of the policy response to GMH’s closure and it is not sufficient to declare support for diversification also counts as support for communities and workers.

Putting to one side the issue of direct worker and community support, it is true that in order for workers to transition to new jobs which enable them to maximize their contribution to society and the economy, and to best utilize their skills, new manufacturing jobs need to be created.

The Fund intends to do this through grants to businesses to expand operations, as well as supporting supply chain diversification. Supply chain diversification is particularly important as minimizing closures in the supply chain will minimize job losses and make it more likely that Toyota will maintain their manufacturing operations (subject to additional Government support as outlined above), avoiding an entire automotive industry collapse. However, the adequacy of the Fund to reach these aims can only be determined when taking into account the broader policy context. This broader context unfortunately detracts from the likelihood that the Fund will be able to provide adequate support to avoid a collapse of the automotive supply chain and generate new manufacturing jobs.

Broader manufacturing policy context

The first thing to note about the broader policy context is the Government’s continued insistence on cutting \$500 million of automotive industry assistance from the ATS scheme.

Currently, ATS funds support both motor vehicle producers (MVP) such as GMH, and Toyota and supply chain firms. The current support ratio between MVPs and the supply chain firms is 55 per

cent to MVPs and 45 per cent to the supply chain. That means that just when the Government is attempting to support the automotive supply chain to avoid its collapse through the Fund, the Government is also cutting \$225 million of support from the same automotive supply chain due to its ATS cut. In addition, these cuts also take effect just when the supply chain needs the most support, namely from the start of 2013-14 to the departure of Ford and GMH.

It should also be noted that ATS funds go to supporting investment and R&D as well as production, so the ATS cut directly works against the stated aim of “aid(ing) the commercialisation of research and development in the automotive component manufacturing sector” and “adjust(ing) their business output or business model to non-automotive and overseas customers”.

The day before announcing the formation of the Fund and this review, 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 have a bearing on the stated aims of the Fund, as well as this review. 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 commercialization 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.⁶ 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

⁶ Line 7.19 in the Coalition’s policy costings document, available at: <http://lpaweb-static.s3.amazonaws.com/2013%2009%2005%20TABLE.pdf>

MYEFO. We can only assume that these funds have been diverted to much the same purpose under the 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 seeks clarification from the Government on this issue.

An uncomfortable conclusion

In the aggregate, it is very clear that the Government has diverted more funds away from the goals stated for the Fund than it has actually allocated to these goals under the Fund and other programs. Manufacturers and in particular the automotive supply chain will see their support fall by the ATS cut (\$225 million) and MYEFO cuts (\$96 million) and rise by the Fund (\$100 million) and additional Export Market Development Grants (\$50 million). The net impact on these businesses after the Government's policy to support diversification and investment is a fall in support of \$171 million for diversification and investment. It is also worth remembering that only \$60 million of the \$100 million Fund is to come from the Federal Government. Therefore, in terms of Federal Government support, manufacturers and the automotive supply chain have seen a fall of support of \$211 million as a result of the Government's "Securing Australia's Manufacturing Future" policy, when the broader policy context is also taken into account.

This analysis shows that the Government is content to *be seen* to support the automotive supply chain and other manufacturing businesses rather than *actually support* these businesses maintain and create new jobs, improve productivity and grow.

It is hard to draw any conclusion from this analysis other than the proposed approach of the Government is a fig leaf and will fail to support the automotive supply chain leading to mass closures and job losses and the inevitable exit of Toyota from manufacturing in Australia. This is no doubt why the South Australian Premier labelled the Government's proposed fund as "pathetic".

It is worth noting that the argument that the Government can't afford to provide real support to the automotive supply chain and other manufacturers is not valid. Not only does the Government have the \$500 million ATS cut to draw on for this support, but it has the \$215 million co-investment grant to GMH which is no longer going ahead. This is without even seeking funds from non automotive related sources or justifiable revenue sources which are opposed by the Government such as a profit based mining tax or a carbon price.

Policy proposals

As a first and urgent step, the AMWU calls on the Government to cancel the cuts to manufacturing programs outlined above, both in MYEFO and to the ATS. Cancelling these planned cuts would put us 'back to square one' in terms of support for the automotive supply chain and other manufacturing businesses. This would be a situation that will then allow support to be built upon to reach the goal of avoiding a collapse in the supply chain, diversification and the creation of new manufacturing

jobs. We also urge the Government to honour its election policy commitment and immediately announce an additional \$50 million for the Manufacturing Transition Grants program.

In addition, the Government should immediately enter negotiations with Toyota to secure Toyota's manufacturing presence in Australia. In these negotiations, the Government needs to address the currently legislated end to automotive industry support as outlined above.

An alternative framework

As outlined above, in the AMWU's view, the current \$100 million Fund is inadequate as a response to the closure of GMH, especially in light of other cuts to manufacturing support. Any package in response to GMH's decision should include four distinct and well funded components:

1. direct support for workers affected, not only GMH 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 and expert business advice services, and
4. policies to support broader economic activity in the states 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.

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.

Such a plan will be the subject of further work by the AMWU which we will make publically available once complete. In the context of this review, adequate policies to support the Victorian 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

It is fortunate that the GMH engine plant is located at Port Melbourne rather than a more disadvantaged location. Port Melbourne has a strong local economy, supported by its proximity to the city centre. In addition, it has been the subject of significant urban renewal programs in recent years.

However, Holden workers and supply chain businesses are heavily concentrated in areas in Melbourne's south east and west. This means that these communities are likely to suffer significantly from both business closures and a loss of income of residents. 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 local governments and the Government of Victoria, should identify and designate suburbs which are home to supply chain and Holden workers in large concentrations as 'closure affected suburbs'. This designation should provide businesses located in these suburbs with financial support (no (real) interest loans – jointly financed by the Federal and the state governments) to overcome periods of lower business and cash flow pressures due to the GMH closure. In order to access these loans, businesses should provide evidence that their cash flow has been significantly and negatively impacted by the GMH (or Ford) closure.

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 won't 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 GMH 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 Victoria should receive 54 per cent of this fund, or \$343 million. Both GMH 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,⁷ it takes between 3 and 7 years for a supply chain firm to make significant progress in any effort to diversify its business away from automotive manufacturing or to access significant new markets for new products. 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 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.

⁷ Transcript available at: <http://www.pc.gov.au/projects/inquiry/automotive/public-hearings>

As outlined in our *A Prosperous Australia* document,⁸ drafted as an initial response to the GMH 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 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 and likely longer, depending on the decisions of Toyota in coming months. 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 a larger portion of the 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, 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 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, 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,

⁸ Available at: http://www.amwu.org.au/content/upload/files/publications/A_Prosporous_Australia_final.pdf

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 especially for those firms involved in automotive manufacturing.

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 GMH's and Ford's closure and continuing uncertainty regarding Toyota's future 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.”

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 GMH and Ford closure on the supply chain and broader sector, maximize the chances of Toyota continuing to manufacture in Australia, 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 Victorian economy

The realized impact on the broader Victorian economy from GMH's and Ford's 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 of Victoria. 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 and business closures and the social and economic costs which result.

However, even if these policies are implemented, there will be a broader economic impact from closure and resulting job losses. In order to further mitigate these impacts and guard against recession in Victoria, 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 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 addition, the Victorian Government itself spends billion of dollars on procurement. In our submission to the Senate inquiry into Commonwealth Procurement Processes,⁹ the AMWU stated:

“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 carve 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 for the next 20 years. While it is the states that are responsible for these procurement decisions, the Federal Government has an

⁹ Available at:

http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Finance_and_Public_Administration/Commonwealth_procurement_procedures/Submissions

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) model¹⁰ 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 to Victoria and Adelaide. 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 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 plan¹¹ 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. It is our understanding that the \$6.5 billion of infrastructure projects that have been set aside for Victoria as flagged by the Prime Minister in his manufacturing statement on 18 December 2013 are funds already allocated and do not represent the bringing forward of projects or the approval/funding of new projects. Both bringing forward of projects and approval of new projects will be required in order for infrastructure projects to provide significant stimulus to the Victorian economy. This is especially the case if the

¹⁰ For more on the DND model, please see the AMWU submission to the Senate inquiry into Commonwealth Procurement Processes mentioned above.

¹¹ Available at:
http://www.amwu.org.au/content/upload/files/Ships_Campaign_13/AA_AUST_NAVAL_SHIPBUILDING.pdf

Government chooses not to proceed with community and supply chain support programs as outlined above.

The AMWU does not support the transferring of Federal Government agencies to Victoria as a response to the GMH and Ford closures, as flagged by the Prime Minister in his manufacturing statement. Such a transfer would cause significant dislocation to workers currently employed in agencies, it would impede the efficient functioning of Government, it would not provide a targeted stimulus to the Victorian economy where it is needed (in manufacturing, not administrative services) and it would not present new job opportunities for displaced automotive workers.

Conclusion

This submission has sought to outline the magnitude of the economic shock that the closure of GMH manufacturing will impose on the Victorian and national economies and it has sought to provide a detailed policy agenda as a response to this shock. The AMWU has developed a comprehensive policy package to address the impacts of GMH and Ford closures in Victoria and nationally, worth a net \$4.75 billion.

In the AMWU's view, the planned \$100 million Fund falls far short of what is required to minimize job losses, transition and diversify supply chain firms, support manufacturing jobs growth, mitigate impacts on vulnerable communities and mitigate macroeconomic impacts on the Victorian and national economy. This is especially the case if planned cuts to automotive and manufacturing support contained in MYEFO and other documents go ahead. With these cuts, net Federal Government support to the automotive supply chain and the broader manufacturing industry actually falls by \$211 million as a result of the Government's "Securing Australia's Manufacturing Future" policy.

Failure to reverse course and implement a comprehensive set of policies to address the challenges brought on by GMH's and Ford's closure (such as those presented in this submission) will result in mass unemployment, communities experiencing entrenched disadvantage, a hollowing out of Australia's manufacturing capacity and potential recession in both South Australia and Victoria.

In addition, failure to act to reverse planned cuts in the ATS and a refusal to address the wind down and end of the ATS by 2020 will lead to the withdrawal of Toyota and a total collapse of the 50,000 worker Australian automotive industry.

Table 2 below presents a summary of the policy proposals presented in this submission. Once savings and policy reversals are taken into account, the total package comes to \$4.75 billion, although it should be noted that \$3.5 billion of this are capital/equity injections by the Government which would not be considered as expenditure by the Department of Finance. It should also be noted that these figures do not include increases in administrative funding which would be required to implement these policies.

Table 2: Summary of policy proposals

Item	Measure	Australian Dollar, Millions	Notes
Reversed automotive and other cuts			
	ATS	500	Needed to support supply chain and maintain Toyota presence
	MYEFO	96	Counterproductive cuts
New measures			
	Urban Renewal Fund	640	With GMH contribution
	Closure affected Suburb Finance	1,000	Capital to finance interest free loans
	ANMI	178	To run to 2017-18
	Manufacturing Export Market Development Grants and Manufacturing Transition Grants	150	Considering \$50 m election promise as new spend due to exclusion from MYEFO
	MFC	2,500	Off budget equity injection
	Procurement reform	N/A	Better targeting of procurement to support industry
	Shipbuilding bring forward	N/A	Funding quantum not known
	Infrastructure bring forward	N/A	Funding quantum not known
Saves			
	GMH co-investment	215	
	Planned \$100 m Fund	100	
Total new spend		4,468	Only new policy proposals
Net Total new spend		4,749	Including reversed policies and saves

The set of policies presented above may seem ambitious given the net value of these policies is \$4.75 billion. However, this is significantly less than the economic value that is being lost. GMH alone spent \$2.3 billion on Australian goods and services in 2012 alone, while the policies presented above are to be implemented over many years.

Only a lack of understanding of the economic impact of GMH and Ford's closure could lead to a conclusion that a policy package of \$4.75 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.

The Government has played a deciding role in the decision of GMH to cease manufacturing 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 on Victoria and the nation as a whole.

More broadly, the Government stands at a crossroads 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 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.