



FORD MOTOR COMPANY OF AUSTRALIA LIMITED

(ABN 30 004 116 223)

SUBMISSION IN RESPONSE TO THE

**AUTOMOTIVE TRANSFORMATION SCHEME
AMENDMENT BILL 2014**

SENATE ECONOMICS LEGISLATION COMMITTEE

October 27, 2014

Ford Motor Company of Australia Limited

A.B.N. 30 004 116 223 Registered Office: 1735 Sydney Road, Campbellfield, Victoria 3061

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**This submission is made by Ford Motor Company of Australia Limited
(ABN 30 004 116 223)**

The Company is subsequently referred to as 'Ford Australia'.

**In addition to this submission, Ford Australia also contributed to and is supportive of the
submission made by the Federal Chamber of Automotive Industries (FCAI).**

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October 27, 2014

Senate Standing Committee on Economics

PO Box 6100
Parliament House
Canberra ACT 2600

Submission via email to: economics.sen@aph.gov.au

Re: Automotive Transformation Scheme Amendment Bill 2014

This submission from Ford Motor Company of Australia Limited (subsequently referred to as **Ford Australia**) is made in response to the request for input into the **Automotive Transformation Scheme Amendment Bill 2014**. Ford Australia appreciates the opportunity to provide input to this important review.

Ford Australia Overview

Ford Australia is a subsidiary of the Ford Motor Company. Ford Motor Company was founded in 1903 and is headquartered in Dearborn, Michigan, USA. It is a global automotive industry leader with approximately 181,000 employees and around 65 manufacturing plants worldwide. It manufactures and distributes motor vehicles on six continents through its core brands of Ford and Lincoln. These automotive brands are complemented by the Company's ownership of Ford Credit, one of the world's largest automotive finance companies.

Ford Australia is also an integral part of Ford Motor Company's Asia Pacific operations. Ford Asia Pacific has regional responsibility for 20 markets and is the Company's fastest growing sales region. Ford Asia Pacific is headquartered in Shanghai, Peoples' Republic of China.

Ford Australia is a major Australian automotive manufacturer with extensive globally-linked design, engineering and manufacturing facilities in Geelong, Lara and Broadmeadows, Victoria. These world class facilities reflect an organisation with significant investment in infrastructure and technical capability. This capability is reflected by Ford Australia's role as a design and engineering "Centre of Excellence" for the Asia-Pacific region. This makes Ford Australia one of only four corporate global hubs for the design, development and testing of Ford vehicles. Ford Australia has had a manufacturing presence in Australia since 1925.

Ford Australia distributes its vehicles, replacement parts and technical / service expertise through a network of more than 200 independently owned Ford Dealerships in some 261 locations around Australia. These Ford Dealerships directly employ more than 7,000 people and many are located in rural and regional centres. In addition to selling and servicing new Ford vehicles, Ford Dealers also have significant resources and capital invested in the resale of second-hand vehicles (all makes).

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Ford Australia Facilities



Broadmeadows, Victoria

- Head Office
- Regional Sales Office
- Parts Distribution
- Service Engineering
- Assembly Plant
- Design Centre
- Product Development

Geelong, Victoria

- Engine Plant
- Stamping Plant
- Aluminium Casting Plant
- Iron Casting Plant
- Product Development

Brisbane

- * Regional Sales Office

Sydney

- * Regional Sales Office

Adelaide

- * Regional Sales Office

Perth

- * Regional Sales Office

Lara, Victoria

- * Proving Ground
- * Test Laboratories
- * Product Development

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Current Situation

The Automotive Transformation Scheme (**ATS**) is a legislated Federal Government entitlement scheme that is designed to encourage competitive production, investment, innovation and Research & Development (**R&D**) in the Australian automotive industry. ATS provides assistance to registered participants for eligible production, capital investment and R&D as follows:

- Production of motor vehicles (Motor Vehicle Producers (MVPs) only);
- Investment in plant and equipment to a maximum rate of 15%;
- Investment in automotive R&D to a maximum rate of 50%.

ATS assistance consists of both Uncapped and Capped funding. ATS Capped funding is divided between MVPs and others registered participants as follows:

1. MVPs — 55% of the ATS year cap;
2. ACPs / ASPs / AMTPs — 45% of the ATS year cap.

ATS also consists of two funding Stages. Stage 1 runs from January 1, 2011 and ends on December 31, 2015. Stage 2 runs from January 1, 2016 and ends on December 31, 2020.

Note - ATS operates on a calendar year basis.

There is currently \$1.3 Billion allocated to ATS for the period 2015-2020. This includes \$300 Million under Stage 1 (2015) and \$1.0 Billion allocated under Stage 2.

ATS Calendar Year	2015 (\$M)	2016 (\$M)	2017 (\$M)	2018 (\$M)	2019 (\$M)	2020 (\$M)	Total
Capped funding as currently legislated under Regulation 3.9	300	300	300	216.7	133.3	50.0	1.3 B

Following the 2013 Federal election, the Abbott Government made two major announcements regarding automotive industry funding available under ATS:

1. Mid Year Economic & Fiscal Outlook (MYEFO) - December 2013
 - ATS Capped funding to be reduced by \$500 Million in the period 2015 to 2017.
2. Federal Budget - May 2014
 - Early closure of ATS from January 1, 2018.

MYEFO Reductions

The schedule for the MYEFO reductions on a calendar year basis is set out below. The effect of the MYEFO reductions is to reduce Capped funding by \$200 Million for calendar year 2015 (or 67% of current assistance) with Capped funding halved in both 2016 and 2017.

ATS Calendar Year	2015 (\$M)	2016 (\$M)	2017 (\$M)	Total
Capped funding as currently legislated under Regulation 3.9	300	300	300	900
Less MYEFO reductions	(200)	(150)	(150)	(500)
Capped funding after MYEFO (subject to legislative amendment)	100	150	150	400

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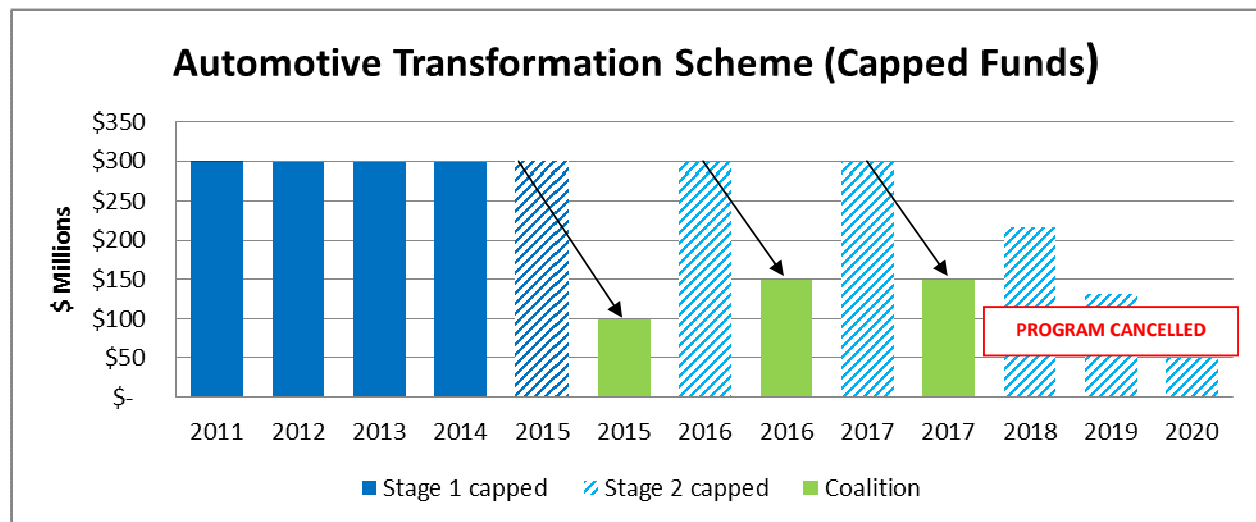
Federal Budget

The Abbott Government announced in the 2014 Federal Budget that it will prematurely close the ATS program from January 1, 2018. This will generate a further saving for the Government of \$400 Million from 2018-20 as set out below.

ATS Calendar Year	2015 (\$M)	2016 (\$M)	2017 (\$M)	2018 (\$M)	2019 (\$M)	2020 (\$M)	Total
Capped funding as currently legislated under Regulation 3.9	300	300	300	216.7	133.3	50.0	1.3 B
Less MYEFO / Budget reductions	(200)	(150)	(150)	(216.7)	(133.3)	(50.0)	(900)
Remaining Capped funding (subject to legislative amendment)	100	150	150	NIL	NIL	NIL	400

ATS Amendment Bill

The ATS Amendment Bill gives effect to the Abbott Government's decision to cut ATS Capped funding by \$500 Million between 2015 - 2017 and close the Scheme from January 1, 2018 to save a further \$400 Million. This means that in total \$900 Million (or 69%) will be cut from the remaining \$1.3 Billion allocated to ATS from 2015 to 2020.



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Key Issues for the Committee to Consider

Ford Australia believes there are three main issues that the Senate Economics Legislation Committee needs to consider:

1. MYEFO funding reductions;
2. Early closure of ATS;
3. Ongoing Government co-investment in automotive R&D.

Ford Australia's Position on Key Issues

1. MYEFO funding reductions
2. Early closure of ATS

As a Member of the Federal Chamber of Automovive Industries (**FCAI**), Ford Australia supports the position put forward by the FCAI on behalf of the Australian automotive industry. That is:

"The FCAI opposes both the \$500 million reduction to the ATS funding profile, and the ceasing of the scheme from 1 January 2018, particularly at a time of substantial ongoing structural adjustment in the industry. Given that all three domestic automotive manufacturers have announced they will cease automotive manufacturing in Australia by the end of 2017, there is an urgent need by Government to assist the orderly transition of the automotive supply chain into other parts of the economy.

As currently drafted, the proposed ATS cuts will limit the ability of the industry, particularly the component suppliers, to commence their transition to a post-automotive manufacturing environment. The FCAI is particularly concerned that the proposed \$200 million cut in calendar year 2015 will simply mean that many suppliers will not be able to continue their operations, let alone seek to diversify out of automotive supply and into other areas of the economy.

This assistance is essential to the industry in Australia and to supporting the jobs of many thousands of employees. If allowed to pass through the Parliament, these cuts will have a potentially devastating impact on the operations of the three domestic car manufacturers and the many businesses in the supply chain that support them, and will take away their opportunity to transition out of automotive manufacturing and into other parts of the economy. Left unaddressed, we are strongly of the view that this is likely to bring about an early closure of the entire automotive industry. The ATS program is now more important than ever in assisting supply chain companies to an environment without local vehicle manufacturing.

It is therefore crucial to help those companies innovate into other product and business streams. The ATS can assist in this important transformation."

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3. Ongoing Government co-investment in automotive R&D

Policy Arrangements Supportive of Automotive R&D Investment

Ford Australia advocates automotive R&D co-investment parameters which recognise, support and facilitate investment in research and product development activities undertaken by local automotive companies. The retention and nurturing of this high value, complex and sophisticated design and engineering work will create a significant technical skills base in Australia with demonstrated spill-over effects and related benefits across other key industry sectors.

Australian designers and development engineers have demonstrated great capability in creating solutions that work both domestically and for the rest of the world, strengthening Australia's role in valuable global supply chains. Additionally, this outward-looking orientation has led to high levels of workforce flexibility, creativity and adaptability while also providing access to the latest thinking in all aspects of product development and organisational management.

Ford Australia is of the view that there is an important role for Government in providing the appropriate environment through policy settings for the attraction and facilitation of future and further investments in automotive R&D in Australia.

ATS and the prior Automotive Competitiveness & Investment Scheme (**ACIS**) were effective mechanisms to encourage and nurture ongoing investment in automotive R&D. If enacted, the Government's 2014 Federal Budget announcement that ATS will be wound-up at the conclusion of 2017, will result in a major funding gap for automotive R&D. Suggestions that the R&D Tax Incentive might provide an alternative are not appropriate because the key criterion for this program is for "Core R&D" to be experimental rather than applied research. The vast majority of automotive R&D in Australia is applied research and therefore ineligible.¹

It should be noted that "Core R&D" only becomes of value to a community once it reaches the market, hence the critical role of applied R&D in bringing new technologies to the showroom. If there is no applied R&D, the breakthroughs derived from "Core R&D" are simply nothing more than of academic interests.

For automotive R&D to continue to flourish in Australia the business critical factor is the ability to achieve and maintain a globally competitive business case. With a growing number of countries developing these skills and competing for global automotive R&D work, Australia's position is under threat. Up to this point, Government support through programs like ATS have kept Australian automotive R&D activities globally competitive.

In the absence of ATS, a new automotive R&D co-investment policy is required to maintain and help grow the established automotive R&D infrastructure and skills base that currently exists in Australia. Any such replacement program needs to recognise that Australia can be a potential source of design and engineering services for global markets. Establishing Australia as a global centre of excellence for automotive R&D is an achievable objective given the right policy settings and support for academic institutions.

Ongoing and competitive levels of Government support for automotive R&D activities are relevant in the global context. For example, an announcement earlier this year by the Russian Ministry of Industry & Trade to invest US\$7.8 billion from 2014-16 in its domestic automotive

¹ ABS statistics show R&D spending by Australian business is comprised of 62% Experimental Development and 32% Applied Research, leaving only 6% as Basic Research, which qualifies for the R&D Tax Incentive on the key criteria of activity containing high levels of technical risk and considerable novelty. Very little of the vast majority (94%) of R&D spend would qualify in meeting all the elements of this definition to be eligible. In addition, the eligibility of a claim is further limited as expenditure for supporting R&D activities can be claimed only if undertaken for the dominant purpose of supporting "Core R&D activities".



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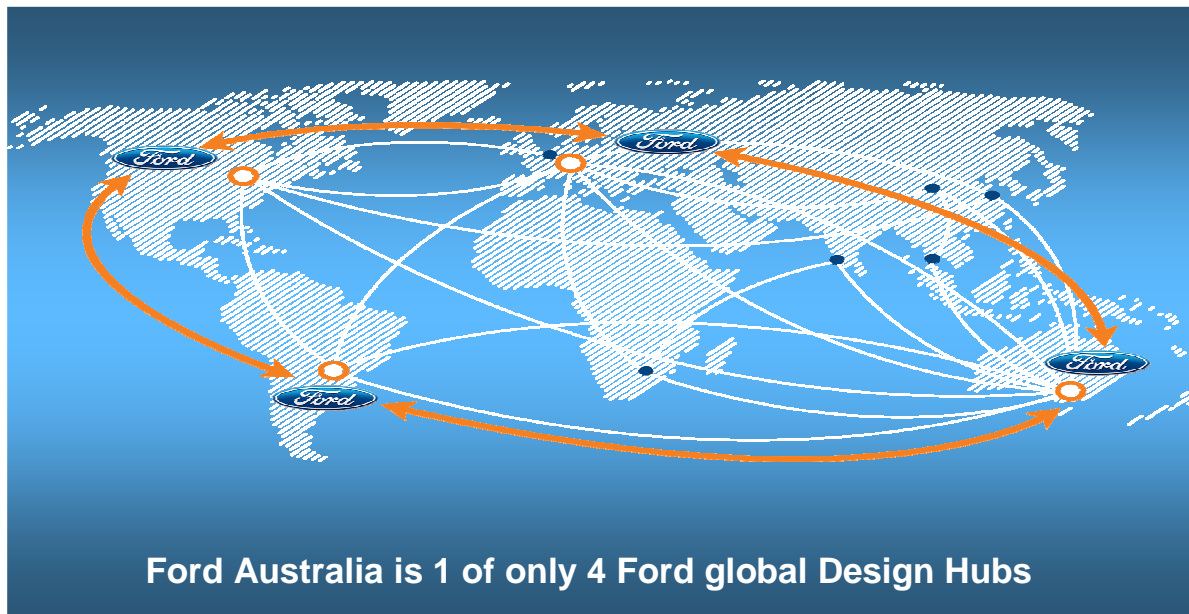
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manufacturing industry specifically targeted automotive R&D activities as worthy of considerable funding support. Please refer to Attachment 1 – Just-Auto “Russia: Government to plough US\$8b in automotive subsidies” dated 24 January 2014.

Ford Australia - A Substantial Investor in Australian Automotive R&D

Ford Australia is the industry's only full-service product development hub and one of only four such global operations capable of designing, developing and testing Ford vehicles. Ford Australia has historically invested a substantial proportion of its annual budgets in its vehicle development programs, including significant spending on R&D activities for its award-winning Territory and Falcon models. In the six year period 2007-2012, Ford Australia invested more than \$1.9 billion in its Australian product development operations. In 2013, a further \$340 million was invested.



As the largest automotive R&D investor in Australia, Ford Australia has invested heavily to establish world-class technical infrastructure and state-of-the-art facilities for its product development activities. These investments include major upgrades to its Design Centre at Broadmeadows, the construction of a \$27M Research and Development Centre at Geelong and the expansion of testing facilities at Ford Australia's Proving Ground located at Lara. The Advanced Centre for Automotive Research and Testing (**ACART**) is also located at Lara. This initiative was developed in partnership with the University of Melbourne and with the assistance of the Victorian State Government. ACART includes an environmental testing laboratory and an emissions test cell, both of which are currently available for use by third parties.

Part of the upgrade to Ford Australia's Design Centre was the inclusion of a new Virtual Reality Centre and the installation of a "Powerwall" – a 6m x 3m high-resolution screen capable of projecting full-size vehicles and concept designs in 3D and virtual environments. The installation of the Powerwall has enabled local designers and engineers the ability to work in conjunction with other global specialists. These sophisticated facilities are computer linked to similar Ford facilities located in North America, Europe and South America. This provides access to the latest software and capability – allowing for technological developments and information / data exchanges in real time. It enables Ford Australia employees to participate in global, virtual teams that can work around the clock when developing automotive solutions.

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Another rapidly emerging product development workstream is research in the area of vehicle connectivity. Ford Australia has already collaborated with local developer Omny to deliver a new product called "AppLink". Ford will begin to offer this app in Australia, and possibly globally markets, later this year. With major cities around the world creating technology 'corridors' to attract this kind of investment in innovation, Australia is already well advanced in this field.

During August, Ford Australia hosted a major media event to showcase its upgraded virtual engineering centre and highlight its advancements in the area of vehicle connectivity.

Other notable new technologies that have been developed by Ford Australia engineers include:

ANCAP 5 Star – Falcon was 1 st Australian built vehicle to be awarded this rating
Euro IV compliant 4.0L I6 powertrain for Falcon and Territory
EcoLPi 4.0L I6 liquid-phase injection LPG powertrain for Falcon
Turbo diesel 2.5L V6 powertrain for Territory
EcoBoost 2.0L 4 cylinder powertrain for Falcon
SYNC 2 fully integrated, voice activated communication and vehicle control system including Emergency Assistance for new 2014 Falcon and Territory

Ford Australia - A Significant Developer of Australian Automotive R&D Skills

In addition to its investment in infrastructure and technologies, Ford Australia commits significant resources in the recruitment, training and development of its employees. A broad mix of development and training options is available, designed to broaden employees' experience, knowledge and skills base.

It is anticipated that Ford will become Australia's largest automotive employer by 2018 with approximately 1,500 highly skilled employees plus up to 500 specialist contractors. Within this number will be more than 1,000 employees plus a large number of specialist contractors engaged in product development professions such as engineering and design.

The product development workforce will include highly skilled designers, clay modellers, powertrain, vehicle and core systems engineers, electrical engineers, program planners, environmental and safety engineers. They will be involved in all stages of the product development cycle including research, advanced engineering, styling, prototype development, testing, validation and launch activities at manufacturing locations.

A recent call for applications to Ford Australia's 2015 Graduate Training Program attracted nearly 1,400 responses from a range of academic disciplines, indicating a strong interest in automotive careers in Australia.

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Ford Australia - A Source of Current and Future Global Vehicle Programs

In 2006, Ford Australia was awarded the global lead for the design and development of the Ford Ranger program, a pickup truck presently sold in more than 180 markets around the world and manufactured in three locations. The highly successful delivery of the Ranger program to widespread acclaim, enabled Ford Australia to win additional product development work for vehicles destined for regional and global markets. This unlocks real value from Ford Australia's substantial investments in its R&D activities, facilities and people.



Other product development programs include the Ford Figo, a small car designed and developed for India and sold in 37 markets around the world; the recently revealed Ford Escort compact sedan for China; and the all-new Everest sports utility vehicle. These are in addition to the product development work undertaken for the mid-cycle upgrades to the locally manufactured Ford Falcon and Territory models that will go on sale in December 2014.



The commercial and critical success of these products has greatly enhanced the international reputation of the Australian product development team as one of great creativity, capability, quality and delivery. Ford Australia believes there is an opportunity for it to continue to enhance

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its role as a global provider of innovative vehicle design and development services, given appropriate support through targeted policy arrangements.

However, the long lead times associated with vehicle development as illustrated by the diagram below, make it imperative that automotive R&D policy settings are transparent and remain stable over an extended period. This is due to vehicle manufacturers needing to make significant up-front, good faith commitments many years in advance of a new model rolling off the production line. An absence of long term surety increases the risk associated with making the initial investment decision.



Significant Spillovers to the Broader Australian Innovation System

As mentioned elsewhere in this submission, the direct and indirect benefits to Australia of this global product design and development role are considerable. The tasks required in all elements of the vehicle product development function are highly complex and technical in nature. The existence of local employment opportunities will attract and retain highly qualified and skilled graduates and tradespeople who might otherwise seek work opportunities offshore.

The Society of Automotive Engineers – Australasia (**SAE-A**) has noted an increase in foreign companies recruiting in Australia for off-shore engineering employment as “(Australian engineers’) skills are extremely portable because their qualifications are internationally recognised”.² The retention of these engineers and designers in Australia adds to the broader pool of skilled and qualified people for other sectors of the economy to utilise and creates opportunities for skills and knowledge transfer across the wider economy. This significant benefit has been publicly acknowledged by many participants across the broader manufacturing sector and by numerous key industry bodies and academic institutions.

² As quoted in GoAuto News, No. 726, 7 May 2014

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Ford Australia - A Strong Supporter of Australian Academic Institutions

As it has always done, Ford Australia continues to seek opportunities for automotive R&D collaboration with third parties and key institutions such as universities, further contributing to the technical skills and knowledge base of the economy while transforming innovative ideas into tangible results.

Ford Australia recognises the importance and value of these external linkages and alliances, particularly through its collaboration with Australian universities. Accordingly, Ford Australia has a dedicated Manager of University Programs (held by one of its most senior technical engineers) and has established the Australian Alliance Framework (**AAF**) to increase its involvement in collaborative research projects with Australian universities. The objective is to build on Ford Australia's existing university partnerships and develop new ones, creating alliances with the most technically capable universities in pursuit of new vehicle efficiencies and technologies that will benefit customers.

AAF agreements are already in place with the University of Melbourne, Deakin University and the Australian National University. Nine major Ford-funded University Research Projects (URPs) are presently in progress and other research proposals are under consideration.

Ford Australia also has important and enduring relationships with other technical institutions such as the Royal Melbourne Institute of Technology, the Kangan Institute, the Northern Melbourne Institute of TAFE and the Gordon Institute of TAFE.

A further example of Ford Australia's collaboration with academic institutions is the provision of internships for two leading secondary students to gain hands-on work experience within Ford's Design Centre as part of the VACC's Automotive Design Awards in both 2013 and 2014.

As stated earlier, in the absence of ATS, a new automotive R&D co-investment policy will be required to maintain and grow the established automotive R&D infrastructure and skills base that currently exists in Australia.

Conclusion

Ford Australia believes the issues raised above are important and relevant to the Automotive Transformation Scheme Amendment Bill 2014 and trusts that these matters will be considered during the Committee's development of its report and recommendations for the Federal Government.

Any queries regarding this paper should be forwarded to the attention of:

Government Affairs Director
Ford Motor Company of Australia Limited

Attachment 1 – "RUSSIA: Government to plough US\$8bn in automotive subsidies" - *Just-Auto* 24/01/2014

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Russia to plough US\$8bn in automotive subsidies

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RUSSIA: Government to plough US\$8bn in automotive subsidies

By Simon Warburton | 24 January 2014

Russia is to provide subsidies to domestic automakers worth US\$7.8bn to 2016 as the country sees its hitherto booming vehicle sector's performance dip slightly.

Figures from Russian specialist organisation, the Association of European Businesses (AEB), show full-year sales of new passenger cars and light/medium commercial vehicles fell 5.5% to 2.78m units - below the previous year's record level.

The forecast from the same organisation for 2014, estimates numbers to be marginally below those for last year at 2.73m units.

The substantial grants on offer originate from the Russian Ministry of Industry and Trade and are targeted at R&D, testing, meeting Euro 4 and Euro 5 standards and maintaining jobs, among other sectors, but are also aimed at supporting automotive manufacturing in Siberia and the Russian Far East.

"The signed resolutions establish rules for disbursing Federal Treasury subsidies to partly cover related expenditures made by automotive manufactures starting from 1 January, 2014," said a statement from the Russian Ministry of Industry and Trade.

"The decisions made are aimed at achieving, by 2020, the following targets set in the automotive industry sub-programme, of the state programme, Advancing Manufacturing Industries and Raising Their Competitiveness: raising the share of VAT in the sector to 48% (RUB2.2tn); bringing the production of domestic cars to 3.1m per annum; of commercial minivans to 280,000; of trucks to 280,000; and of buses to 35,000.

[Also] "Bringing the share of Russian-made motor vehicles [on] the domestic market to 80% for cars, 90% for commercial minivans; 85% for trucks; and 99% for buses; building up the car fleet to the level of 363 automobiles per 1,000 residents."

Joerg Schreiber, chairman of the AEB Automobile Manufacturers Committee, commenting on the 2013 figures said: "A strong finish in the final month of the year 2013, which had been rather difficult most of the time.

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http://www.just-auto.com/news/government-to-plough-us8bn-in-automotive-subsidies_id142... 28/01/2014

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