

Ford to Close Australian Car Plants After 9 Decades on Costs (3)
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(Updates with comments from car plant in ninth paragraph.)

By David Fickling and David Stringer

May 23 (Bloomberg) -- Ford Motor Co. will stop making cars in Australia, nine decades after founder Henry Ford first began building Model Ts in the country, as a surge in the currency undermines the local industry's ability to compete with imports. Ford Australia faces costs double those in Europe and four times those of its Asian divisions, local President Bob Graziano told reporters today. He announced the loss of 1,200 jobs from October 2016 at two plants in Melbourne and Geelong. Australia's three car makers have struggled as a 27 percent rise in the local dollar against the yen over the past year stoked sales of cheaper imported vehicles and cut exports. The closure of one threatens the viability of the whole industry and is a blow to Prime Minister Julia Gillard, whose Labor party is trailing in polls ahead of a Sept. 14 election.

"Australian manufacturing can't keep its head above water," said Katrina Eil, an economist at Moody's Analytics in Sydney. "High labor costs mean we can't compete long-term against lower cost countries, especially in Asia. The strong exchange rate is exacerbating Australia's lack of competitiveness."

Ford, which began assembling Model Ts at Geelong west of Melbourne in 1925, is the smallest of the nation's three manufacturers after units of Toyota Motor Corp. and General Motors Co.

Domino Effect

The removal of one could spark a "domino effect" as the industry as a whole becomes too small to support its own supply chain, Jac Nasser, chairman of the world's largest miner BHP Billiton Ltd. and former chief executive of Ford globally, told an event in Melbourne last month.

Ford's forecasts showed its local plants weren't able to make a return, even if the company assumed almost double the likely level of government assistance, Graziano said today.

"Manufacturing is not viable for Ford in Australia for the longer term," he said. "Our locally-made products continue to be unprofitable, while our imported products continue to be profitable."

There were few signs of workers this afternoon at Ford's Broadmeadows complex, a collection of plants and buildings in

Melbourne's northern suburbs. Adrian Dodd, a spokesman for the Australian Manufacturing Workers Union, said the majority of staff had left the facility soon after hearing the news of the job losses and that many were not expected back at work until next week.

Knock-on Effect

"It's time the politicians in this country had a reality check about the factors that are impacting on our industry," AMWU national secretary Paul Bastian said after attending talks at the plant. "We also fear for the knock-on effect to the rest of the industry."

The car sector directly employs more than 45,000 people across the country, according to industry group the Federation of Automotive Products Manufacturers. A further 250,000 jobs are derived from related activities.

"There will certainly be very large implications for businesses on the supply chain," Richard Reilly, chief executive officer of the Federation, said by phone today ahead of Ford's announcement.

Ford's closure is a further sign of Australia's weakening labor market amid sustained strength in the currency that renders trade-exposed industries uncompetitive. The Treasury, in its budget released last week, projected unemployment would rise to 5.75 percent next fiscal year, the highest since 2009.

Higher Wages

Australia's hourly compensation cost in manufacturing was \$46.29 in 2011, compared with \$47.38 in Germany, \$35.71 in Japan, \$35.53 in the U.S. and \$11.65 in Brazil, according to a survey of 33 countries by the U.S. Department of Labor.

Ford Australia lost A\$141 million (\$136 million) during its 2012 financial year, bringing total losses over the past five years to A\$600 million, Graziano said today.

Australia's government supports the car industry through a A\$5.4 billion fund, including a A\$34 million co-investment with Ford Australia announced last year. Gillard today detailed government packages totaling A\$51 million to support suppliers and communities affected by the closures.

"The strength of the Australian dollar obviously bears down on Australian manufacturing," Gillard told reporters in Sydney today. The government wants to make sure that "we are still a nation that makes things, that manufactures goods."

Opposition leader Tony Abbott described the announcement as a "black day," and said the government needed to cut taxes and regulation to encourage investment.

"It's a blow for the government," said Zareh Ghazarian, a lecturer in politics at Monash University in Melbourne. "Realistically, there was not much more Gillard could have done after pumping so much money into Ford."

Holden Cuts

GM's local Holden division said last month it would cut about 500 jobs, blaming currency devaluations in competing markets for making its plants among the most expensive in the world. Costs at Australian plants were up about 60 percent over the past decade, Mike Devereux, Holden managing director, told a media conference in Adelaide on April 8.

The currency was one of a "number of different factors" that contributed to Ford Australia's high costs, Graziano said today.

Sales of cars made in Japan, Australia's largest imports from the Asian country, surged to their highest in at least seven years in 2012 as Prime Minister Shinzo Abe pledged to kickstart the economy through aggressive monetary policy.

Talent Pool

Australia has been a cradle for executive leadership within Ford. Nasser, 65, started his more than three decade career with the company in Australia before becoming CEO in 1999. Chairman Bill Ford replaced him in October 2001. Before Marin Burela became president of Ford's Chinese joint venture with Chongqing-based Changan Automobile Co., he led the company's Australian unit.

GM and Toyota will continue manufacturing cars in Australia, the two companies said in separate e-mailed statements today.

"The industry can survive in Australia," Holden's Devereux said in a statement. Toyota was considering the impact of Ford's withdrawal on its local suppliers and "intends to maintain its operations in Australia," the company said.

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