

DEPARTMENT OF INDUSTRY AND SCIENCE

**SUBMISSION TO SENATE ECONOMICS
REFERENCES COMMITTEE**

**INQUIRY INTO THE FUTURE OF AUSTRALIA'S
AUTOMOTIVE INDUSTRY**

31 March 2015

This submission provides an update on the Australian Government's policies and assistance measures relating to the automotive manufacturing industry in Australia since the 2014 Productivity Commission review into Australia's automotive manufacturing industry.

Contents

Role of the department	2
Recent developments.....	3
Closures	3
Recent history.....	3
Productivity Commission Review of the Australian Automotive Manufacturing Industry	5
Reviews of the South Australian and Victorian Economies	5
Government Response to Productivity Commission Report	6
Update since the Productivity Commission Review—sector-specific	9
Automotive Transformation Scheme.....	9
Growth Fund	10
Next Generation Manufacturing Investment Programme	11
Automotive Diversification Programme	12
Automotive Industry Structural Adjustment Programme	15
Skills and Training Initiative.....	15
Regional Infrastructure Programme.....	16
Update since the Productivity Commission Review—non-sector-specific	16
Melbourne's North Innovation and Investment Fund.....	16
Geelong Region Innovation and Investment Fund	18
Manufacturing Transition Programme.....	19
Industry Innovation and Competitiveness Agenda.....	19
Taxation White Paper	20

SUBMISSION TO SENATE ECONOMICS REFERENCES COMMITTEE INQUIRY INTO THE FUTURE OF AUSTRALIA'S AUTOMOTIVE INDUSTRY

Role of the department

1. The Department of Industry and Science was established on 23 December 2014 as part of the machinery of government changes that saw the transfer of the skills responsibilities to the newly established Department of Education and Training.
2. The department brings together a range of functions that are critical to improving the competitiveness of Australian industry. These include science, research and development, energy and resources, anti-dumping and industry policy.
3. The department is taking forward key elements of the Government's competitiveness agenda to facilitate industry innovation and self-reliance, build industry capability, streamline government assistance, and enable strong and internationally competitive industries.
4. It is doing so by:
 - supporting businesses to collaborate with scientists and researchers in universities and other institutions to maximise commercial returns from public investment in science, research and development;
 - promoting the growth of internationally competitive industries by facilitating nationwide action on deregulation, skills, collaboration, commercialisation and international engagement;
 - facilitating competitive marketplaces and business investment by assisting adjustment to inevitable industrial transformation;
 - providing regulatory frameworks to sustainably expand our resource base and provide adequate, reliable and affordable energy to underpin our international competitiveness and economic growth; and
 - reducing business costs, including energy costs through effective regulation.
5. The department supports the delivery of the 2014–15 Budget measures including the \$50 million Manufacturing Transition Programme, as well as the \$155 million Growth Fund which supports employees, businesses and regions affected by the GM Holden Ltd (Holden) and Toyota Motor Corporation Australia Limited (Toyota) decisions to cease car manufacturing by the end of 2017.
6. This submission provides an update on the Australian Government's policies and assistance measures relating to the automotive manufacturing industry in Australia since the Productivity Commission's 2014 review into Australia's automotive manufacturing industry.

Recent developments

Closures

7. Australia's automotive manufacturing industry is in transition as the three major passenger motor vehicle producers (Ford Australia (Ford), Holden and Toyota) prepare to cease their vehicle and engine manufacturing activities in Australia by the end of 2017.

8. These manufacturers do not attribute their decisions to exit manufacturing in Australia to any single factor. Rather, they cite as contributing factors: the highly fragmented and relatively small automotive market in Australia (Ford, Toyota and Holden); the exchange rate and high production costs (Toyota and Holden); and increased competition due to current and future Free Trade Agreements (Toyota).¹

9. Despite this, all three manufacturers plan to maintain a strong presence in Australia as national sales and distribution companies, and Ford and Holden have further committed to providing global design or product development and engineering services from their Australian base. All three manufacturers are actively pursuing transitional support for their employees who are, or will be, affected by the closures.

Recent history

10. At the same time as the automotive manufacturers were reacting to the changing and challenging market conditions, the Australian Government, along with the Victorian and South Australian Governments, was moving quickly to deliver assistance for affected employees and businesses and putting in place a long term national plan for change and growth.

11. In the lead-up to, and following, the Productivity Commission's review of the Australian automotive manufacturing industry there were numerous decisions made and actions taken that involved the automotive manufacturing industry in Australia, many of which are reported on in the pages below. The main developments in this transition are listed in the following table.

TABLE 1—Recent history

DATE	EVENT	SOURCE
10 January 2012	\$34m Ford grant announced	Prime Minister Gillard media release " <i>\$103 million upgrade for Ford Falcon and Territory</i> "
22 March 2012	\$275 million co-investment announced	Prime Minister Gillard/Minister Combet joint media release " <i>Investing in automotive jobs and skills</i> "
23 May 2013	Ford closure announcement	Ford media release " <i>Important announcement from Ford Australia</i> "
	Melbourne's North, and Geelong Region, Innovation and Investment Funds	Prime Minister Gillard media release " <i>Support For Workers And Regions Affected By Ford Decision</i> "

¹ Ford media release "*Important announcement from Ford Australia*", 23 May 2013; GM media release "*GM to Transition to a National Sales Company in Australia and New Zealand*", 10 December 2013; and Toyota Australia media release "*Toyota Australia announces future plan for local manufacturing*", 10 February 2014.

	announced	
1 June 2013	\$5.25m Auto Skills Australia support for Ford workers announced	Prime Minister Gillard media release " <i>More Support To Ford Workers</i> ", 1 June 2013; <i>Senate Economics Legislation Committee Hansard</i> , 23 October 2014, p.141
5 August 2013	Round 2 grantees of Automotive New Markets Program announced	Minister Carr/Vic Minister Hodggett/SA Minister Kenyon joint media release " <i>Helping auto suppliers diversify and thrive</i> "
	\$28.6m Toyota grant announced	Minister Carr/Vic Minister Hodggett joint media release " <i>\$123m investment in Toyota Australia's future</i> "
30 October 2013	Terms of Reference received by the Productivity Commission	Productivity Commission Inquiry Report " <i>Australia's Automotive manufacturing Industry</i> ", No. 70, 31 March 2014; Minister Macfarlane/Treasurer Hockey joint media release " <i>Commission commences examination of automotive industry support</i> ", 30 October 2013
10 December 2013	Holden closure announcement	GM media release " <i>GM to Transition to a National Sales Company in Australia and New Zealand</i> "
18 December 2013	Reviews of SA and Vic economies announced \$100m Growth Fund announced	Prime Minister Abbott/Minister Macfarlane joint media release " <i>Securing Australia's Manufacturing Future</i> "
10 February 2014	Toyota closure announcement	Toyota Australia media release " <i>Toyota Australia announces future plan for local manufacturing</i> "
31 March 2014	Productivity Commission's Final Report delivered to the Treasurer	Productivity Commission Inquiry Report " <i>Australia's Automotive Manufacturing Industry</i> ", No. 70, 31 March 2014
30 April 2014	SA and Vic economic reviews released.	" <i>Growing Opportunities: South Australian and Victorian Comparative Advantages</i> ", April 2014
30 April 2014	\$155m Growth Fund announced	Prime Minister Abbott/Minister Macfarlane joint media release " <i>\$155 million fund to grow the jobs of tomorrow</i> "
5 May 2014	Round 3 grantees of Automotive New Markets Program announced	Minister Macfarlane/Vic Minister Hodggett/SA Minister Koutsantonis joint media release " <i>\$4.3 million to help auto suppliers enter new markets</i> "
4 August 2014	Automotive Diversification Programme launched	Minister Macfarlane/Vic Minister Hodggett/SA Minister Close media release " <i>Helping Australian automotive suppliers adapt to change</i> "
26 August 2014	Government response to Productivity Report released	Minister Macfarlane media release " <i>Government supports automotive industry transition</i> "
24 September 2014	Automotive Transition Scheme Amendment Bill 2014 introduced	<i>House of Representatives Hansard</i> , 24 September 2014, p.10323
14 October 2014	Industry Innovation and Competitiveness Agenda announced	Prime Minister Abbott media release " <i>An Action Plan for Australia's Future</i> "

16 October 2014	\$60m Next Generation Manufacturing Investment Programme announced	Minister Macfarlane/Parliamentary Secretary Andrews/Vic Minister Hodgett/SA Minister Close joint media release “\$60 million to boost successful manufacturing in South Australia and Victoria”
25 November 2014	Senate automotive inquiry established	<i>Senate Hansard</i> , 25 November 2014, pp. 9213 & 9214
17 February 2015	Chair of Advanced Manufacturing Growth Centre announced	Minister Macfarlane media release “ <i>Industry Growth Centre appointments</i> ”
10 March 2015	Round 1 grantees of Automotive Diversification Programme announced	Minister Macfarlane/Assistant Minister Birmingham joint media release “ <i>\$16m Investment to Drive Diversification in the Auto Supply Chain</i> ”
	Announcement that Automotive Transition Scheme will continue in its original form as legislated	

Productivity Commission Review of the Australian Automotive Manufacturing Industry

12. On 30 October 2013, the Productivity Commission was tasked with examining Australia’s automotive manufacturing industry with a view to providing the Government with information to respond appropriately to the challenges facing the automotive industry. The review was focussed on industry assistance provided to the industry and was prompted by the changing circumstances affecting the industry such as the withdrawal of some manufacturers from domestic production, exchange rate variability and the increasing openness of Australia’s retail market.

13. In its 31 March 2014 Inquiry Report, the Productivity Commission, in essence, described an automotive manufacturing industry that was in inevitable decline because of Australia’s inherent weaknesses and the unsustainability of providing sufficient ongoing budgetary assistance.² The Commission was of the view that Government effort should focus on helping to minimise the costs and hardship to individuals and regions most affected by structural change—that is, ongoing Government effort should be to transition workers and businesses.

Reviews of the South Australian and Victorian Economies

14. One of the matters considered by the Productivity Commission was the range of special adjustment assistance programmes for employees and regions affected by retrenchments in the automotive industry. The Productivity Commission was able to consider the adjustment assistance provided by the Australian and Victorian governments in response to Ford’s 23 May 2013 announcement that it would cease its local manufacturing operations in 2016. However, the Commission was not able to fully assess the adjustment and co-investment package put in place to support workers, businesses and regions affected by

² Productivity Commission Inquiry Report “*Australia’s Automotive Manufacturing Industry*”, No. 70, 31 March 2014.

Holden's announced closure because two key inputs into the development of the package had not been finalised.

15. These inputs were the reviews of the South Australian and Victorian economies which were looking at ways to boost the competitiveness of those economies.³

16. The reviews were released on 30 April 2014. They found that the closures of Ford, Holden and Toyota would result in the loss of up to 27,500 direct jobs nationally (including 5,000 in South Australia and 18,000 in Victoria). However, the reviews found that the South Australian and Victorian economies were well placed to weather the closures, with significant growth expected in advanced manufacturing, food and agriculture, health and biomedical, mining services, tourism and education.

Government Response to Productivity Commission Report

17. On 26 August 2014, the Government responded to the nine recommendations of the Productivity Commission by supporting, or supporting-in-principle, the majority of them. The response focusses on transition support for skills, training and information to help move them into new jobs. The response is set out in the table below.

TABLE 2—Government response

RECOMMENDATION	GOVERNMENT RESPONSE	REASON(S)
5.1—The Australian Government should repeal the <i>Automotive Transformation Scheme Act 2009</i> after Ford, Holden and Toyota have ceased manufacturing motor vehicles in Australia.	Supported	In light of the decision by Ford, Holden and Toyota to cease motor vehicle manufacturing in Australia by the end of 2017, there is no sound policy rationale to maintain the ATS beyond 2017.
5.2—The Australian, Victorian and South Australian governments should not extend or replace the Automotive New Markets Program (ANMP) or other programs under the Automotive New Market Initiative after their scheduled closure in 2015-16.	Rejected	The Government will replace and extend the ANMP with the Automotive Diversification Programme (ADP) to run through to 30 June 2018. This will help automotive supply chain firms to diversify and to find new markets. It is appropriate to extend structural adjustment support for component manufacturers in the lead up to the cessation of motor vehicle production at the end of 2017.
5.3—The Australian Government should not extend or replace the Green Car Innovation Fund after it makes its final payment in 2014-15.	Supported	The Green Car Innovation Fund was closed to new applicants on 27 January 2011.
The Australian, state and territory governments should not provide	Supported-in-principle	To assist component manufacturers deal with structural change caused

³ *Growing Opportunities: South Australian and Victorian Comparative Advantages*, April 2014.

<p>any further ongoing or ad hoc assistance, including capital subsidies, to the firms in the automotive manufacturing industry beyond that already committed.</p>		<p>by the closure of motor vehicle manufacturing, the Government will replace the ANMP with the ADP.</p>
<p>5.4—The Australian Government should progressively relax the restriction on the importation of second-hand passenger and light commercial vehicles. The new regulatory arrangements for imported second-hand vehicles should be developed in accordance with the outcomes of the Australian Government's current review of the <i>Motor Vehicle Standards Act 1989</i> and should:</p> <ul style="list-style-type: none"> • not commence before 2018, and ensure that reasonable advance notice is given to affected individuals and businesses; • be preceded by a regulatory compliance framework that includes measures to provide appropriate levels of community safety, environmental performance and consumer protection; • initially be limited to vehicles manufactured no earlier than five years prior to the date of application for importation; and • be limited to second-hand vehicles imported from countries that have vehicle design standards which are consistent with those recognised by Australia. <p>The Australian Government should remove the \$12,000 specific duty on imported second-hand vehicles from the Customs Tariff.</p>	<p>Noted</p>	<p>Importation of second hand vehicles will be thoroughly considered in the 2014 Review of the <i>Motor Vehicle Standards Act 1989</i>.</p> <p>Changes to current arrangements for importation of second hand vehicles will involve careful consideration of an appropriate regulatory framework and standards, with emphasis on safety, environmental performance and consumer protection.</p>
<p>5.5—The Australian Government should accelerate the harmonisation of Australian Design Rules with the United Nations Economic Commission for Europe (UNECE) Regulations</p>	<p>Supported</p>	<p>The program for harmonising Australian Design Rules with United Nations Regulations has been accelerated.</p> <p>Australia will apply more UN Regulations where warranted and is</p>

<p>and the mutual recognition of other appropriate vehicle standards.</p> <p>The Australian Government and all state and territory governments should justify any existing and future jurisdictional deviations from UNECE Regulations through comprehensive and independent cost benefit analyses.</p>		<p>taking an active role in the development of International Whole Vehicle Type Approval (IWVTA). IWVTA will also lead to greater harmonisation and vehicle models being approved for entry into Australian and comparable markets at a whole of vehicle level rather than at a component level, with savings to manufacturers and consumers.</p> <p>Australian specific content in the Australian Design Rules will be removed where it cannot be justified.</p>
<p>5.6—The Australian Government should, in its forthcoming Taxation White Paper, consider:</p> <ul style="list-style-type: none"> • the removal of the five per cent tariff on imported passenger and light commercial vehicles after Ford, Holden and Toyota have ceased manufacturing motor vehicles in Australia; • the removal of the luxury car tax; and • more efficient sources of government revenue with which to replace these measures. 	<p>Supported-in-principle</p>	<p>The possible removal of these measures and any sources of government revenue with which to replace these measures will be considered in the context of the Australian Government's Taxation White Paper.</p>
<p>5.7—After Ford, Holden and Toyota have ceased manufacturing motor vehicles in Australia, the Australian, South Australian and Victorian governments should remove fleet procurement policies that require government agencies to purchase vehicles manufactured in Australia.</p>	<p>Supported</p>	<p>The Australian Governments fleet procurement policy that favours the purchase of locally-made vehicles will be abolished. Given that Ford, Holden and Toyota have announced that they will cease manufacturing motor vehicles in Australia, the policy will be redundant once no manufacturer remains in production.</p> <p>The South Australian and Victorian governments need to consider their own fleet procurement policies as they are a state specific matter.</p>
<p>7.1—Governments should plan for, and ensure the appropriate resourcing of the delivery of, generally available welfare, training and employment services for all clients in those regions placed under pressure through the retrenchment of automotive</p>	<p>Supported-in-principle</p>	<p>The Government will introduce a Skills and Training Programme to provide pre-emptive support for automotive workers Australia-wide, including skills recognition and training whilst on-the-job. It will assist automotive workers transition to new jobs.</p>

manufacturing employees.		
<p>7.2—If the Australian Government extends the Automotive Industry Structural Adjustment Program (AISAP) beyond 2016-17 it should first:</p> <ul style="list-style-type: none"> • clarify its objectives and policy rationale, including the policy problem that the program seeks to address; • undertake a rigorous, independent and transparent evaluation of costs and benefits to date to determine whether its current design is appropriate; and • put in place processes for its ongoing monitoring and review, including the collection of relevant data. 	Supported-in-principle	<p>The Government has extended the AISAP to 30 June 2018 to provide intensive tailored employment assistance to help displaced automotive workers find new employment. From 1 July 2014, the level of services for the AISAP will reduce as a result of the skills and training support workers will receive through the Skills and Training Programme. Workers assessed as needing the highest level of support will have access to it. The AISAP has been extended to ensure assistance is available to workers as they are displaced, including following the closure of motor vehicle manufacturing at the end of 2017.</p>
<p>In particular, the Australian Government should consider if there are ways to better target assistance under the AISAP to retrenched employees who are likely to encounter difficulties in finding re-employment.</p>	Supported-in-principle	<p>The Government will consider the processes needed for on-going monitoring and review of the AISAP.</p>

Update since the Productivity Commission Review—sector-specific

Automotive Transformation Scheme

18. The Automotive Transformation Scheme (ATS) is a legislated entitlement scheme that provides assistance to registered participants for the production of motor vehicles and engines, for investment in allowable research and development and for investment in allowable plant and equipment.

19. When the Productivity Commission reviewed the ATS as part of its review of Australia's automotive industry, it had before it projections by the department of two different funding scenarios, viz. the legislated capped funding profile and the savings outlined in the Mid-year Economic and Fiscal Outlook 2013–14.

20. Since then, the Government in the 2014–15 Budget announced its intention to achieve further savings by terminating the ATS on 1 January 2018 to reflect announcements by vehicle manufacturers that they will cease vehicle manufacturing in Australia by the end of 2017.

21. This termination is consistent with the Productivity Commission's recommendation on the ATS and was to be effected by the Automotive Transformation Scheme Amendment

Bill 2014. However, on 10 March 2015, the Government announced that the ATS would continue as legislated in order to provide certainty to the automotive industry in respect of the level of ATS assistance available over the next three years as the industry makes the transition from domestic car manufacturing. The ATS will come to a natural close at the end of 2017 when Holden and Toyota cease their domestic manufacturing.

22. Assistance under the ATS includes both capped and uncapped assistance, with capped assistance being guaranteed through a standing appropriation. Uncapped assistance, on the other hand, is provided through annual appropriations.

23. Publication of the total amounts of capped assistance and uncapped assistance paid to ATS participants is governed by section 27A of the *Automotive Transformation Scheme Act 2009*. Up until to 31 March 2014, which is the latest information published in the department's annual report (as required under the *Automotive Transformation Scheme Act*), a total of \$1,089,882,128 has been paid. Total annual payment amounts are set out in the table below.

TABLE 3—ATS grants paid

	1 Apr 2011–31 Mar 2012		1 Apr 2012–31 Mar 2013		1 Apr 2013–31 Mar 2014		Total
	Capped	Uncapped	Capped	Uncapped	Capped	Uncapped	
Motor vehicle producers	\$165,000,000	\$91,028,201	\$154,998,694	\$77,021,048	\$178,369,443	\$56,603,541	\$723,020,927
Automotive component producers	\$127,979,415	\$0	\$121,410,396	\$0	\$108,412,084	\$0	\$357,801,895
Automotive machine tool producers	\$2,896,529	\$0	\$2,790,485	\$0	\$2,422,526	\$0	\$8,109,540
Automotive service providers	\$302,387	\$0	\$315,729	\$0	\$331,650	\$0	\$949,766
Total	\$296,178,331	\$91,028,201	\$279,515,304	\$77,021,048	\$289,535,703	\$56,603,541	\$1,089,882,128

24. Overall, 179 businesses (as at 31 March 2015) have been registered under the ATS of which 57 have been subsequently deregistered because their production volumes fell below the legislated thresholds. Fifteen of the deregistered businesses have ceased to operate in the automotive industry but only five of these have closed down completely.

25. For more information on the ATS see <http://www.business.gov.au/grants-and-assistance/manufacturing/ats/Pages/default.aspx>.

Growth Fund

26. The \$155 million Growth Fund, which was announced on 30 April 2014, is a targeted and integrated response to the closures of Holden and Toyota. Informed by the reviews of the South Australian and Victorian economies, the Fund is designed to assist workers transition to new jobs, encourage diversification by automotive supply chains, and accelerate new business activities in Victoria and South Australia (the two States most affected by the closures).

27. The Growth Fund follows the Council of Australian Governments' (COAG) December 2013 consideration of Holden's decision to wind down its Australian automotive manufacturing operations wherein it agreed that an urgent response was required by governments. COAG noted the governments' priority and commitment to put in place a

comprehensive structural adjustment and co-investment package to support affected automotive industry workers, their families, businesses and regions.

28. The reviews of the South Australian and Victorian economies, mentioned earlier, played an important role in informing the development of the Growth Fund. Both reviews were chaired by the Hon Ian Macfarlane MP, Minister for Industry and Science, and included Members of Parliament and industry leaders in the South Australian and Victorian business communities. The reviews themselves were informed by a series of public meetings in Melbourne and Adelaide as well as 94 written submissions.

29. When the Growth Fund was first announced, in December 2013, it was a \$100 million Fund. This initial funding amount was criticised by the South Australian Government as being inadequate. However, when the final details of the Growth Fund were announced on 30 April 2014, a total of \$155 million had been committed to it and it was supported financially and otherwise by the Victorian and South Australian Governments, Holden and Toyota.

30. The Growth Fund comprises five elements:

- the Next Generation Manufacturing Investment Programme;
- the Automotive Diversification Programme;
- the extension of the Automotive Industry Structural Adjustment Programme;
- the Skills and Training Initiative; and
- the Regional Infrastructure Programme.

31. See <http://www.industry.gov.au/AboutUs/CorporatePublications/ReviewofSouthAustralianandVictorianEconomies/Pages/default.aspx>, and below, for further information about these elements.

Next Generation Manufacturing Investment Programme

32. The Next Generation Manufacturing Investment Programme is a joint initiative of the Australian, Victorian and South Australian Governments that is intended to accelerate investment in Victoria and South Australia in areas of manufacturing—outside of automotive—where growth opportunities have been demonstrated. Each of the State governments is contributing \$12 million to the Programme with the Australian Government providing the remaining \$36 million. At the commencement of the programme, grant funds have been divided into two equal funding pools, one for each participating State.

33. Under the Programme, competitive merit-based grants are available to support capital projects for businesses that are expanding their manufacturing operations in areas of high value manufacturing in Victoria or South Australia. It is complementary to other elements of the Growth Fund that aim to assist automotive supply chain companies and automotive employees.

34. Grants are awarded in rounds with the first round having closed on 9 January 2015. This round attracted 265 applications (184 involving Victoria and 81 involving South Australia) which are currently being assessed (as at 31 March 2015)

35. In assessing applications, projects that claim to provide new job opportunities for employees from the automotive industry may attract additional weighting in the consideration of net economic benefit. However, there is no explicit link between the Programme's outcomes and employment of former automotive industry employees.

36. Further information on the Next Generation Manufacturing Investment Programme may be found at <http://www.business.gov.au/grants-and-assistance/growth-fund/Next-Generation-Manufacturing-Investment-Programme/Pages/default.aspx>.

Automotive Diversification Programme

37. The Automotive Diversification Programme's predecessor, the \$42 million Automotive New Markets Program (ANMP), was identified by the Productivity Commission as a primary source of industry-specific assistance. In addition to the 23 ANMP approved projects (totalling \$13,780,192) of the first two rounds which were available to the Productivity Commission, another seven projects were approved in the third round (totalling \$4,319,997) after the Commission had presented its report to the Government.

38. In its review, the Productivity Commission considered the case for providing adjustment assistance to firms if it would improve the efficiency of the adjustment process where the benefits of that assistance outweigh the costs to the community as a whole. When considering this, it categorised the automotive component manufacturing segment according to the implications that the closures of Ford, Holden and Toyota would have across the segment, viz.

- those that had already closed, diversified into other industries or export markets (in part or full);
- those global subsidiaries which focus solely on, and locate close to, motor vehicle manufacturers and as a consequence would be likely to exit Australia once motor vehicle production in Australia ceases;
- those with perceived diversification opportunities; and
- those that lacked the financial or managerial capacity to successfully diversify into other markets before 2017.

39. It noted that industry-specific and generally available assistance was available to component manufacturers between 2014 and 2017 and considered that, on balance and principally for reasons of equity but also of efficiency, there would be no net benefits to the community in providing industry-specific assistance to component manufacturers beyond that already committed to the end of 2017. Accordingly, the Productivity Commission recommended that the ANMP (among other programs) should not be extended or replaced post-2015–16.

40. This was, however, rejected by the Government in favour of a new \$20 million Automotive Diversification Programme (ADP) designed to assist Australian automotive supply chain companies to diversify out of the domestic motor vehicle manufacturing sector through investment in capital equipment and thereby retaining manufacturing capability in Australia.

41. The ADP runs until 2017–18 and was the first grant programme to be launched under the Growth Fund.

42. The first round under the ADP differed primarily from the ANMP by supporting investment only in plant and equipment. However, reconfiguration costs (limited to the remodelling or restructuring of a manufacturing production line) were included in the second round of the programme.

43. Unlike the ANMP, which was jointly funded by the Australian and Victorian Governments and administered in conjunction with the South Australian Government, the ADP is funded solely by the Australian Government.

44. Both the Victorian and South Australian Governments, however, support the ADP with the Victorian Government explaining at the time of launching the ADP that it complements existing State government initiatives aimed at connecting the automotive supply chain to business opportunities in other markets and industry sectors. Both State Governments assist in administering the ADP through their participation on the ADP Advisory Committee, which plays a key role in the assessment process.

45. Under the previous ANMP, of the 30 projects that had been approved: 15 have been completed, 12 are in progress, two have been withdrawn and one has been voluntarily terminated (as at 31 March 2015).

46. The completed projects cover:

- an upgrade to facilitate the production of large, complex precision components for the defence, aerospace and mining sectors;
- commissioning full service local electrical wiring harness design, engineering and manufacture within the industrial transport arena—supplying into market sectors outside the local automotive original equipment manufacturer (OEM) stream;
- the development and supply of roll form sections for utility scale photovoltaic solar mounting systems;
- a solar energy component project consisting of the production and supply of solar power generation products;
- the development of an export brake component program and establishment of a flexible machining/plating facility;
- the design and development of a unique modular concept for new lighting products for non-automotive applications;
- the development, engineering and manufacture of the 'Tomcar' in Australia;
- transitioning an advanced manufacturing business towards sustainable growth via a strategy of development of niche services aligned to core capability and commercialisation of "Own Products"—first stage;
- the acquisition of electric moulding machines with robotics and automation to improve competitiveness and reduce costs to augment automotive component manufacture through business diversification;
- the commercialisation of a potentially lifesaving 'Backover Avoidance System';
- undertaking casting of copper heat exchange blocks for BHP to demonstrate to BHP that Australloy has the capability to produce high integrity copper castings;
- the development of a dual walled insulated plastic 'glass' which not only delivers improved thermal properties but also promotes safety through greatly increased strength;
- the development of a range of lighting products that can be used in situations requiring fixed and mobile lighting apparatus, such as search and rescue operations, industrial applications and military surveillance operations;

- the market development of niche construction industry products, composite aluminium cladding, noise absorption panels, acrylic noise abatement panels and translucent reinforced polyester plastic panels for wall and roof construction applications; and
- transitioning an advanced manufacturing business towards sustainable growth via a strategy of development of niche services aligned to core capability and commercialisation of “Own Products”—second stage.

47. On 10 March 2015, 12 successful projects under the first round of the ADP were announced. The first round grants total \$6,723,224 and will enable projects worth \$16,201,448 to proceed. They are:

- equipment to manufacture steel fixings and metal bracket products for the Australian building industry;
- equipment for the manufacture of components for new generation heating, venting and lighting units and other non-automotive products;
- machinery to develop and manufacture export packaging for the local fast moving consumer goods industry;
- new production lines for products for the solar, electronics and building industries;
- equipment to produce booster detonator retention items for the global mining industry;
- integrated work cells for steel products used in the domestic and overseas construction, infrastructure and housing sectors;
- equipment to enable the company to manufacture and export powder metal sintered multi tuneable valve support components used in shock and strut dampers worldwide;
- equipment to improve the company's capability to supply hot stamping products into the United States;
- equipment to manufacture heliostat fields for the solar thermal power industry;
- expansion of clean room and in-mould labelling facilities to supply thin walled food and liquid containers to the food processing, cosmetic and medical sectors;
- equipment to manufacture illuminated image projection devices for automotive and other industry sectors; and
- equipment to manufacture light display panels for retail, commercial and domestic applications within Australia.

48. The second round of grants under the ADP opened on 10 March 2015 and will close on 23 April 2015.

49. Both the ADP and ANMP build on the prerequisites of the businesses having to have completed an independent business capability development activity aimed at developing new capabilities, improving productivity and applying existing capabilities in new ways with a particular focus on management.

50. Further information on the ADP is available at <http://www.business.gov.au/grants-and-assistance/growth-fund/Automotive-Diversification-Programme/Pages/default.aspx>.

Automotive Industry Structural Adjustment Programme

51. In its review, the Productivity Commission noted that there may be a role for special adjustment assistance to improve the efficiency of the adjustment process or to address distributional concerns because generally available measures are not designed to handle all contingencies.⁴

52. Whilst it was of the view that the policy rationales for providing industry-specific assistance to Australia's automotive industry were weak, it did observe that governments may have a role to help minimise the costs and hardship to individuals and regions most affected by considerable structural adjustment pressures.⁵

53. The Automotive Industry Structural Adjustment Programme (AISAP) initially had two elements: a structural adjustment component to assist the supply chain to consolidate, and a labour adjustment component to provide training and assistance to displaced workers. From 1 July 2012, however, it focussed solely on labour market adjustment support.

54. In 2014, the AISAP was extended for a year to finish on 30 June 2018 as part of the Growth Fund. This is to take account of the cessation of automotive manufacturing at the end of 2017. Under the AISAP, job fairs are also being planned to coincide with the factory closures.

55. An extra \$3 million in funding has been provided for 2016–17 which takes the total funding for that year to \$8 million and \$12 million has been provided for 2017–18.

56. From 1 July 2014, redundant automotive workers who are eligible for AISAP had immediate access to Stream 2 services under Job Services Australia rather than Stream 3 under the pre-1 July 2014 arrangements in recognition of the complementarity of AISAP and the new Skills and Training Initiative element of the Growth Fund.

57. There have been approximately 75 eligible automotive companies whose retrenched workers have accessed employment support under the AISAP.

58. The Department of Employment will consider processes for on-going monitoring and review of the AISAP.

Skills and Training Initiative

59. The Growth Fund's Skills and Training Initiative, funded jointly by Holden and Toyota with \$15 million each, will help Holden and Toyota workers transition to new jobs when the companies close their domestic manufacturing operations at the end of 2017.

60. Workers in the car component supply chain are being assisted by the Victorian and South Australian State Governments through their complementary State Government programmes. Together, these initiatives will help workers build on existing skills and gain new skills that are transferable to other industry sectors.

⁴ Productivity Commission Inquiry Report "Australia's Automotive Manufacturing Industry", No. 70, 31 March 2014, p. 26.

⁵ *Ibid.*, pp. 104–5.

61. Through the Growth Fund, Toyota is making available \$3 million of its \$15 million financial contribution towards supporting employees in its supply chain organisations.

62. The Australian Government has collaborated with Holden, Toyota and the South Australian and Victorian Governments to agree a redeployment strategy to transition automotive manufacturing industry workers to new jobs, self-employment or retirement by providing:

- access to support and information, including financial education services;
- careers and training advice;
- skills recognition and training; and
- help to find a new job.

63. The majority of support under the Skills and Training Initiative will be delivered by 30 June 2018.

64. The Australian Government has appointed a National Facilitator, Mr Terry Kennedy, to identify job opportunities and to help employers manage the transition successfully.

65. More information on the Skills and Training Initiative is available at <http://www.business.gov.au/grants-and-assistance/growth-fund/Skills-Training-Initiative/Pages/default.aspx>.

Regional Infrastructure Programme

66. The \$29.8 million Regional Infrastructure Programme element of the Growth Fund aims at supporting investment in common-use infrastructure to facilitate business development, outside of manufacturing, in affected regions in Victoria and South Australia.

67. The department is currently working with Victorian and South Australian government officials to finalise the arrangements for the Programme's delivery. The Commonwealth Minister for Industry and Science and his State counterparts will need to agree the final delivery arrangements and the infrastructure projects to be funded in each State.

68. See <http://www.business.gov.au/grants-and-assistance/growth-fund/Regional-Infrastructure-Programme/Pages/default.aspx> for more information.

Update since the Productivity Commission Review—non-sector-specific

Melbourne's North Innovation and Investment Fund

69. The \$24.5 million Melbourne's North Innovation and Investment Fund (MNIIF) is a joint response by the Australian and Victorian Governments to Ford's 23 May 2013 announcement that it would close manufacturing operations in Australia in 2016.

70. The MNIIF comprises contributions of \$15 million from the Australian Government, \$4.5 million from the Victorian Government and \$5 million from Ford. The Fund is a competitive merit-based grant programme aimed at encouraging new investment to create new or additional business capacity that results in sustainable jobs.

71. As at 31 March 2015, 16 projects are being funded: the total value of approved grants is \$18,837,232 corresponding to total project investments of \$98.4 million and approximately 446 new full-time equivalent (FTE) positions. The projects are:

- the establishment of a new leading edge robotic caravan chassis manufacturing facility, increasing production volumes to meet increasing demand;
- an upgrade to expand capabilities in the digital printing and on-line gifting market;
- the installation of the latest European robotic equipment to produce gelato with fruit inclusions, flavour infusions and decorations;
- the installation of a blast freezer to increase production of ice cream to meet increasing demand;
- the installation of a new bottling line to expand production capacity and accommodate a wider range of bottles and closures for alcoholic beverages;
- the establishment of the company's Asia-Pacific Headquarters, encompassing a manufacturing centre of excellence, a research and development centre and a visitor centre;
- the expansion and upgrade of production lines to increase volume and diversify product offerings into glass bottle and canned beverage production;
- an upgrading of cardboard packaging manufacturing facility to allow diversification into paper production;
- the expansion of existing capabilities to cater for demand for new and innovative automation systems utilising sensor guided advanced robotics;
- the installation of new equipment to allow development of technologically advanced foamed polyethylene products for new markets;
- the expansion of manufacturing operations to service the market for stone kitchen bench tops;
- the construction of a new manufacturing facility to increase production capability and volume and diversify the product range;
- the construction of purpose built cheese and yoghurt manufacturing facility that will allow the expansion of current operations and the introduction of new product lines;
- undertaking a major expansion project, establishing an Asia-Pacific Headquarters at Baxter Foods Campbellfield gourmet food manufacturing facility. The project will incorporate a significant increase in production capability, a world class R&D Technical Centre, and an export base into Asian markets;
- the establishment of a world class high performance thermal insulation manufacturing facility, aimed at meeting the demand for high performing energy efficient buildings in Australia and New Zealand; and
- the expansion to facilitate new market opportunities through the installation of a printer and re-engineering of production and materials handling facilities.

72. The second round of the MNIIF opened for applications on 23 March 2015 and closes on 14 May 2015.

73. Further details are available at <http://www.business.gov.au/grants-and-assistance/regional-innovation/MNIIF/Pages/MNIIF-ProjectsSupported.aspx>.

Geelong Region Innovation and Investment Fund

74. The \$29.5 million Geelong Region Innovation and Investment Fund (GRIIF) is a joint response by the Australian and Victorian Governments following the Ford closure announcement.

75. The GRIIF was originally announced as a \$24.5 million programme with contributions of \$15 million from the Australian Government, \$4.5 million from the Victorian Government and \$5 million from Ford Australia. Subsequently, in May 2014, Alcoa of Australia Limited announced a \$10 million package in response to its decision to close its aluminium smelter in Geelong. This included \$5 million to augment the GRIIF.

76. The GRIIF is a competitive merit-based grant programme aimed at encouraging new investment to create new or additional business capacity that results in sustainable jobs. Two rounds have been conducted:

- four successful projects were announced under the first round with total approved grants of \$8,031,000 corresponding to total project investments of \$47.0 million and 197 new full-time equivalent (FTE) positions; and
- six successful projects were announced under the second with total approved grants of \$10,341,625 corresponding to total project investments of over \$57.9 million and a further 525 new FTE positions.

77. The projects are:

- the establishment of a manufacturing facility to allow the commercial scale production of carbon fibre wheels for supply to the automotive industry;
- the expansion of custom timber window and door manufacturing facility to improve production processes and capabilities;
- the establishment of a new facility to manufacture print envelopes and labels, allowing for an expanded product range;
- the development of a new agricultural chemical manufacturing plant in Lara;
- the expansion of lamb and mutton processing facility in Colac to increase production capacity for the export market;
- the development of a blanch-cooked and pasteurised range of sausage hamburger products for known export markets customers in northern and southern Asian countries;
- the establishment of cream and cheese processing and packing lines at its new North Geelong organic dairy manufacturing facility to expand into domestic and international markets;
- the redevelopment and expansion of Cotton On Group's head office facilities in North Geelong to accommodate an additional new 300 staff as required for the ongoing global expansion of the Cotton On Group's operation;
- the establishment of a carbon fibre composites centre for the global automotive industry, including pilot production facility; and
- the establishment of a new animal feed mill facility for the manufacture of animal stock feed to support the expansion of the poultry and pig industries in western Victoria.

78. The third round of the GRIIF opened for applications on 23 March 2015 and closes on 14 May 2015.

79. Further details on the GRIIF are at <http://www.business.gov.au/grants-and-assistance/regional-innovation/GRIIF/Pages/GRIIF-ProjectsSupported.aspx>.

Manufacturing Transition Programme

80. The \$50 million Manufacturing Transition Programme was an election commitment announced in the 2014–15 Budget. It is a national competitive merit-based grants programme which will run over three years to 2016–17 that complements the Industry Innovation and Competitiveness Agenda (see below).

81. The Programme will support capital investment projects by manufacturing businesses that are transitioning or expanding their activities into high value or more knowledge-intensive manufacturing.

82. Grants from \$1 million up to \$10 million will be awarded to successful applicants and will fund up to 25 per cent of eligible costs, with a minimum project investment of \$4 million. The grants will support projects over a two year period.

83. The first round of the Programme opened for applications on 1 September 2014 and closed on 24 October 2014: 79 applications were received which are currently (as at 31 March 2015) being assessed by the Interim Manufacturing Transition Programme Advisory Committee, which was established under the Manufacturing Transition Programme Guidelines. Recommendations for funding will be made to the Minister.

84. More information on the Programme may be found at <http://www.business.gov.au/grants-and-assistance/manufacturing/Manufacturing-Transition-Programme/Pages/default.aspx>.

Industry Innovation and Competitiveness Agenda

85. The Government's Industry Innovation and Competitiveness Agenda, announced on 14 October 2014, is a central part of the Government's Economic Action Strategy to build a strong, prosperous economy for a safe, secure Australia.

86. The Agenda will lift the competitiveness and productivity of Australian industry by focusing on areas of competitive strength. This will help Australia transition to smart, high-value and export focused industries.

87. The Agenda sets out four ambitions that Australia must pursue:

- a lower cost, business friendly environment with less regulation, lower taxes and more competitive markets;
- a more skilled labour force;
- better economic infrastructure; and
- industry policy that fosters innovation and entrepreneurship.

88. Six key initiatives make up the Agenda: encouraging employee share ownership; reforming the vocational education and training sector; promoting science, technology and mathematics skills in schools; accepting international standards and risk assessments for

certain product approvals; enhancing the 457 and investor visa programmes; and establishing Industry Growth Centres.

89. The Agenda is complemented by the Government's \$155 million Growth Fund, the \$50 million Manufacturing Transition Programme, the \$484 million Entrepreneurs' Infrastructure Programme and the \$476 million Industry Skills Fund. Together, these measures will help to drive excellence, not dependence, and create an economy that ensures Australia's ongoing prosperity.

90. More information on the Industry Innovation and Competitiveness Agenda can be found at <https://www.dpmc.gov.au/pmc/about-pmc/taskforces-and-consultations/industry-innovation-and-competitiveness-agenda>.

Taxation White Paper

91. On 30 March 2015, the Treasurer released a tax discussion paper, *Re:think*, and invited submissions on matters raised in the paper. The paper mentions tariffs and the luxury car tax and asks whether these remain appropriate or whether changes should be made as part of broader reform to make the tax system simpler and fairer. Consistent with its desire for a transparent process, the Government is not now ruling in or out any changes to these taxes as part of the broader tax reform process.