AMWU

PRELIMINARY DISCUSSION PAPER ON THE FUTURE OF AUSTRALIA'S VEHICLE AND AUTO COMPONENT INDUSTRY

Prepared by the

Australian Manufacturing Workers Union

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INTRODUCTION AND SUMMARY OF ISSUES AND RECOMMENDATIONS

Representatives of Australia's Vehicle and Auto Component Industry are participating in the discussions and short term inquiry into the industry being hosted by the Productivity Commission at the request of the Federal Government. All of the interested party's participating, including the Productivity Commission will then make submissions to the

Federal Government and/or the Parliament of Australia on a plan for the Vehicle and Component Industry for the rest of the decade.

Once that is done the Federal Government in consultation with all the interested parties will draw up a plan for the industry. Then the Parliament of Australia will decide whether amendments to the Plan are required and if a Senate Inquiry into the industry is needed. Once that process has been completed an announcement will be made on a future Plan for Australia's Vehicle and Auto Component Industry for the 2005 - 2010 period.

As the largest organisation representing the interests of vehicle and auto component workers, their families and local communities, the Australian Manufacturing Workers Union has determined to pursue the following course of action:

1) **Hold seminars and discussions with workers in the industry.**

2) **Circulate a draft discussion paper on the issues as we see them and our preliminary recommendations on a plan for the industry to all interested parties including the Productivity Commission.**

3) **Attend the discussions and meetings being hosted by the Productivity Commission, FCAI, FAPM individual companies, the ACTU, State and Federal Governments over the next several months.**

4) **Conduct additional research and extensive consultations with thousands of workers, their families and local communities over the next several months.**

5) **Having done 1 - 4 above make a formal submission to the Parliament of Australia, as we did in June 1997, on a Plan for the Industry.**

This discussion paper has been approved for circulation by the Committee established by AMWU's National Council to oversee developments in the Vehicle and Auto Component Industry over the next 12 months, and the finalisation of our proposals for a Plan for this industry later this year.

Given the short notice and deadline, for submissions as well as the AMWU's need to consult widely with its members, this preliminary discussion paper focuses only on the main issues of what is required to secure the future of this important industry. The five recommendations we have focused on are summarised in the box on the opposite page:

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AMWU'S FIVE PRELIMINARY RECOMMENDATIONS FOR THE 2005-2010 PLAN FOR THE VEHICLE AND AUTO COMPONENT INDUSTRY

1) Maintain the current tariff levels for the remainder of the decade.

2) The Government of Australia must have a Contingency Plan in place to protect our Vehicle and Component Industry (both exports and the domestic market) in the event that global excess capacity triggers a crisis similar to what is happening in the global steel industry.

3) Develop an industry export strategy to double the dollar value of vehicle and auto component exports over the next five to seven years.

4) The Auto Competitiveness and Investment Scheme (ACIS) should be continued.

5) The 2005-2010 Plan for the Vehicle and Auto Component Industry should cover a Range of other Issues including a Strategy for the Industry to develop more wealth and jobs from new materials and environment friendly technologies.

RECOMMENDATION ONE: MAINTAIN THE CURRENT TARIFF LEVELS FOR THE REMAINDER OF THE DECADE

There never has and never will be a consensus on the costs and benefits of tariff reductions. For the past two decades the Productivity Commission's Orani model has emphasised the net gains to the community from reducing auto tariffs while the National Institute of Economic and Industry Research's (NIEIR) IMP model has emphasised the net cost to the community from such reductions. The AMWU continues to concur with the NIEIR view about tariff reductions in general and auto industry tariff reductions in particular which were summarised by Dr Peter Brain in the following terms:

''For the past two decades NIEIR has consistently argued that:

i) The costs to the Australian economy of reductions in tariffs (and other forms of industry assistance) are greater than the benefits. These costs in terms of reduced levels of employment and economic activity have been disproportionately borne by manufacturing industry and manufacturing workers.

ii) For Australia as a whole, tariff reductions have increased the inequality of income distribution.

iii) Tariff reductions have made the economy more not less dependent on mining, natural resources and primary industry (compared to what would otherwise be the case.)

A more recent conclusion NIEIR has arrived at may be stated in the following terms.

iv) The debate about reducing industry assistance in general and tariffs in particular has had the unfortunate consequence of focusing policy makers' attention solely on cost competitiveness and allocative efficiency at the expense of sophisticated policies that help build manufacturing industry in general and strategic industries in particular.

The reduction of tariffs since 1987 has resulted in the loss of approximately 60,000 manufacturing jobs. There are in the order of 90,000 fewer jobs in the Australian economy in the year 2000 as a result of tariff reductions (compared to what would otherwise be the case). But the story does not end there. By the year 2005 it is likely that the tariff phasedown that commenced in 1987 will have resulted in a loss of approximately 100,000 manufacturing jobs. In 2005, it is likely that total employment in the Australian economy will be 200,000 less as a result of the tariff phasedown."

(Source: NIEIR: Industry Assistance Reductions and the Australian Economy: Contemporary Issues and Future Prospects: July 2000)

Neither this inquiry, nor the econometric modelling workshops will change the fact that there will never be a consensus on the costs and benefits of tariff reductions. As the AMWU said at the time of the 1996-97 Inquiry in our submission to the Parliament of Australia:

> **''We note the study by Access Economics that suggests Australia would lose 23,000 jobs in auto industry if the Productivity Commission recommendations (the majority report) were adopted. We note the study by Dr Chris Murphy that cutting tariffs to 5% by 2004 would cause job loses across all industries of more than 10,000 in south Australia, 11,000 in Victoria; result in the closure of at least two major vehicle manufacturers and reduce local industry's share of the market to 35%.**
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> **Over the next several months we can safely predict that:**
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> ### **The Productivity Commission will argue that losing half of our industry will still involve net benefits for the nation.**
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> ### **Dr Murphy and Access Economics will argue the gains, if any, will be negligible.**
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> ### **Dr Peter Brain and NIEIR will argue the costs to the nation of downsizing our industry will far outweigh any economy wide benefits.**
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> **With the greatest respect to those involved we do not think that econometric models can determine how Boards of Directors in Australia and Overseas will react to Australia choosing to downsize yet another manufacturing industry".**
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> (Source: AMWU: Meeting the Challenge of Competing in the Global Vehicle and Auto Component Industry June 1997)

From AMWU's point of view the only debate we see on the tariff for cars and components is whether it stays at 15% for the rest of the decade, or whether it stays at 10% over the 2005 - 2010 period. We will take that issue across Australia to thousands of workers, their families and members of their local community over coming months. The views and impacts on real people in the real world is what the AMWU will take to the parliament of Australia in August in our final submission. These two options are highlighted in table one.

TABLE ONE

THE TWO OPTIONS FOR VEHICLE AND AUTO COMPONENT TARIFFS AMWU WILL TAKE TO COMMUNITY CONSULTATIONS

	OPTION ONE		OPTION TWO		
Year	**Actual Tariff**	**WTO Bound Tariff**	**Actual Tariff**	**WTO Bound Tariff**	
2000	15%	40%	15%	40%	
2001	15%	40%	15%	40%	
2002	15%	40%	15%	40%	
2003	15%	40%	15%	40%	
2004	15%	40%	15%	40%	
2005	15%	40%	10%	40%	
2006	15%	40%	10%	40%	
2007	15%	40%	10%	40%	
2008	15%	40%	10%	40%	
2009	15%	40%	10%	40%	
2010	15%	40%	10%	40%	

2011	Determined by Review in 2007	40%	Determined by Review in 2007	40%	

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IN ADOPTING THIS POSITION THE AMWU WOULD ALSO MAKE THE FOLLOWING POINTS

The maintenance of the existing tariff for cars and components will help sustain the domestic market base which is absolutely essential to this industry.

While not central to public comment, the reality is that both sides of politics now generally accept that the general 5% tariff will stay and is consistent with the APEC definition of free trade. Other tariffs, as in auto, are considered in light of global issues, particularly trends in global market access. Therefore the only real debate amongst decision makers is whether tariffs in auto should be closer to 5% or held at 15%. The zero tariff debate is over, and the old IAC argument of the benefits of Australia ‘‘going it alone’’ to zero is only seriously entertained by a hand full of tenured arm chair academic economists debating amongst themselves.

The maintenance of existing tariffs is also important for Government revenue. During the 2000 - 2010 decade Australia’s tariff regime, at the rates applicable in financial year 2000 - 2001 would generate around $40 billion in Government revenue in an environment of growth approaching 3.5% per annum. Half of that would come from Auto and TCF. It is incumbent on those advocating reduced tariffs to specify what tax increases they propose or cuts to expenditure they favour to replace any of this lost revenue.

Unlike a number of others, the AMWU, companies in the industry, the broader community and the Parliament of Australia give serious consideration to the assistance regime in other countries when determining what is in the best interests of Australia. In 1996-97 the AMWU included in its submission to the Parliament of Australia a table showing Australia in the mid 1990’s as having one of the most open domestic markets in the world for imported vehicles and components. While a number of examples of trade liberalisation in other countries since then can be given, the fact remains that maintaining the existing tariff regime in Australia at its current levels would still leave Australia with one of the most open markets in the world during the second half of the 1990’s. Given the global excess capacity in the industry (on a similar scale to the global steel industry) this is unlikely to change before 2010. Table two shows how Australia’s automotive tariff regime compares to other APEC countries:

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TABLE TWO

AUTOMOTIVE TARIFFS IN THE APEC REGION

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	Automotive Tariffs			
Country	**Car**	**Truck**	**CKD/Parts**	
Australia	5% - 15%	5% - 15%	5% - 15%	
Canada [1]	6.1%	6.1%	0%	
Chile [2]	10%	10%	10%	
China (PRC) [3]	80% - 100%	30% - 50%	35%-60%/20%-50%	
Philippines [4]	30%	3% - 30%	3% - 10%	
Peru	12%	12%	12%	
Hong Kong	0%	0%	0%	
Indonesia [5]	65% - 80%	5% - 45%	0% - 50%	
Japan	0%	0%	0%	
Korea	8%	10%	8%	
Malaysia [6]	35% - 300%	30%	0% - 120%	
Mexico [7]	20% - 30%	23%	13% - 23%	

[1] 0% for USA, Mexico and Chile.

[2] 0% for Argentina, Brazil, Canada, Mexico.

[3] Acceded to the WTO December 2001. By Mid 2006 tariffs phased to: Cars 25%; Trucks 20% - 30%; Parts 10%.

[4] Vehicle tariffs not bound in WTO. Commitment to reduce tariffs for AFTA countries to between 0% and 5% by 2002.

[5] Vehicle Tariffs not bound in WTO. Commitment to reduce tariffs to AFTA countries to between 0% and 5% by 2002.

[6] Vehicle tariffs not bound in WTO. Commitment to reduce tariffs to AFTA countries to between 0% and 5% by 2002. (Cars by 2005)

New Zealand	0%	0%	10% - 17.5%	
Russia	30%	10% - 20%	5% - 25%	
Singapore	0%	0%	0%	
Taiwan [8]	30%	30% - 37%	15%	
Thailand [9]	80%	40% - 60%	10% - 20%	
United States of America [10]	2.5%	4% - 25%	2% - 4.4%	
Vietnam [11]	100% - 200%	60%	30% - 60%	

Source: United States Automotive trade Policy Council, 2001, as modified by DFAT in respect of China and Taiwan Accession to the WTO.

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[7] 0% for Canada and United States by January 2004. 0% for EU, Colombia, Venezuela by 2007. 0% for Chile.

[8] Acceded to the WTO December 2001. By 2010 tariffs will be phased to 17.5% (vehicles) and 9% (parts).

[9] Commitment to reduce tariffs for AFTA countries to between 0% and 5% by 2002

[10] 0% for Mexico and Canada

[11] Commitment to reduce tariffs for AFTA countries to between 0% and 5% by 2006. Not a WTO member.

In addition to the tariff of course, many of these countries have substantial non-tariff barriers as shown in the recent work of the Allen Consulting Group for FCAI.

Simply put, Australia has one of the most open domestic markets in the world in terms of the tariff and non tariff barriers. By 2010 we will see whether other countries have provided a similar open market in auto trade. There is no compelling reason for any further tariff reductions.

Finally maintenance of existing tariffs for auto's and components is an important signal to the global industry that Australia has made the transition to a competitive global industry, is in the business of attracting new investment and seeks to ensure a strong domestic market for Australian made product. It also provides workers, their families and regional communities dependent on the industry, some modest degree of confidence that the industry has a more secure future in this country.

For all these reasons, the existing tariff regime should remain unchanged.

With Australian producers now looking at manufacturing SUV/4WD niche vehicles, consideration needs to be given to adjusting the tariff on such vehicles and components (currently 5%).

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RECOMMENDATION TWO:
THE GOVERNMENT OF AUSTRALIA MUST HAVE A CONTINGENCY PLAN IN PLACE TO PROTECT OUR VEHICLE AND COMPONENT INDUSTRY (BOTH EXPORTS AND THE DOMESTIC MARKET) IN THE EVENT THAT GLOBAL EXCESS CAPACITY TRIGGERS A CRISIS SIMILAR TO WHAT IS HAPPENING IN THE GLOBAL STEEL INDUSTRY

While estimates vary it would appear that excess capacity in the global Vehicle Industry increased from around 15 million units in 1990 to more than 20 million units by 2000, as global car making capacity over the decade increased by almost 35% while output grew by around 20%.

(Source: Price Waterhouse Coopers: Key Strategic Issues Facing the Global Auto Industry: an Autofacts Briefing to the Association for Corporate Growth: March 2002)

It is the assessment of the AMWU that this global excess capacity will, at some point in time over the next decade, trigger the same kind of crisis that is currently being played out in the steel industry. Australia needs a contingency plan to be prepared for such a situation should it arise. The WTO Agreement on Subsidies and Counterveiling Measures (SCM) allows a country to restrict imports if its domestic industry is injured or threatened with injury caused by a surge in imports (whether they be dumped or fairly traded imports).

This is likely to be the mechanism that when triggered by the U.S. or European Union will precipitate a trade war in auto similar to what has happened in steel. The lessons from our experience with steel suggest:

Prompt action is needed to secure exemption status for Australia's exports.

There is likely to be a substantial diversion effect where exports that would have gone to the country imposing safeguard actions need to find other markets. This will happen quickly and threaten Australia's market with a flood of imports.

The Australian Government is usually well prepared to handle the protection of export issue but both slow, inexperienced and with an inadequate information system to respond quickly to protecting the domestic market.

The actions and advanced planning taken by the Canadian Government and European Union provide, in many but not all respects, a model for how the Australian Government will need to respond to protect Australia's domestic market.

Australia needs to be far better prepared for such a situation if it eventuates in the Auto Industry, then it was in the case of steel.

The bottom line is that in a world of significant excess capacity there is a need to be able to move quickly to protect the domestic market against a flood of imports as well as securing Australia's exports where this is possible. Thousands of vehicle and component industry workers jobs depend on this.

It is the responsibility of government to have such a contingency plan ready so unions on the waterfront, in the transport industry and manufacturing don't have to act unilaterally with an industrial solution for stopping the imports from entering Australia.

RECOMMENDATION THREE

DEVELOP AN INDUSTRY EXPORT STRATEGY TO DOUBLE THE DOLLAR VALUE OF VEHICLE AND AUTO COMPONENT EXPORTS OVER THE NEXT FIVE TO SEVEN YEARS

During the second half of the 1980's Australia was selling close to 350,000 locally made vehicles a year with less than 5,000 exported. During this period Australian made cars held almost 80% of the domestic market.

Today the industry is still selling around 350,000 locally made vehicles but more than 100,000 are exported and our share of the domestic market is just over 40%.

This dramatic transformation of our industry was similar for the auto component sector, where to stay in business many firms had to rationalise product lines, lower cost structures, achieve economies of scale and switch from domestic to export markets. Through investments in new technology, R&D and new management and work organisation systems the component sector also became much more export oriented.

That is why today the vehicle and auto component industry has export sales of around $5 billion. We should as an industry aim to export more than $10 billion before the end of the current decade.

In developing a strategy to achieve the $10 billion target:

It is unlikely that exports to the Middle East can provide the same share of the incremental growth for the industry's exports as occurred in the past. North America and Asia (and to a lesser extent Europe) will need to become more central requiring new thinking about market access issues and strategic alliances.

Some of the large industry players who have done virtually nothing to develop exports will need to convince head office to put the Australian operation on the map as a player in global markets.

Niche vehicles and new value added components will need to play a greater role in exports than was the case over the past decade.

Australia's tariff regime and improved competitiveness will need to help sustain as a minimum, a domestic market base of around 250,000 vehicles a year or more for local producers; and the current regime of investment incentives will need to be continued in a manner conducive to supporting the investment required to facilitate export led growth.

Independent of any involvement of Government, its agencies or outside party's, unions and the leading companies in the industry need to negotiate the framework for an industry wide agreement for industrial relations and collective bargaining. Such negotiations should commence in November 2002. The outcomes should, amongst other things, help to facilitate the certainty required if doubling exports is to become a reality.

RECOMMENDATION FOUR

THE AUTO COMPETITIVENESS AND INVESTMENT SCHEME (ACIS) SHOULD BE CONTINUED

The ACIS scheme started on 1st January 2001 and concludes on 31 December 2005. It provides an incentive for auto, component and related firms to invest in plant, equipment and R&D up to 5% of the value of their sales. Like export facilitation, eligible production and investment generates credits which can be used to discharge customs duty payable on eligible imports or sold/transferred to another party. At the end of 2001 the previous export facilitation scheme was terminated and ACIS is the replacement scheme. The scheme provides $2 billion of credits over five years. Investment is the lifeblood of this industry. As the AMWU put it in our 1996-97 submission:

> **''This submission to the Parliament of Australia from the workers who make vehicles and auto components is based on a simple and straight forward proposition. If Australians want to live well in the first decade of the 21st century, then we have to produce well and trade well.**
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> **In our industry, 80% of the task involved in producing well and trading well depends on how companies, unions and workers apply themselves to building world-class vehicles and components for the Australian and world markets. Above all else, this requires investment in new products, for the domestic and export markets, investment in new plant and equipment, engineering, design and R&D capability as well as investment in skills formation and work organisation change.**
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> **The other 20% of the task involves Government in terms of providing a favourable macro-economic environment, supporting infrastructure, an appropriate education system etc. In some industries in the global economy government policy and the operation of a small group of multinational corporations heavily influences long term decisions about the level and type of investment that will occur and in which country or region. Vehicle and auto component manufacturing is one such global industry. The decisions to be made by the Parliament of Australia with respect to this industry in 1997 will heavily influence the decisions companies make about the level and nature of investment they undertake in Australia over the first decade of the 21st century. It is that investment that will determine what kind of vehicle and auto component manufacturing industry Australia will have.**
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> **Clearly, the vehicle and auto component industry requires a commitment by Government, companies unions and workers to a national industry development**

strategy to help build a successful industry for the first decade of the 21st century and beyond".

The ACIS scheme to encourage investment is central to such a strategy.

The AMWU supports the retention of ACIS with funding provided in the Budget forward estimates till at least the 31 of December 2010. Following a thorough review of the scheme the AMWU will make its proposals for any changes part of its final submission to the Parliament of Australia in August.

RECOMMENDATION FIVE

THE 2005-2010 PLAN FOR THE VEHICLE AND AUTO COMPONENT INDUSTRY SHOULD COVER A RANGE OF OTHER ISSUES INCLUDING A STRATEGY FOR THE INDUSTRY TO DEVELOP MORE WEALTH AND JOBS FROM NEW MATERIALS AND ENVIRONMENT FRIENDLY TECHNOLOGIES

There are a wide range of issues that need to be dealt with in this industry ranging from fuel emission regulations and safety standards on the one hand, to training, skills development and the need for a significant increase in apprentice training on the other hand. The industrial issues, as always, will only be dealt with in any meaningful way through consultations and collective bargaining between companies, workers and their unions. Other issues such as design, R&D and tooling are matters AMWU will consider in its final submission to the Parliament in August.

In addition to these issues and those covered earlier in this discussion paper we would expect that arising out of consultations with our members our final submission to the Parliament would pay particular attention to:

a) Improvements required to the training/skills formation system including the need for a substantial industry wide commitment to apprenticeship numbers and training.

b) The need to ensure that the existing restrictions on second hand cars and components are sustained.

c) How best to establish an agreement between the relevant local, State and Federal Government, Companies and Unions on handling any significant closure/downsizing. This would include advance social audits of the regional communities affected by any such disruption as well as using such audits when any trade agreements are being considered.

There is also one particular issue that we think deserves more attention and that concerns opportunities to generate new wealth and jobs from environment friendly technologies and the use of new materials like magnesium and related alloys. Some consultants are suggesting that by 2020, 20% of the cars on the road will be powered by fuel cell technology. The potential to secure some part of this opportunity for Australian industry warants serious consideration. So does the options available to establish new large scale component facilities for the casting, fabrication and machining of magnesium, aluminium and other materials.

Whether these opportunities warrant special status through formulation of criteria for the ACIS scheme, or whether there are more appropriate methods to encourage their development is an issue the AMWU will give priority to in our final submission in August following detailed consultation with our members.