The Rudd government's "The New Car Plan for a Greener Future" is chiefly aimed to solve a political crisis, not to launch technology that will make a difference environmentally. While it certainly is an improvement, it basically carries on key flaws of the 20 year-old Button car plan.

The old plan and the new

Australia placed no obligations on the car companies in exchange for the slow tariff reduction process. As a result we had no independence from the international industry and its self-produced crisis. Cars today have the same level of efficiency as they did in 1963, though since then we have been through two oil shocks, the birth of the rough beast of peak oil, evidence of health impacts ("particulates are the new asbestos"), numerous citizen movements against the dominance of urban form by cars, and now that roughest beast of all - climate change. As recently as last year all the US car companies (including hybrid makers) were conspiring against fuel efficiency standards. As car technology improved because of regulation in major markets, car size and fit out (air, mod cons etc) dissolved the gains.

In addition, the Rudd plan may not redress the trade position. Keating's "opening up", while it led to increased exports in some manufactures, also led to rising imports and a worsened manufactures trade imbalance. By the end of the Howard years the manufactures trade deficit was roughly three times what it was in the last Keating years. For cars the value of imports is three times that of exports (and the local sales ratio is 40:60 in favour of imports). At least the car and TCF plans preserved some manufacturing so that we have a second chance, but Rudd may be squandering that.

Australian car manufactures did not target engine efficiency and lower emissions. Even Toyota was slow to import hybrids, never mind build them. The companies blamed this on the absence of government settings, such as procurement policies, that would have encouraged such aims, a justified accusation. Nevertheless the car makers were hypocritical because they lobbied against settings like fuel efficiency standards. Note this sequence: In May Toyota made gestures about building hybrid Camrys in Thailand, Rudd offered $35m from the earlier green car fund. Toyota Australia announced record profits in July. Toyota went ahead with what was their original plan, to build in both Thailand and at Altona. The drive-train components will come from Japan so there will be no supply chain innovation gain. Rudd's intervention was no triumph.

"The New Car Plan for a Greener Future"

The new plan has no locked-in commitments to government procurement, tax changes, and fuel efficiency standards. These would provide the right stimulus. In theory, COAG and the Henry tax review may sort out the first two. The Senate could insist on efficiency standards. Moreover the Rudd government is still funding car-promoting urban
infrastructure like freeways and tunnels. We are more in need of public transport than any specific drive-train or fuel initiative. The equivalent US plan has stalled in Congress because the US companies have offered no commitments.

The best features of the car package are support for the components sector, the world market access program for the same, redundancy and retraining payments, and the formation of an Automotive Industry Innovation Council. These were given the smallest investment (and the least publicity). The positive view would be to say that the ill-defined elements of the package will be filled out to the good by the operations of the Council, but the chances are not great.

The best opportunity in the package is the 12 year time frame. It could be used to direct investment toward genuine innovation. But the quid pro quo of $16 billion of investment from the industry to release the government’s $6.2 billion (only about half is new money) is undoubtedly expected to come from the big three. This is a problem in three respects, and the one that everyone has jumped on, the possibility that Ford and GM will collapse back home, may not be the most important of these.

**The components industry – a innovative niche opportunity**

More important is that the components industry is tottering, with 60 of the 200 firms in crisis. Could they provide investment to earn some of the big money? It seems unlikely even though the fund has some flexibility as to the funding ratio. Their own small portion of the package is meant to broker the overall viability of the sector, supposedly not by “propping up” or even assisting the exit of some companies, but to fund mergers, etc. In addition they have vulnerabilities with respect to the Big Three a little like those of suppliers to Woolworths and Coles. It would strengthen the industry to strengthen them. If, as Chris Mardon and I suggested in an article in Australian Options 52 (Autumn 2008), “Can we still make cars in a green economy?”, as well as mergers, these firms were assisted into innovative business and R&D relationships, perhaps with some open sourcing, they would not be beholden to the bullying of the Big Three They could sell into consortia they have formed and/or overseas, and side step the majors. Then we would still have a high manufactures and employment base regardless of Big Three collapses at home or if, like Mitsubishi, they “take the money and run”.

So that is the second problem with the investment component. Damon Cantwell, a car industry analyst for Deloitte, said on Lateline (ABC TV, 11/11/08) the fund provides “the opportunity and a catalyst for some of the component manufacturers to explore more fuel efficient options that they can then put on the market to local manufacturers”. However Graham Spurling, who has held many car industry positions, says instead of $116 million, most of the package should go to this sector so they can independently develop electric vehicle components (ABC RN, World Today 12/11/08). The components sector makes up most of industry employment anyway. They are already into electrical vehicles with conversion packages. One firm expects to be making 5,000 fully electric plug-ins (EVs) within two years on a Hyundai chassis (The Australian 15,16/11/08 p. 4). (There is even an Australian equivalent of the high-performance Tesla in planning.) In addition there is research in Australian universities on lightweight vehicle building and EV charging that could be brought to market through the components industry. Some
have already been taken out to the market; for example a Brisbane firm is one of only three in the world nano-manufacturing complex metal oxides suitable for batteries, with EVs particularly in mind (the American equivalent will supply GM’s EV, the Volta). There is also a proposal for public fleet EVs (like the Paris bicycles).

In order to launch new technologies it may be better to kick in more government money for the smaller manufacturers with less insistence on monetary “mutual obligation” and more on green obligation. If Carr was results-focussed; or the Council which is forming up before Christmas took this on; or GM in the US collapsed and Ford in Australia continued to fail to export; the fund could be turned in this direction. Some of the enabling legislation will not be in parliament until next year so the Senate could also force such a redirection.

Finally, if in implementation it all boils down to getting the Big Three to build hybrids, that could prove the most important investment flaw in the package. The earlier AO article pointed to dubious aspects of the green impact of hybrids. Since we wrote a year ago the evidence has been pouring in on the incipient burst of EVs to the head of the green car pack as against hybrids, biofuel, hydrogen, LPG, turbo diesel, etc. Some of the alternatives (compressed air, second generation biofuels that do not weaken food security, even steam) are still in the lab whereas EVs have been and are again in production and on roads. There have been significant leaps in battery technology. Not only are charging networks up and running, there are also plans to feed into the grid from idle EVs. Finally the expatriate Australian scientist David Mills has successfully demonstrated solar thermal for base load electricity. So EVs will be clean at source.

To really gain a “natural advantage” in the market Australia should probably leap over hybrids to full plug-in. At the minimum, the Council should not have its head too far into the engine of the existing industry but should be looking ahead so our taxes tilt the industry in the most productive, independent and sustainable direction.

Quality jobs, quality skills, quality trade

The plan has an employment transition component but it is drawn only from the components makers’ $116m. This implies other labour adjustment will come from other sources such as the $10 billion stimulus package. That package has added well over 60,000 places to existing training places. This is too ad hoc. There should be an adjustment package across the car industry.

One-third of redundant workers leave the labour force permanently. But direct intervention works. 699 workers lost their jobs at the closure of the Mitsubishi Tonsley Park plant last year. State and federal government, the company, the Australian Manufacturing Workers’ Union and TAFE worked together on a project which included individual help and accelerated training, often developed from the auto work skills base. By October, 500 had new jobs. That, writ small, is what should be done on the large scale for the inevitable closures as this industry re-tools for green production. This should be one of the responsibilities of government, using partnerships as in the Mitsubishi lay-offs.

There is still room to manoeuvre in the implementation of the plan. The Council could incubate innovation; or it could shore up the existing industry structure. Green industry policy has to work back and forth between specific and definable targets, standards and planning, and innovation, generating market creativity. In the best of all possible solutions the constraints imposed by the first can be the best contribution to launching the second. The Bracks/Carr plan may fall between the two.

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