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With No Particular Place to Go: The Federal Government's Ill-Conceived Support for the Australian Car Industry

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The government's 'New Car Plan for a Greener Future,' launched in November 2008 allocated $6.2 billion to the Australian car industry until 2020. Meant to support a key national industry, help protect the environment, and secure jobs, it fails on all these objectives:

- The car industry is one of the most globalised industries, and the three 'Australian' car manufacturers are in fact subsidiaries to foreign companies. Treating car manufacturing as a 'national' industry is misguided.
- Two of the three car manufacturers in Australia (GM Holden and Ford Australia) are subsidiaries to troubled American companies. Whether subsidies paid to them actually support jobs in Australia or effectively go to Detroit is a matter for debate.
- A potential collapse of General Motors in the United States would leave Holden in a perilous situation in which it would become dependent on state funding.
- Industrial policy is often accused of 'picking winners.' In the Australian case, however, subsidies are paid to winners (Toyota) and losers (GM Holden and Ford Australia) alike.
- On closer inspection, the 'green' car plan turns out to be just a piece of old-fashioned industrial policy. The green label serves only as a smokescreen.
- Greater environmental effects could be achieved if transport were not excluded from a future Emissions Trading Scheme.
- Further carbon reductions could result from opening the Australian car market to greater foreign competition. In order to do this, tariffs should be slashed and the Luxury Car Tax abolished.
- Supporting the Australian car industry may keep jobs in this sector. But this only comes at the expense of all other sectors of the economy that are required to pay for this through higher taxes and higher car prices.

A strong car industry would be an asset to the Australian economy only if it stood on its own two feet. Relying on government support is no substitute for building good quality and good value cars for which there is market demand.

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Riding along in my automobile
my baby beside me at the wheel
I stole a kiss at the turn of a mile
my curiosity running wild
crusin' and playin' the radio
with no particular place to go

—*Chuck Berry*
'No particular place to go' (1964)

The Rudd government's car plan

It was meant to send a message of hope at a time of economic gloom—the federal government's launch of its scheme for the Australian car industry. Nothing less than 'A New Car Plan for a Greener Future' was promised. At least that was the title of the document that Prime Minister Kevin Rudd and Industry Minister Kim Carr presented to the media in November 2008. In truth, it was only a promise to continue a decade-long policy of supporting the Australian car industry with permanent grants from the taxpayer.

What sounded like a grand new plan, which also came with a bill of $6.2 billion (up $3.2 billion from the previous federal government's commitment[1]) to Australian taxpayers, could have equally been given the name of an old Chuck Berry song. The Rudd government may not have been 'cruisin' and playin' the radio,' but they were still lacking a 'particular place to go.' The government's car strategy may not lack ambition, but its justification even on its own terms is doubtful. Besides, at a time when the global car industry is in trouble, it is more difficult than ever to anticipate what the car markets of the future will look like. For a government to declare that it can pick winners and promote future technologies is a bold step.

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The government's main arguments in favour of further assistance to the car industry can be summarised as follows:

a) to sustain Australian car manufacturing because it is regarded as a key industry for the nation

b) to support the government's environmental policy, in particular with regard to carbon emissions and climate change

c) to secure employment in the automotive sector.

Should these main goals be reached, then the government could argue that the $6.2 billion towards the car scheme would have been well spent. However, this is a necessary but not a sufficient justification. The government would also have to demonstrate that its goals of strengthening Australia's industrial base, reducing fuel consumption, and promoting employment could not have been reached at a lower price.

This paper takes issue with the assertion that the car industry package is an efficient way of reaching the Rudd government's targets. It is possible, and even likely, that the government's aims could have been reached without continuing the subsidisation and protection of the Australian car industry.

Some people argue that Australia does not need a car industry, saying that the Australian market is too small to support a car industry of its own. The government, on the other hand, says that Australia needs a car industry, irrespective of the cost to the taxpayer. They are both missing the point. Whether Australia can have a viable car manufacturing sector is something for the market to decide.

A successful and productive car industry would certainly be an asset to Australia. Even the government believes that such an industry has to be self-sufficient in the long run. However, the government's car strategy assumes that self-sufficiency could only be reached by extending state support for another decade, until the year 2020. This is misguided.

There’s no such thing as an Australian car

In his foreword to the car plan Prime Minister Rudd wrote:

> Australia is one of only about fifteen nations in the world today that can create a car from scratch—taking it from the drawing board to the showroom floor. And because the modern car integrates just about every advanced technology we use, from microchips to composite materials, being able to build cars means being able to build lots of other things as well. That’s why the automotive sector is a cornerstone of Australian manufacturing.[2]

The basic claim behind this statement is simple: Being able to build a car is something that not many nations are able to do; and the very fact that Australia belongs to the small club of car manufacturers means that it can be productive in other industries as well. Unfortunately, the Prime Minister’s assertion is both inaccurate and misleading for a number of reasons.

It is not nations that make cars but, with a few exceptions, privately owned car manufacturers.

For one, Rudd’s statement cannot be taken literally. After all, it is not nations that make cars but, with a few exceptions, privately owned car manufacturers. Many of these car companies are in fact multinational companies owned by shareholders in many countries and operating across borders with an extensive network of R&D centres, company headquarters, factories, and distribution centres. To pretend the car industry as something that is intricately linked to a nation state is misleading.

The quintessentially German car manufacturer Daimler is a good example: Headquartered in Stuttgart, Germany, cars and trucks with the famous Mercedes star on the bonnet are also manufactured or assembled in Argentina, Austria, Brazil, Canada, China, Egypt, Bosnia and Herzegovina, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, South Africa, South Korea, Thailand, Turkey, the United Kingdom, and the United States. Meanwhile, Daimler still holds a stake in the US car manufacturer Chrysler and in the Japanese truck maker Mitsubishi, while 53.7 percent of Daimler shares are held by investors outside Germany.[3] The long list of countries involved in Daimler’s operations should make it clear that car manufacturing is one of the most globalised industries, and it cannot be tied to any particular country.

If a company like Daimler, thought by many to be the very incarnation of German engineering, cannot actually be reduced to just one country, doing so in the case of Australia’s car industry is even less reasonable. After all, none of the big three car manufacturers in Australia (Holden/GM, Ford and Toyota) is headquartered in Australia. They are all subsidiaries of big, multinational companies, two in the United States and one in Japan.

Seen from this angle, the Prime Minister’s claim that ‘Australia’ can create cars is misleading. ‘Australia’ as such is not a car manufacturer. While some cars are in fact both designed and produced in Australia, we should not forget that they are still part of international production chains that encompass many other countries. GM/Holden, for example, is often mentioned as an example that ‘Australia’ can build cars from scratch. The current generation of the Holden *Commodore*, *Statesman* and *Caprice* are presented by the company as ‘all-Australian’ cars as they were designed and manufactured in Australia. Closer inspection reveals that this is not the complete truth. Parts of these cars still come from GM production facilities outside Australia. The 5-speed transmission for the *Statesman* and *Caprice* is manufactured in Strasbourg, France, while the 6-speed transmission comes from Ypsilanti, Michigan. Some *Commodore* 4-speed transmissions are from Toledo, Ohio. So much for an all-Australian car.

There is of course nothing wrong with multinational companies spreading their production processes across a number of countries, but it undermines the political case for treating the Australian car industry as a national matter. Nothing could be further from the truth. Australian car manufacturing is part of a big, multinational operation. No matter how much the government tries to sell car manufacturing in Australia as an

Australian business, it remains an undeniable fact that the companies in question are not Australian.

Two of these companies, General Motors (GM) and Ford, are also known to be in trouble; the desperate state they are in was underlined during the appearances of their CEOs in the US Senate where they tried to get federal assistance. Subsidies paid to their subsidiaries in Australia may eventually end up in the coffers of their parents in Detroit.

The government's first mistake, therefore, consists of treating multinational companies with some operations in Australia as purely Australian companies. This view is, however, dangerously naive. Subsidies given to any such company may have all sorts of effects. They may contribute towards the development of technology within the multinational company of which other countries may in fact benefit more than the direct Australian recipients. Of course, the government may argue that precautions would be taken to prevent precisely these kinds of unwanted international spill-overs. Despite these measures, internal accounting could well render these precautionary measures ineffective. To some degree, it is always possible in multinational structures to shift costs and profits around. And especially in a complex organisation such as GM, it is ludicrous to assume that parts of its structure could be treated as separate and near-independent entities.

The state of Australia's car industry

Australian car manufacturing is part of a big, multinational operation.

The degree to which GM is an integrated company becomes clear by looking at the political crisis that GM's current problems have triggered in Germany. By comparing Holden's position to GM's German subsidiary, Adam Opel AG, the problems of being part of GM become clear.

Opel was widely assumed of having been turned around in recent years, introducing new and innovative cars such as the new *Insignia*, Europe's 'Car of the Year 2008.' Also, according to industry research their factories are among the most efficient in Europe. A Volkswagen *Polo* takes 21.6 hours to assemble, whereas GM's similarly sized *Corsa* is manufactured in 14.5 hours.[4]

Despite the fact the Adam Opel AG is now, by all accounts, among Germany's more innovative and efficient car manufacturers, German politicians had to discover that they were almost powerless in case of a bankruptcy of Opel's US parent company. Research and development activities were bundled for a number of GM brands, which also share production platforms and use common parts. Crucially, the financial structure of GM is also too integrated to be disentangled easily. Opel currently does not even own the patents it uses to build its own car. In effect, all this means that there is no obvious way of supporting Opel without running the risk that any subsidies given to it would not end up in Detroit.

The only thing German state politicians with big Opel factories in their constituencies can do is hope for an American bailout of GM. If GM collapsed, on the other hand, it would be extremely difficult to cut out the viable parts of Adam Opel AG for a potential takeover. Its integration after more than 70 years as part of GM would require some very difficult business surgery. Not only that, it would be possible only with the support of the US government. The deal over the US government's emergency funding for GM includes a clause that gives the US president the last word over any asset sales within GM.[5] This means that any restructuring plan for GM or any of its subsidiaries is ultimately decided in Washington, DC and not in Detroit.

The political and economic problems for Opel are manifold, and they are currently the subject of heated political debates in Germany. Holden is basically in the same situation. In the case of a collapse of GM, the options for Australian politicians of keeping Holden alive are limited. They may even be smaller than the options for Opel. At least Opel is now producing cars that have the potential of finding customers, especially a range of smaller and innovative cars. Holden on the other hand, despite having produced some good quality cars, has focused too much on the one segment of the market that has been under the most pressure recently: large, fuel-thirsty cars. But it was the other parts of the market—namely smaller, more fuel efficient vehicles—that Australian consumers were demanding.

Should it really come to a collapse of GM, Holden would be rendered a much less attractive company to take over and restructure than, say, Opel. Whether such an operation would be regarded as worthwhile is doubtful. It could well be that no investor would be willing to go through the difficulties of separating the Australian core of Holden from the rest of GM only to be left with the daunting task of turning it into a profitable company, which means developing and producing cars that Australian consumers actually want to buy.

This means that any restructuring plan for GM or any of its subsidiaries is ultimately decided in Washington, DC and not in Detroit.

The difficulty that Holden has faced over the last few years is reflected in its sales and market share history (see Table 1). While the losses the company experienced in 2005 and 2006 due to the introduction of the new *Commodore VE* range could be reduced to almost break-even in 2007, Holden's market share in Australia has taken a dive from 21.4 percent in 2001 to only 12.8 percent last year. That Holden's profits have not deteriorated further is only due to the company being able to increase overseas sales, mainly in the Middle East—a development that is likely to reverse in this global recession. Considering the massive drop in production in 2008, it is likely that Holden's losses, which have not yet been reported, will have worsened.

Year	Total sales	Market share	Profit / (Loss)
2001	165,579	21.4%	$285m
2002	178,392	21.6%	$256.5m
2003	175,412	19.3%	$285.6m
2004	178,027	18.6%	$216.4m
2005	174,464	17.7%	($145m)
2006	146,511	15.2%	($146m)
2007	146,680	14.0%	($6m)
2008	130,338	12.9%	n/a

Table 1: Holden sales, Australian market share and profit[6]

Holden's situation is difficult, to say the least. December 2008 was the first month in decades that Holden sold fewer than 10,000 vehicles. On 8 January 2009, the company also announced that it would not produce a long-planned *Pontiac G8* ute for the US market as a consequence of the economic crisis.[7] Given the impact of the global financial crisis on Australia's economy with Australian car sales predicted by the Federal Chamber of Automotive Industries to fall by 13 percent in 2009,[8] it is doubtful that GM/Holden will report a profit again soon.

Considering these circumstances, the Australian government's continuing support for the company is a high-risk gamble. The parent company GM is now by all accounts a company at the mercy of US legislators. After much political wrangling, they provided emergency funding of more than US$10 billion in December 2008 out of a fund that was initially meant to buy troubled financial assets. However, there is no guarantee that such support will continue indefinitely and in fact cease at some stage. Politicians' patience with a company asking for bailouts after each new record loss will eventually run out. If and when that happens, it would leave GM Holden in a perilous situation for all the reasons described above.

In its restructuring plan submitted to the US Treasury, Holden's parent company GM nicely summed up the problems:

> Australia—Continued local production has become more challenging due to changes in market preferences. GM's local subsidiary (Holden) and the Australian government

have developed a plan to bring to market a new, more fuel-efficient vehicle, with project funding provided by the Australian Government in the form of permanent grants. With this support, Holden is projected to be a viable operation, making a positive NPV [Net Present Value] contribution.[9]

It is easy to translate this into real English: 'Changes in market preferences' means that Australians don't buy Holden's cars anymore. So they want to 'to bring to market a new, more fuel-efficient vehicle,' which means that they have never produced this kind of car in the past. To make this possible they need 'permanent grants,' which means big subsidies from Australian taxpayers. Also note the three words 'with this support' because what they really mean is an indirect blackmail: without this support the company would quit the Australian market.

All of this means that the Australian government is supporting a company that cannot be said to be 'purely Australian'; that has lost a third of its Australian market share in seven years; and whose fate is heavily dependent on political decisions taken in the United States.

The Australian government's continuing support for the company is a high-risk gamble.

Holden is not the only troubled car manufacturer in Australia. The state of Ford Australia, Holden's traditional arch-rival in the Australian market, is also difficult.

Ford Australia shows many parallels to its rival GM Holden. Both companies are subsidiaries to their US parents, and both produce a very similar range of products, namely big, thirsty cars. Although Ford's US parent so far has not received emergency funding from the US government, it is also among the most troubled US car manufacturers. Where Holden lost more than a third of its market share between 2001 and 2008, Ford 'only' lost about a quarter. Just like Holden, Ford has not been profitable in the recent past, reporting a loss of $87.2 million in 2007.

Year	Total sales	Market share	Profit / (Loss)
2001	106,730	13.8%	($5.5m)
2002	109,194	13.2%	$20m
2003	126,581	13.9%	$154m
2004	135,172	14.2%	$192.3m
2005	129,140	13.1%	$148m
2006	114,965	11.9%	($40.3m)
2007	108,071	10.3%	($87.2m)
2008	104,715	10.3%	n/a

Table 2: Ford Australia's sales, Australian market share and profit[10]

That GM/Holden and Ford are in trouble is already clear by looking at the developments of their market shares and profitability. However, the full extent of the crisis is only revealed when comparing them against the backdrop of the Australian car market. While Ford and Holden's sales collapsed, the Australian passenger car market boomed. Total sales went up by more than 100,000 units per year between 2001 and 2007.

Year	Locally produced	Market share	Imported	Market share	Total sales
2001	209,796	39.6%	319,656	60.4%	529,452
2002	217,385	40.2%	322,855	59.8%	540,240
2003	238,891	40.6%	349,620	59.4%	588,511
2004	215,959	36.6%	374,026	63.4%	589,985
2005	183,719	30.2%	425,085	69.8%	608,804
2006	150,784	25.2%	447,610	74,8%	598,394
2007	157,262	24.7%	479,757	75.3%	637,019

Table 3: Australian passenger car market by origin[11]

Ford Australia and GM Holden clearly missed the trend towards smaller, more fuel-efficient cars and repeated the mistakes made by their American parent companies. Meanwhile, the Australian passenger car market is now clearly dominated by imported vehicles. Only one in four cars sold in 2007 was assembled in Australia.

Of the three large car manufacturers with factories in Australia, Toyota is in different position than GM/Holden and Ford Australia. For many years, Toyota's parent company was regarded as the benchmark in the car industry, setting standards in efficiency and profitability. It was the global financial crisis that forced it to announce its first loss in 71 years in 2008.

The Australian passenger car market is now clearly dominated by imported vehicles.

Toyota Australia has developed into the biggest single brand in the Australian car market, with recent market shares around 22 percent—about the same market share as Holden and Ford combined. Toyota's success may be due the fact that its product range is closer to the changing preferences of the Australian consumers. The *Camry* is a good example as it is Australia's only locally made car running on four cylinders. As a consequence, Toyota Australia is profitable, recording a profit of $184.3 million in 2007.[12] Toyota is not only profitable but also—at least until recently—part of the most profitable car manufacturer in the world.

This means that the Australian government is subsidising very different companies within the same industry: both the global and local market leader and its much less successful, troubled competitors. Industrial policy is often criticised for its attempts to pick winners. In the Australian case, the government is not even doing that. It is subsidising winners and losers alike.

If there had ever been a convincing rationale for industrial policy, it does not show in the case of the Australian car industry. Why support two companies whose very existence depends on political decisions taken in another country? Whose managements have shown themselves unable to adapt to changing market conditions? Conversely, why support a world market leader with an abundance of resources and the ability to make business decisions largely independent of government policies?

From a strategic point of view, subsidising any of these three companies does not make sense. The Australian taxpayer should not have to pay any transitional assistance to companies that are likely to shrink further or even go under. Nor should taxpayers be required to write cheques to a company that is (or at least was until very recently) highly profitable anyway. And if subsidising any of them does not make sense, subsidising all of them clearly does not do so at all.

The climate change argument

Apart from the industrial policy angle of pretending to support a national 'key industry,' the government has also tried to present its support given to 'Australian' car manufacturers as an incentive to build greener cars and combat climate change.

This is not the right place to discuss climate change policy challenges, which is a wide field that first requires a decision between abatement and adaptation policies. If abatement is given preference, i.e. a reduction in greenhouse gas emissions is the target rather than adapting to a changing climate, then this poses the question how that can be achieved. Again, there are numerous policy options, ranging from regulations to taxing carbon emissions or the introduction of an emissions trading scheme. Government can make different choices within each of these options.

It is not the task of this paper to determine which of these climate change policies work best, and whether they are effective or even efficient. For our purposes at least it is enough to accept that the Australian government has opted in general for an emissions trading scheme as its preferred option for fighting carbon emissions.

While the implementation of an emissions trading scheme is a complex challenge, it has certain theoretical advantages. The most important is that it might cut emissions in the most cost-efficient way. Under an emissions trading scheme, it does not matter which technology is used or in which industry as long as it has the effect of cutting emissions.

By making emissions certificates tradable across industries, market-like mechanisms will then reduce emissions where it is cheapest to do so. As a matter of fact, a carbon tax would have a similar effect.

The practical problems of emissions trading are manifold, as the introduction of such a system has shown in the European Union. However, this is the way the Rudd government wants to go, and the opposition have signalled their support in principle, though not in detail. Yet, the government has repeatedly stated that it will exempt emissions from petrol consumption from the emissions trading system.

There is an obvious inconsistency in the government's policy towards climate change. On the one hand, their 'New Car Plan for a Greener Future' shows that the transport sector plays a major role when it comes to fighting climate change. On the other hand, fuel is exempt from the government's flagship climate change policy.

We may only speculate about the reasons for this contradiction. It is clear that any policy that increases petrol prices would be extremely unpopular with the electorate. So exempting petrol from carbon taxes or emissions trading while proclaiming to make motoring greener through subsidies to car manufacturers is the government's attempt to have its cake and eat it: they look as if they are fighting climate change but without upsetting any voters in the process.

The government is trying to draw up a separate climate change policy for just one sector of the Australian economy. While other industries have to find ways to cut emissions in the most efficient way, in transport it will be for the government to facilitate emissions cuts through its industrial policy.

Whether the government admits it or even realises it, this is a glaring contradiction. Clearly, if emissions trading is the best way forward, then there is no excuse for exempting transport fuels. Including it would, in fact, be a fairly simple exercise—fuel retailers were required to purchase emissions certificates for the petrol they sell to their customers. The price of these certificates would then be passed on to the final purchaser of fuel.

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As in all other sectors of the economy, it would then be for motorists to decide how to react to increased energy costs. They could drive less or simply drive more slowly. They could use public transport more often. And if they decided to drive a car, consumers could decide which car they want to drive. They could go for more fuel-efficient direct injections diesel cars. They could opt for hybrids or electric cars. They could go for cars using alternative fuels or smaller engines. Cutting fuel consumption would be a process of open-ended discovery.

There are many options for cutting fuel consumption, and companies all over the world are trying to develop new ways to squeeze more mileage out of fossil fuels. Which of these technologies will eventually succeed is hard to predict. If there is one certainty then it is this: in lots of countries around the world, car manufacturers have already reacted to the challenge of stricter environmental regulation, higher fuel prices, and changing consumer demands. The new fuel-efficient cars of the future are already being presented at motor shows, and it is only a matter of months or a few years before they are available for the masses. In fact, in showrooms around the world one can already find cars that are vastly more fuel efficient than the cars currently driven on Australia's roads. To name just a few examples: the Mercedes *C250 CDI BlueEfficiency* has a diesel consumption of only 5.2 litres per 100 kilometres; the VW *Passat TSI EcoFuel* runs on 6.9 m^3 of natural gas; and BMW's *520i* needs 6.7 litres for the same distance. This is considerably less than, say, a Ford Falcon where even the smallest available engine uses more than 10 litres.

Given these circumstances, it takes a degree of hubris for the Australian government to decide that it can help to pick winners in the race to find the most efficient car. Instead of including petrol in its emissions trading scheme, it is giving away subsidies to the car manufacturers for specific car models such as the new Toyota hybrid or Holden's new 4-cylinder sedan. It is as if the Australian government had decided that only with these few Australian models will it be possible to cut Australia's emissions from transport—completely ignoring the more efficient cars that are already available and the many more efficient cars that will be available within the next few years.

In lots of countries around the world, car manufacturers have already reacted to the challenge of stricter environmental regulation, higher fuel prices, and changing consumer demands.

There is perhaps an even greater irony in all of this. If the government's aim was to make more fuel-efficient cars available to Australian consumers, there is an easier option. Thanks to much higher petrol prices in their domestic markets, European car manufacturers have for many decades paid much more attention to fuel efficiency than their Australian counterparts. This also explains the fact that for a very long time Australians had a preference for large V6 or V8 cars simply because they were not as expensive to run as they would have been in Europe.

Take the Holden *Commodore*, for example. The smallest and most fuel-efficient engine Holden is currently offering for its most important model is a V6 at 175 kW. It uses an average of 10.6 litres of petrol for 100 kilometres.

To put this figure into perspective, let us compare it so the similarly sized Opel *Insignia*, also produced by GM but in a country where fuel is much more expensive, namely in Germany. There the smallest petrol engine on offer is a 4-cylinder at 85 kW that uses only 7.5 litres per 100 kilometres. Opel also offers a diesel version (81 kW), which brings fuel consumption down to just under six litres.

What this example shows is that more fuel-efficient cars than the ones currently being offered by Australian car manufacturers are already being offered overseas. Some of them are even produced by companies that are also subsidiaries of GM, Ford or Toyota. So instead of re-inventing the wheel to design a new, more fuel-efficient Australian car, it would be cheaper just to import them.

But importing them into Australia is difficult and expensive. Currently imported cars are levied with a 10 percent tariff, which is scheduled to be reduced to 5 percent in 2010. On top of that, 10 percent GST is also payable.

This is not the only distortion. A less obvious impediment to importing fuel-efficient cars is the Luxury Car Tax (LCT). It is payable on the GST-exclusive value, which exceeds $57,180 at a rate of 33 percent. This threshold hardly sounds like true luxury, and in fact many mid-range cars fall under it. Because of import duties, imported cars are already more likely to be caught by the LCT, but also simply for the fact that European car manufacturers such as Mercedes, Audi and BMW are operating in the premium segment of the market. Nevertheless, higher fuel prices have led to much more fuel-efficient engines being used even in this premium segment. Thanks to tariffs and the LCT, such cars will be much more expensive in Australia than in the European markets.

To illustrate the effects of all this, let us consider an example from the near-luxury end of the car market. A Mercedes *S320 CDI* currently sells for a list price of £53,879 (approximately $114,000) in the United Kingdom (including VAT). According to Mercedes Australia's price list, however, the same car costs $151,024 in Australia, but this still excludes GST and LCT. Including these two taxes brings the total price to just under $200,000.

Now let us consider the closest Australian-made alternative: the Holden *Caprice* 3.6l V6. Its recommended retail price including LCT and GST stands at $69,490—significantly below the Mercedes. Given this massive price difference between the *Caprice* and the *S320 CDI*, it is likely that drivers going for a large, premium sedan would choose the *Caprice*. It is also conceivable that there are people who would have chosen the more expensive Mercedes if it had sold at a price like that charged in the United Kingdom.

All of this means that thanks to the combined effect of LCT and import tariffs, people will be more likely to buy the *Caprice* than the *S-class*. But they also will be buying a car that uses considerably more fuel. The *S320 CDI* uses only 8.6 litres of diesel, whereas the *Caprice* needs 11.5 litres of petrol.

This is just one example of the many contradictions that run through the whole Australian car market. Imported cars from European manufacturers are significantly more expensive than in Europe, but they are usually also much more fuel efficient than comparable Australian cars. A part of the price difference is of course due to different brands, reputations, quality standards, and cost of transport. A Holden stands for something different than, say, a BMW. But there can be no doubt that the combined effect of tariffs and LCT systematically disadvantages imported cars, which are usually the more fuel-efficient option.

If the government were serious about their goal to make Australians drive more fuel-efficient cars, they would be well advised to consider scrapping both the import tariff and the LCT. While this would certainly induce more Australians to buy Jaguars, Mercedes, Audis, and Alfa Romeos, it would create more pressure on Australian car manufacturers to build better, more fuel-efficient cars themselves. Best of all, they would have to do so *just* to be able to compete with their European rivals, not because the government told them to be more efficient.

The government's claim—that their car plan was a 'green measure' aimed at combating climate change—lacks credibility. If they were serious about reducing the emissions from motoring in Australia, the government would not exempt transport fuels from their emissions trading scheme. If they were serious about incentivising Australian motorists to buy more fuel-efficient cars, the government would remove the obstacles standing in the way of buying the most efficient cars currently produced in the world.

What the government is doing, therefore, only amounts to shielding Australian manufacturers from their more competitive, more efficient international rivals.

What the government is doing, therefore, only amounts to shielding Australian manufacturers from their more competitive, more efficient international rivals. In order to obfuscate this glaring contradiction with their usual climate change rhetoric, they are trying to gloss over this inconvenient fact by purportedly helping Australian manufacturers develop better, more efficient and greener models.

Whether these new models actually make sense is a different matter. For example, it is doubtful whether Australia is really suited for hybrid cars since hybrids are most advantageous in conditions of frequent stop-and-go, which are more frequently encountered in Japanese or European cities rather than in Australia. It was for this reason, after all, that Audi decided not to introduce their range of hybrids into the Australian market.[13]

In any case, whether hybrid technology makes sense or actually helps save fuel is not something that the government should decide *ex ante*. It is something that the market, or consumers, will have to decide over time. If fuel was included in the emissions trading scheme, fuel prices would rise. This alone would lead to consumers experimenting with different ways of saving on petrol. Hybrids may well be one of the options, but they would not be the only one. Under the government's plans, however, such processes of discovery will not be allowed to happen and Australian consumers will be unwittingly driven towards technologies and products that may well turn out to be suboptimal options.

Considering all this, the government's attempts to put a green label to their car schemes should be seen as what they are: a smokescreen for a rather old-fashioned protectionist industrial policy, unable to make a meaningful contribution to fuel consumption and climate change.

The jobs argument

Apart from the government's argument that the car industry is a 'national' key industry and that its car plan can lead to a green motoring future, the third big argument for the government's ongoing support of the Australian car industry is that it helps to save high-skilled jobs.

According to the last edition of the Commonwealth government's 'Key Automotive Statistics,' the Australian automotive industry employed 67,100 people in 2005–06. Most of them (27,100) were employed in motor vehicle manufacturing and motor vehicle body manufacturing (15,300). The automotive components sector employed a further 24,800 people.

The government's car plan provides a total of \$6.2 billion over a period of 13 years. This means that if we divide the subsidy by the employees within the industry, then every job within car manufacturing is subsidised by roughly \$7,100 per year—or \$92,400 over the course of the car plan.

The real subsidy per job may even be higher than this simple calculation suggests. Since 2005–06 the employment in the Australian car industry has started to fall already, and the decline in market shares for Australian car manufacturers, combined with the effects of the economic downturn, will further reduce the number of jobs in Australian car manufacturing. This means that we are probably talking about a subsidy of more than $100,000 per job over 13 years.

While this $100,000 subsidy may sound high, we should not forget that it comes on top of the costs of tariff protection. These are more difficult to estimate, but whenever an Australian consumer buys an imported car for which an import duty was payable, these extra costs should be considered as an implicit subsidy that goes towards Australian car manufacturers. After all, the tariff is in place to protect their jobs.

A job that is made possible in part by injections of cash from the state cannot be seen as a safe job.

There can be no doubt that the total support in forms of direct subsidies and tariff protection is substantial—and in fact has been substantial for decades. However, these policies have not prevented the continuing decline of car manufacturing in Australia. There is no sign that this decline can be reversed by the government's new car plan either.

This poses the question whether it is the right choice to pour ever more government money into a shrinking industry or whether this money would be better spent in other ways. A job that is made possible in part by injections of cash from the state cannot be seen as a safe job. There is a danger that government assistance to the industry will lock people into a sector that will not be able to survive in its current size for much longer. Wouldn't it be more honest and more responsible to tell these employees that they would be better advised to try and find employment elsewhere? And wouldn't the money that now goes towards the car industry in subsidies be better spent in helping these car industry employees finding other jobs? The long-term employment effect could turn out better if the car industry shrank and its people turned to other industries that do not depend on ongoing government support.

Apart from the employment effects within the industry itself, jobs will also be lost in other parts of the Australian economy as a result of the $6.2 billion subsidy to the car industry. Jobs will be lost because the money that goes towards car manufacturing will not go towards other products and services that could have otherwise been bought. So far the government has not presented any evidence that by diverting money from private households to the car industry, they can create a net improvement in employment. If they seriously want to make an argument about Australian jobs, then it is not sufficient to look at the car industry in isolation while neglecting the rest of the economy.

Even if we are only focusing on the jobs within the car industry, the arguments for keeping them at the expense of taxpayers do not hold up to closer scrutiny. It is often claimed that jobs within car manufacturing are high-skilled and that some spill-over effects from car manufacturing should be expected. But if car industry workers really had these highly desired skills, then they need not fear job losses within their industry because their special skills would easily find them jobs elsewhere. Even at a time of an economic slowdown, it is well-qualified workers that have the best employment prospects.

One could also question whether in today's economy the car industry is still in the driving seat for technological innovation. It may have been in the past when the car sector worldwide was highly innovative and products were improving rapidly. This may have been true up until three or four decades ago. But today's car industry is a much more mature industry—and it is other areas (such as biotechnology or nanotechnology) that are promising far more significant innovations. In terms of its leadership in technological development, the car industry has undoubtedly lost its former importance. This clearly has an impact on the industry's ability to have spill-over effects on the rest of the economy.

It is far from clear whether supporting the car industry has a positive net contribution to employment in Australia. Beyond this, the spill-over effects from the car sector are not obvious either.

Conclusion

The government has decided to continue the decade-long policy of supporting the Australian car industry—putting an emphasis on the alleged strategic significance of car manufacturing for the Australian economy, its contribution in fighting climate change, and its contribution to securing employment. However, on closer inspection none of these grand goals is likely to be achieved with the planned measures. Quite the reverse may be true.

The car industry would only be an asset to Australia if it stood on its own two feet and it produced cars that consumers want to buy. But the declining market share of Australian-made cars tells a different story. Besides, it is questionable whether an industry as globalised as car manufacturing can really be treated as a national affair, although that is what the government wishes to believe.

The car industry would only be an asset to Australia if it stood on its own two feet and it produced cars that consumers want to buy.

Seen from a climate change angle, the support of the Australian car industry does not make sense either. If the goal is to reduce carbon emissions from transport, then they should formulate policies better suited to achieve it. A far easier way would be to include fuels in the forthcoming emissions trading system. Another measure, which would have a big impact on Australia's fuel consumption, would be a further opening of the car market to foreign trade and the abolition of the Luxury Car Tax.

The employment effect of subsidising the car industry is not clear, either. At least a part of the employment gains are likely to be offset by job losses in other industries. Apart from that, it is doubtful whether the car industry can still be counted as one of the cutting-edge industries that generate spill-over effects from which other sectors may benefit.

For all these reasons, it would have been better to phase out assistance to the Australian car industry sooner rather than later. A prolonged reliance on taxpayer support will only delay necessary and unavoidable adjustments in the industry. In the long run, Australia's car industry can only be successful if it becomes better at producing good value and good quality vehicles for which there is a market demand—and less successful at securing public funds for its operation. Only then would it be an industry with a particular place to go.

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