

## Closure of GM Holden – Government Response

January 2014

On 11 December 2013 General Motors Holden announced that it would cease production in Australia by the end of 2017. GM Holden also announced that it will close the Lang Lang Proving Ground in Victoria, and substantially reduce the staffing of its product development centre.

On 21 January 2014 South Australian Premier the Hon Jay Weatherill MP released *Our Jobs Plan*, the State Government’s response to the closure of General Motors Holden. The State Government has committed \$60 million over four years towards fourteen initiatives within the Plan to assist South Australian workers and industry. The South Australian Government is also asking the Federal Government to commit \$330 million to support South Australia in these efforts.

*Our Jobs Plan* is available in full [here](#).

The Premier’s media release on the Plan is available [here](#).

The Hawker Britton Occasional Paper on the South Australian Government’s response is available [here](#).

On 18 December 2013 Prime Minister the Hon Tony Abbott MP announced an initiative to support the auto-manufacturing industry, which includes a \$100m industry growth fund to assist the automotive manufacturing industry in Victoria and South Australia. The Federal Government is proposing to provide \$60 million to the fund, with South Australia and Victoria providing \$12 million each and Holden contributing approximately \$20 million.

The South Australian Premier Jay Weatherill described the Federal proposal as “manifestly inadequate”, noting that an additional \$715 million had been available if Holden had continued production in Australia. The Victorian Premier welcomed the package, but only as a ‘first step’.

The Federal package and state government concerns are outlined below.

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### **The closure of GM Holden's manufacturing operations**

GM Holden's decision to end its Australia manufacturing operations will result in approximately 2 900 job losses: 1 600 in South Australia and 1 300 in Victoria. A further 33 000 people in the automotive components sector are likely to be affected.

Holden will also close its car testing facility at Lang Lang in Melbourne which will likely result in job losses for around 1 000 vehicles dynamics engineers and headquarters staff associated with purchasing and manufacturing.

From 2017, the company will source most of its vehicles from neighbouring countries in Asia.

GM's chief executive Dan Akerson cited three key reasons for the decision: the sustained strength of the Australian dollar, high production costs, and the small domestic market.

GM Holden has also indicated it has set aside at least \$100 million for costs relating to the closure of its Australian manufacturing obligations.

Following the announcement of the closure, Victorian and South Australian Premiers, the Hon. Denis Napthine MLA and the Hon Jay Weatherill MP, notified the Prime Minister that their states would require significant help from the Federal Government to cover the lost jobs.

### **Background – the automotive manufacturing industry**

The Australian automotive manufacturing industry has been around since the invention of the car. The first Australian designed and built car, the Holden 48-215, came about as a result of the industry policies of the Chifley Labor Government in 1947.

The industry survived from the 1940s until the 1970s under high tariff protection. The Whitlam Labor government began the process of reducing tariffs in the 1970s.

The Hawke Labor Government substantially restructured the industry through further tariff reduction but with substantial industry assistance under the Button Car Plan.

Further tariff reductions and transition assistance existed under schemes maintained by the Keating, Howard, Rudd and Gillard governments.

The last review of industry support was the 2008 [Review of Australia's Automotive Industry](#), chaired by the Hon Steve Bracks.

Recently, the industry has come under significant pressure, particularly in the wake of the global financial crisis and the sustained high Australian dollar. This pressure has resulted in a shrinking of the industry, evident in a decline in the number of employees in the industry, the export value of the industry, and the total domestic production.

In March 2012 South Australian Premier the Hon Jay Weatherill MP, then-Prime Minister the Hon Julia Gillard MP and then-Premier the Hon Ted Baillieu MP announced a \$1 billion, 10-year 'co-investment package' to secure the future of Holden, including \$275 million of government investment.

Specifically, GM Holden announced that it would commit to producing two "next generation" vehicles in Australia over the next ten years. The Federal Government's contribution to this investment formed part of its existing \$5.4 billion *New Car Plan for a Greener Future*.

The Hawker Britton Occasional Paper on the package is available [here](#).

In April 2013, Holden announced 400 of its then-1 250 assembly-line jobs would be cut by August 2013.

Ahead of the 2013 Federal election, the ALP committed to further funding of amid suggestions that the manufacturer required as much as \$500 million to commit to building the two new model cars from 2016.

However, the Coalition went to the 2013 election with a plan to cut \$500 million from overall auto industry assistance. The Coalition Government reaffirmed that policy following the Federal election.

#### **Federal Government Response to the closure of GM Holden**

The Federal initiative announced by Prime Minister Abbott on 18 December includes the establishment of a \$100 million growth fund to provide support for regions impacted by the closure Holden's manufacturing operations, to be made up of \$60 million of Federal funding and contributions from the Victorian and South Australian governments and GM Holden.

The package also includes two reviews of the South Australian and Victorian economies and the development of a National Industry Investment and Competitiveness Agenda.

The Prime Minister's media release is available [here](#).

The South Australian Premier's media release in response to the Federal initiative is available [here](#).

South Australia's Automotive Transformation Coordinator Greg Combet has noted that since the election the Federal Government has removed \$500m from the Automotive Transformation Fund, which provided funding to automakers.

Additionally, the Coalition government did not commit to the \$215m that had been set aside by the previous Labor government as a support package if Holden had decided to remain in Australia.

### ***Industry Growth Fund***

The Prime Minister has proposed that Federal, Victorian and South Australian governments will work with Holden to establish a growth fund to support business and research and development opportunities in affected regions. The growth fund will complement the direct support available to Holden workers as part of existing Commonwealth and Holden support schemes.

The fund will provide:

- support for Victoria and South Australia component manufacturers to adjust their business models to non-automotive and overseas customers and to commence or expand export activity;
- grants to existing or new businesses that establish or expand manufacturing operations in South Australia or Victoria, with preference for those 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.

The fund will be administered by the Department of Industry and commence in 2014-15.

The final design of the fund would be informed by the outcomes of the reviews, consultation with the South Australian and Victorian Governments, discussed below, and advice from the review panels.

### ***Funding***

The assistance package will be made up of \$60 million of Federal Government funding, \$12 million from the Victorian State Government, and the remainder will be drawn from the South Australian government.

It is expected that GM Holden will also contribute approximately \$20 million to the package.

Holden workers will also be eligible for employment support with a Job Services Australia provider through the [Automotive Industry Structural Adjustment Program](#).

The South Australian Premier's media release is available [here](#).

### ***Reviews of the South Australian and Victorian economies***

The Prime Minister also announced the commencement of two reviews of the South Australian and Victorian economies. Both reviews will be chaired by Industry Minister the Hon Ian Macfarlane MP and will include MPs and industry leaders in the South Australian and Victorian business communities.

The reviews will develop support plans and will examine ways to boost the competitiveness of the South Australian and Victorian economies through:

- the encouragement of investment and innovation in high growth sectors in the affected regions;
- further investment in infrastructure to boost productive capacity;

- where appropriate and cost effective, relocation of Commonwealth public service functions to the affected regions;
- consideration of the most pressing concerns of the shipbuilding industry;
- support for the diversification of automotive supply chain companies; and
- support for the training and redeployment of workers displaced by closures.

The reviews will report to the Government in February 2014.

The outcome of the reviews will support the work of the COAG Industry and Skills Council.

The Hawker Britton Occasional Paper on COAG, updated following changes to the COAG Council Structure is available [here](#).

The South Australian Government has expressed concern over the reviews. The South Australian Premier has noted that the Productivity Commission had planned to take until mid-2014 to report on the automotive industry, yet will now review the entire South Australian and Victorian economies in less than two months.

The Premier particularly noted that the Review appeared to be timed to occur prior to the next State election, due on March 15 2014.

### ***National Industry Investment and Competitiveness Agenda***

Prime Minister Tony Abbott also announced the establishment of a Taskforce comprising the Prime Minister (Chair), Treasurer, Industry Minister, and Minister for Trade and Investment.

The Taskforce will develop a National Industry Investment and Competitiveness Agenda to make recommendations to the Federal Government by the end of June 2014. The Prime Minister's Business Advisory Council, Chaired by Mr Maurice Newman AC, will also be involved in the development of the Agenda.

The Taskforce will focus on potential measures to promote national competitiveness and productivity including:

- economy-wide measures to boost the competitiveness of Australian manufacturing and lower business costs, such as reducing the costs of energy and regulation;
- options to encourage innovation, including employee share schemes, support for research and development;
- options to accelerate the development of productivity enhancing infrastructure;
- options to encourage the growth of small to medium businesses; and
- economy-wide incentive mechanisms to boost investment in Australia.

The Prime Minister also announced that the Federal Government would commence discussions to fast-track the \$1.5 billion set aside for South Australian infrastructure projects over the next six years and the \$6.5 billion set aside for Victorian projects.