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### Holden to cease making cars in Australia by 2017: experts react

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## Holden to cease making cars in Australia by 2017: experts react

### Abstract

General Motors Holden has confirmed speculation it will withdraw from car production in Australia by the end of 2017. The announcement by Holden comes after days of sustained public speculation and calls from the federal government for the company to clarify its intentions. Holden has said it will "transition to a national sales company in Australia and New Zealand" and "discontinue vehicle and engine manufacturing and significantly reduce its engineering operations in Australia by the end of 2017." GM Chairman and chief executive officer Dan Akerson cited a "perfect storm of negative influences", including the sustained strength of the Australian dollar, the high cost of production, a small domestic market and highly competitive and fragmented market. Holden said a total of 2900 jobs will be affected, comprising 1,600 from the Elizabeth vehicle manufacturing plant and approximately 1,300 from Holden's Victorian workforce. Attention is now turning to Toyota, which will be the single remaining car manufacturer in Australia. In May, Ford announced it would cease manufacturing cars by the end of 2016, with the loss of 1200 jobs. Expert reaction follows:

### Keywords

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# Holden to cease making cars in Australia by 2017: experts react

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**Disclosure Statement**

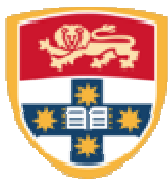
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Chairman and Managing Director of GM Holden, Mike Devereux, has confirmed the company will cease making cars here by 2017. Julian Smith/AAP

General Motors Holden has confirmed speculation it will withdraw from car production in Australia by the end of 2017.

The [announcement by Holden](#) comes after days of sustained public speculation and calls from the federal government for the company to clarify its intentions.

Holden has said it will “transition to a national sales company in Australia and New Zealand” and “discontinue vehicle and engine manufacturing and significantly reduce its engineering operations in Australia by the end of 2017.”

GM Chairman and chief executive officer Dan Akerson cited a “perfect storm of negative influences”, including the sustained strength of the Australian dollar, the high cost of production, a small domestic market and highly competitive and fragmented market.

Holden said a total of 2900 jobs will be affected, comprising 1,600 from the Elizabeth vehicle manufacturing plant and approximately 1,300 from Holden’s Victorian workforce.

Attention is now turning to Toyota, which will be the single remaining car manufacturer in Australia. In May, [Ford announced](#) it would cease manufacturing cars by the end of 2016, with the loss of 1200 jobs.

Expert reaction follows:

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**Paul Gollan, Associate Dean, Research and Professor of Management, Faculty of Business and Economics at Macquarie University**

Holden’s decision was very predictable and I don’t know why didn’t they announce it earlier. The issue is they were playing politics. One of the things that’s often forgotten is the federal government is one of the biggest single customers for Holden cars, so will they continue to support Holden in this way when they cease manufacturing?

Toyota must be looking at their own operations very closely to see if they are viable. Unless they export a lot of more, and given the high cost base in Australia that will be hard, they will continue to struggle. They could focus on more prestige areas like Lexus or sports cars – low volume high value – which rely on the level of skills we have in this country. But I’m still not sure that would work given global markets.

The reality is that large scale manufacturing of this type has very limited opportunities to grow and if we look at consumables, much of our manufacturing will continue to go offshore. We need to look at alternatives if we are going to continue manufacturing. High value products that quite obviously require a great deal of skill and high levels of qualification when it comes to labour, then certainly we have proven that we can achieve those sorts of outcomes.

Just look at Cochlear in medical devices. We can do it in niche areas. We need to think in a more strategic and sophisticated manner about what we are good at and try to focus around those areas, and the government should focus assistance to those.

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**Phillip Toner, Honorary Senior Research Fellow Department of Political Economy at University of Sydney**

Nothing was inevitable about it, however it comes down to (whether it was) possible to reach a renegotiated arrangement to retain the production facility, reflecting the incredibly adverse affect of the high exchange rate. What's pretty clear is the hostility of the current government and parts of the former government to the industry – you can only describe it as indifference or hostility – and that's probably a decisive factor.

This will make it so much more difficult for Toyota given the part makers will lose so much scale that their unit cost will become prohibitive. There will come a point where there's really not much in it for Toyota. It'll simply be assembling 80% to 90% of a vehicle from imported parts.

The other thing to note is there is no economic logic behind failing to deliver a reasonable level of assistance. The net returns to tax payers are many, many times the level of assistance. The Productivity Commission estimated assistance was A\$1.1 billion and that supported an output of A\$21 billion.

And of course there was the over A\$600 million the auto sector invested in R&D. It's really unlikely, in the long term, that an R&D facility can be supported without a production facility. You can't disassociate R&D from production in the long run given how intimately related they are.

The demise of the motor industry will see a rapid contraction in the remaining manufacturing industry and it will lock us into resource development as the key economic driver. The implications of that are quite severe, that we'll have no option but to degrade the environment, and the sorts of risks the national economy will be exposed to if dependent on resource extraction is really extraordinary.

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### **Henry Ergas, Professor of Infrastructure Economics at University of Wollongong**

The announcement that Holden will cease its manufacturing operations in Australia will obviously have significant consequences for Holden's employees and for Holden's suppliers, as well as for the communities in which they are located.

Governments should do what they can to assist in smoothing the transition that lies ahead. Unfortunately, the fact that previous governments lacked the courage to face up to the inevitable means those adjustment costs will now be higher than they need to be, as the car industry attracted resources away from viable and competitive activities.

The reality is that our labour costs are extremely high by international standards and have risen further in recent years. Moreover, productivity levels are low, and labour force flexibility is even lower. With a further tightening in domestic environmental standards for cars looming, there is no realistic prospect of the Australian industry achieving the levels of competitiveness that could allow it to survive.

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### **Hamza Bendemra, Doctoral Candidate of Engineering at ANU**

Any news that involves losses of Australian jobs is of course unfortunate. Job losses associated with this news go beyond the reported figure of 3,000 Holden workers as there is an entire ecosystem of suppliers and contractors, typically SMEs, that deals with car manufacturers. The car industry is also a contributor to R&D research in Australia through various projects either held in-house or in partnership with Australian universities.

Several billion dollars of taxpayer money has already been spent supporting the industry but I believe more may be needed for government to offer assistance with this new influx of highly-trained technicians and engineers that will enter the job market when Holden finally closes shop in 2017. The form in which such assistance can be provided may differ depending on the individual circumstances but making sure that those skills are appropriately transferred to other industries will be key.

This news, as well as the struggle for other large companies (like Qantas) to keep a profitable base in Australia, only reinforces that a long-term strategy is needed to move towards building a highly-skilled and specialised workforce that would enhance the value proposition for companies to stay in Australia.

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**Liz van Acker, Senior Lecturer in Government and International Relations at Griffith Business School**

Holden's announcement that it will stop producing cars in 2017 is no surprise. Neither is it a shock that the Federal Government will not "rescue" this manufacturing company.

To do so would require breaking free of the historical policy legacy of excessive protection and assistance, leading to a fragmented and small-scale industry over decades of managed decline.

Perhaps the Rudd/Gillard Labor government prolonged the life of the car industry, but it was unable to take action apart from maintaining an ethos of survival. Despite its rhetoric of manufacturing revitalisation, it presided over a sustained fall in the size of the manufacturing sector and the automotive industry.

For decades, governments have missed the opportunity to develop a "green" car industry policy as part of an integrated approach to economic growth, employment and environmental sustainability.

It seems that it is now too late to re-engage Holden or to employ a more innovative approach and develop environmental policies. Industry policy has incorporated managed decline as the best way of keeping the ailing car industry from going to the wall.

The seemingly never-ending rescue missions continued at the expense of pursuing productivity and longer-term economic diversity. Now the Government will not encourage innovation or promote international investment. If anything, it will accelerate the process of managed decline.

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**Nick Economou, Senior Lecturer, School of Political and Social Inquiry at Monash University**

The decision sends fear through the state governments of Victoria and South Australia where the direct impact of job losses will be felt most. The question now arises as to whether the long lead-time gives these state economies time to absorb the displaced labour, or if things will be made worse by Toyota also ceasing its operations.

The federal government will also express its disappointment, but the political reality may be that GMH has done prime minister Tony Abbott two favours – first, by announcing that closure will occur the year after the next federal election is due; and, second, by making the decision that they have, GM executives will spare Abbott the challenge of trying to reconcile a future fight within his ministry between protectionists and free traders over whether or not Australian tax payers should continue to subsidise local car manufacturers.