Who Will Make Our Cars?
Global Lessons from the Demise of Australia’s Auto Industry

by Russell D. Lansbury, Chris F. Wright, and Stephen Clibborn

This year sounds the death knell for the Australian automotive manufacturing industry. In 2016 and 2017, the three remaining global auto companies in Australia—GM, Ford, and Toyota—all shut the doors on their manufacturing plants. This is not an isolated phenomenon. Some fear that Canada could face a similar fate (Stanford, 2017). President Donald Trump has pledged the return of United States automakers from Mexico and other countries to which they have outsourced production. High levels of support for Trump from union households in the 2016 presidential election, especially in Rust Belt states, suggest that many manufacturing workers endorse this position (“Donald Trump and the Unions” 2017). Ford and GM have announced that they will expand and upgrade several of their facilities in the United States. But is this simply delaying the inevitable shift of auto plants from the West to the East, as China and India become the next auto super producers? The Australian experience may offer lessons for countries like Canada and the United States. These lessons are of particular concern to auto industry workers and their unions.

The Australian auto industry was an important source of investment, innovation, and well-paid jobs. Its decline will come down harshly upon communities in the industrial heartlands built around the auto plants and contribute to further erosion of Australia’s manufacturing skills base. However, the industry was ultimately dependent upon forces beyond the control of local workers and managers, particularly ongoing financial support from the Australian government and favorable investment decisions by multinationals based in Detroit and Tokyo (Wright et al. 2011).

This article examines reasons for the demise of the Australian auto industry, including reductions in government assistance such as tariff protection, volatility in exchange rates affecting the Australian dollar, global strategic decisions by parent companies to shift production from Australia to expanding markets in

By the end of 2017, Australia’s auto industry will cease to exist

- Australia’s auto-manufacturing industry was blown away by a perfect storm of global conditions—international competition, high cost of production, a strong Australian dollar, and a small but very competitive domestic market.
- “Neither a cooperative nor an adversarial relationship between the union and employees had any notable bearing upon the ability of local manufacturers to withstand the competitive pressures.”
- Australia’s experience may hold lessons for other small-market nations, such as Canada, that currently produce autos.
- President Trump’s efforts to bring production of American cars back to the United States faces enormous challenges because of global overcapacity of autos, “the increasingly elaborate structure of global supply chains,” and “the inevitable shift of auto plants from the West to the East—China and India.”
Asia, and the role of trade unions and industrial relations in relation to auto workers’ wages and conditions.

The analysis draws on more than 75 interviews with key participants in the Australian auto industry—including management personnel, government representatives, and union officials—conducted over many years for several joint and individual research projects. It concludes that more might have been done by the Australian government to prevent the complete closure of auto manufacturing but that further reforms would have been necessary for the industry to survive or, indeed, to be revived in the future.

Demise of the Australian Auto Industry

The decision by the “Big Three” foreign automakers to close their Australian production facilities in 2016 and 2017 followed a marked decline in their profit performance since the early 2000s. Furthermore, the proportion of imported vehicles purchased by Australian consumers surged from 31 percent in 1992 to 81 percent in 2012 (Clibborn et al. 2016). These factors made it difficult for the foreign companies to justify maintaining their Australian manufacturing operations.

Auto manufacturing began in Australia during the 1920s, when the federal government sought to encourage the growth of secondary industry by using tariffs to protect local manufacturers from international competition. Industrial relations arrangements played an important role in the industry’s development. Australia’s unique system of compulsory arbitration encouraged the formation of unions and played a significant role in setting wages and conditions that manufacturing employers could absorb through increased prices. Minimal risk existed that average consumers would choose to purchase imported vehicles because these were effectively priced out of the local market by high tariffs (Wright and Lansbury 2014).

This long-standing protectionist legacy began to change in the early 1970s, when the Labor government faced the fact that the domestic auto industry had become uncompetitive against cheaper and higher-quality imports from Japan and elsewhere. It reduced tariffs across the board by 25 percent to stimulate reforms in the manufacturing sector.

Another Labor government, in the mid-1980s, realized that additional reforms were needed. Further significant reductions in protection were combined with direct financial support as part of a plan to reduce the number of domestic auto producers and increase the efficiency of those that remained. Although this plan was largely successful in raising industry productivity and efficiency, domestic production continued to decline in the face of increasing imports, as did the number of workers employed in the local industry.

In 2013 the current Liberal National Party coalition government announced that it would not enter negotiations to increase funding for the domestic auto industry. This decision was significant given the sharp decline in tariff protection from almost 60 percent in the late 1980s to 5 percent in 2013, as shown in Figure 1 (p. 16). The subsequent announcement by Ford, GM Holden, and Toyota to end production in Australia meant the loss of jobs not only in their plants but also among local component suppliers and related industries. In total, an estimated 200,000 jobs will be lost resulting from the closure of the auto industry at the cost of AUD $29 billion (USD $22 billion) (Barbaro and Spoehr 2014; Stanford 2017).

Prior to the election of the current coalition government, attempts had been made by successive federal and state governments to retain a viable portion of the auto industry in Australia through various assistance packages, resulting in some improvements in productivity. However, loss of market share by local producers to imported products spelled the ultimate demise of domestic auto manufacturing. A telling sign of the failure of government policy was that the number of companies exiting the local industry consistently outstripped the number of new entrants from 1963 onward, with only one new plant established after 1974 (see Table 1, p. 16).

A major argument put forth by opponents of government assistance to the industry was that the foreign-owned manufacturers were being subsidized by taxpayers. However, the tariff rate on vehicles and automotive components in Australia in 2013 was relatively modest in comparison with rates on other countries as diverse as China and in the European Union (see Table 2, p. 17). Comparison of government funding
for automotive manufacturing shows that each vehicle produced in Australia costs the taxpayer approximately 150 percent of the contribution to a German vehicle but only 67 percent of that for a U.S. vehicle, despite the economies of scale available to the U.S. auto industry (Davison and Toner 2013).

Ultimately, shrinking automotive production in Australia meant that the industry became unviable. By 2012, the total annual output of domestic auto manufacturers in Australia was fewer than 150,000 vehicles. Furthermore, Australia’s distance from potential markets, combined with a relatively high cost of production, meant that long-term prospects for exports were limited.

While GM Holden and Toyota achieved some success with exports of vehicles to the United States and the Middle East, increased fuel costs and the impact of the recession on the U.S. auto industry disrupted these export initiatives. However, fluctuation of the Australian dollar was perhaps the most significant factor undermining the international competitiveness of locally produced vehicles. The value of the Australian dollar against the U.S. dollar increased from AUD $0.51 in 2002 to AUD $1.09 in 2011, then plunged again as Australia’s mining boom came to an end.

Impact of Global Strategic Decisions by Multinational Auto Companies

The position of local auto manufacturers in Australia was always dependent on support from their parent companies. While tariffs against imported vehicles and profits from domestic manufacturing remained high, local management enjoyed a degree of autonomy. However, during the 1990s, parent companies in the United States and Japan began to introduce globally consistent production systems, which allowed manufacturing performance and price per vehicle to be monitored more closely around the world. Auto companies sought to gain efficiencies by reducing the number of different models of vehicles produced and by coordinating product strategy and design from headquarters. There was increased focus on internal cost comparisons between manufacturing locations in Australia and elsewhere.

In the 1990s and early 2000s, several major producers, including Nissan and Mitsubishi, closed their local manufacturing plants. Australia had become a less attractive place for the parent companies to manufacture autos, especially with domestic consumer preferences moving away from locally produced larger models such as the Ford Falcon and GM Holden’s Commodore toward smaller and less expensive imported vehicles.

Announcing the decision to close manufacturing operations in Australia in 2013, the chairman and managing director of GM Holden, Mike Devereaux, articulated the influence of the global parent companies: “GM has made this decision. It is irreversible. . . . It would seem to global leadership at General Motors that it doesn’t make business sense for us to continue to assemble vehicles in Australia” (Swan 2013).

Role of Labor Relations in the Demise of Auto Manufacturing in Australia

The Australian auto industry was highly unionized from its inception and remained so until its conclusion. The vehicle division of the Australian Manufacturing Workers’ Union (AMWU) had almost full coverage of non-managerial workers among the manufacturers and covered most of the large first-tier component suppliers. Consequently, the AMWU exerted consid-

Labor-Management Collaboration at Ford

The automotive industry is highly competitive. Success requires innovation, operational excellence, continual improvement, and global scale. Ford Motor Company has been a leading producer in this industry for more than 114 years, and for the last 76 years has worked in partnership with the United Auto Workers.

As representatives of industry and union, respectively, over time we have come to believe it is a competitive advantage to work together to resolve issues and pursue opportunities to improve our company and the working life of Ford employees.

We believe that the most critical component of our relationship is that we bring a collaborative problem-solving mindset to the many challenges we face. In so doing, we’ve been able to develop creative solutions to some very difficult problems. This is not to say we always agree—we don’t.

But what we can say is that we take the time to understand the other side’s point of view and then take the risk of jointly creating potential solutions that can meet at least some of each side’s key goals. This approach is far from a silver bullet that solves all our problems. But it does set us off in the right direction and more often than not yields a higher-level solution than we would have found through a traditional labor-management interaction.

Our approach to collaborative problem solving follows many of the principles of interest-based bargaining but is much broader in that we use this approach continually, not only during formal bargaining. We have a number of successful outcomes from this joint strategy, both during and outside of negotiations.

One of the most critical and difficult times for Ford and the UAW was during the period from 2007–09.
erable bargaining power in the industry, particularly during the era when tariff protection was high and most vehicles sold domestically were manufactured in Australia.

Industrial disputation was common during the protectionist era, when the industry was regarded as profitable, and could be used by the union as a means to secure wage increases, which then flowed to workers in other parts of the economy. But there was also disputation in the post-protectionist period until imported vehicles predominated. This prompted some conservative commentators, politicians, and business leaders to blame unions for the decisions of the automakers to close their Australian operations (Clibborn et al. 2016). For instance, the chief executive of the Australian Industry Group claimed the manufacturers were “doing it tough and the unions in particular in some ways are preying on weakness [by] taking advantage of the opportunity to try and gain as much for their members in a very tight time” (Potter 2013).

Such characterizations fail to acknowledge the generally more cooperative nature of automotive industrial relations since the 1980s. Although sporadic disputes continued in the industry, particularly with some component suppliers, the AMWU sought greater cooperation with the auto manufacturers to ensure that jobs were maintained and workers’ skills were improved. The AMWU’s more cooperative inclination was evident following the global recession of 2008–09 that threatened the future of the industry. As stated by the then leader of the union: “When they are shutting down plants around the world, then you’ve got to demonstrate that at the end of the day you’re part of the solution, not part of the problem.”

The approach taken by the companies to dealing with their workforces and the AMWU during the global recession varied. GM Holden collaborated with the AMWU and the government to adjust to declining sales and sought to minimize the impact of reduced production on the workforce. A number of multiyear grow-in to full wages helped secure significant investment and long-term job security for U.S. plants.

The UAW secured a commitment for more than $15 billion in plant investment between the two collective-bargaining agreements, and we are proud to say that Ford has exceeded that commitment and now has more UAW-represented employees than any other auto company.

The challenge for Ford and the UAW is to continue this constructive relationship during a healthier environment. In many ways, it’s more difficult to maintain this collaborative relationship when times are good, as they have been at Ford for the last few years. It has required focus, determination, and strong leadership to not fall back into old ways.

We have found one of the most significant tools we have to maintain our preferred labor-management culture is communication—honest, frequent, transparent communication. This is necessary at all levels, from the plant floor to Jimmy’s frequent interactions with Ford’s senior leaders. We talk candidly and often about the business, including what’s going well and what needs to improve. Equally important is an ongoing dialogue about the needs and interests of our people. We meet quarterly with our senior UAW and Ford teams for this purpose, as well as at least three to four times per year with plant leadership.

The complex and competitive nature of our industry means we are continually faced with difficult problems to solve. Our experience is that we do a better job of finding positive solutions to these problems when we work together. But the collaborative approach does not just happen on its own. Both parties have to work on it in a purposeful way. It requires strong relationships built on trust, and trust in turn requires transparent and frequent communication. We are still working on getting that equation right, but we’re glad we’re on the journey.
February 10, 2014, Toyota announced that it would cease manufacturing at the end of 2017. Production at its Altona plant had fallen as exports deteriorated and domestic sales declined. At the time, the AMWU was in the midst of negotiations with Toyota Australia over the renewal of its collective labor agreement, and the company was stalling as it awaited a decision from the head office in Japan about its future.

Industrial disputation followed as Toyota began to lay off employees, with union delegates among the first dismissed. However, rather than being a cause of Toyota’s departure, the deterioration in labor relations between the company and the AMWU was a manifestation of the challenges facing the company. In a statement on the decision to cease production in Australia, Toyota did not cite labor relations as a problem but rather identified the unfavorable Australian dollar, high costs of manufacturing, and low economies of scale for the vehicle production and local supplier base as main causes.

It can therefore be seen that despite the contrast in business strategy and labor relations arrangements at GM Holden and Toyota Australia, neither a cooperative nor an adversarial relationship with the unions made a significant difference to the decision by foreign manufacturers to close their operations in Australia.

A question remains as to whether the Australian government might have done more to persuade the three foreign manufacturers to remain or whether other companies might have been attracted as replacements. A 2015 report from the Senate of Australia’s Economics References Committee recommended actions to retain and develop an internationally competitive auto industry in Australia. Among the Senate committee’s recommendations were to provide funding, particularly to component suppliers, for the commercialization of new automotive technologies, engineering, and design for both domestic and offshore automotive customers. However, the government declined to adopt these recommendations.

If the industry in Australia were to be revived, the best prospects might be as a producer of specialized components, niche vehicles, and accessories. But this would require a fundamental change in the approach by domestic policymakers to create a motivation for domestic production (Stanford 2017).

The situation in Australia cannot be isolated from the global context and may have implications for other countries that are among the smaller auto producers and where the head offices of the auto companies are located elsewhere. Around the world, there is an oversupply of vehicles for sale, and many multinational auto companies are relocating their production hubs from higher- to lower-cost economies.

Companies are also shifting their operations to fast-growing markets in China, India, and other regions of the world with rising demands for automotive products and components. Histori-

**Global Lessons from the Australian Experience**

What lessons can be drawn from the demise of auto manufacturing in Australia? Many interrelated factors led to the closures of the last three major producers. The global recession impacted both the global and domestic auto industry, with most of the Australian-based manufacturers experiencing a decline in both local and export demand for their products. Reliance on a shrinking domestic market was not viable for the future of the industry in Australia. With the major vehicle manufacturers closing, there was little future for local parts suppliers.

Other contributing factors included the reduction in tariff protection, ineffectiveness of government financial assistance packages, and volatile exchange rates that added to the expense of auto manufacturing in Australia. While there had been high levels of industrial disputation in the past, a cooperative (in the case of GM Holden) or an adversarial (as in the final days of Toyota Australia) relationship with the unions made a significant difference to the decision by foreign manufacturers to close their operations in Australia.

A question remains as to whether the Australian government might have done more to persuade the three foreign manufacturers to remain or whether other companies might have been attracted as replacements. A 2015 report from the Senate of Australia’s Economics References Committee recommended actions to retain and develop an internationally competitive auto industry in Australia. Among the Senate committee’s recommendations were to provide funding, particularly to component suppliers, for the commercialization of new automotive technologies, engineering, and design for both domestic and offshore automotive customers. However, the government declined to adopt these recommendations.

If the industry in Australia were to be revived, the best prospects might be as a producer of specialized components, niche vehicles, and accessories. But this would require a fundamental change in the approach by domestic policymakers to create a motivation for domestic production (Stanford 2017).

The situation in Australia cannot be isolated from the global context and may have implications for other countries that are among the smaller auto producers and where the head offices of the auto companies are located elsewhere. Around the world, there is an oversupply of vehicles for sale, and many multinational auto companies are relocating their production hubs from higher- to lower-cost economies.

Companies are also shifting their operations to fast-growing markets in China, India, and other regions of the world with rising demands for automotive products and components. Histori-

---

**Figure 1. Tariff rates for the Australian automotive industry, 1984–85 to 2012–13.**

![Graph showing tariff rates for the Australian automotive industry from 1984–85 to 2012–13.

**Source:** Productivity Commission (2014): 108.

**Table 1. Entrants, exits, and new plants established by automotive manufacturers in Australia, 1920–2017.**

<table>
<thead>
<tr>
<th>Year (to)</th>
<th>Entrants</th>
<th>Exits</th>
<th>New plants</th>
<th>Number of plants (end of period)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920-1927</td>
<td>16</td>
<td>2</td>
<td>16</td>
<td>14</td>
</tr>
<tr>
<td>1948-1953</td>
<td>18</td>
<td>16</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>1964-1969</td>
<td>5</td>
<td>9</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>1975-1980</td>
<td>3</td>
<td>7</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>1984-1989</td>
<td>2</td>
<td>6</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>1999-2017</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

*Includes the announced exits of Ford, GM Holden, and Toyota from Australian automotive manufacturing scheduled for 2016 and 2017.*

cally, multinational automotive companies have been influenced more by their global strategies than by government offers of assistance, and this fact has been more pronounced during periods of economic downturn, when head offices have tended to recentralize decision making.

Canada faces some challenges similar to those in Australia, and some commentators see a similarly bleak future. While Stanford (2017) is more optimistic, he warns that “Canada’s present automotive policy is inconsistent and contradictory, and the structural legacy of one uniquely Canadian policy success (the Canada–US Auto Pact) continues to erode. In this regard, Canadian policy makers would do well to carefully study, and learn from, the painful experience of Australia’s industry.”

The global automotive market has become more concentrated, and global parent companies are willing to play national governments off against one another overtly to obtain advantageous arrangements. President Trump has proposed various measures, including tariffs on foreign-made vehicles, to persuade U.S. auto manufacturers to locate more production at home. However, he may find that this policy objective is difficult to achieve, given the reliance of U.S. producers on parts supplied from other countries and the increasingly elaborate structure of global auto supply chains.

Furthermore, U.S. multinational auto companies are committed to long-term investments in foreign operations where markets are expanding and where workers have fewer rights and lower wages. The desires of the current U.S. administration and key stakeholders, including unions, for a revitalized auto industry should keep the central lesson of the Australian case in mind: national industry policy is becoming increasingly difficult to enact.

Table 2. Applied tariff rate in selected countries, 2013.

<table>
<thead>
<tr>
<th>Country or region</th>
<th>Tariff rate on passenger vehicles</th>
<th>Tariff rate on commercial vehicles</th>
<th>Tariff rate on automotive components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Brazil</td>
<td>35</td>
<td>35</td>
<td>0–18</td>
</tr>
<tr>
<td>China</td>
<td>25</td>
<td>6–25</td>
<td>3–25</td>
</tr>
<tr>
<td>European Union</td>
<td>10</td>
<td>22</td>
<td>3–4.5</td>
</tr>
<tr>
<td>India</td>
<td>60–100</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Japan</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Mexico</td>
<td>20</td>
<td>20</td>
<td>0–5</td>
</tr>
<tr>
<td>Korea</td>
<td>8</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Thailand</td>
<td>80</td>
<td>40</td>
<td>10–30</td>
</tr>
<tr>
<td>United States</td>
<td>2.5</td>
<td>0–25</td>
<td>0–2.5</td>
</tr>
</tbody>
</table>


References


