

The Senate

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Economics  
Legislation Committee

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Automotive Transformation Scheme  
Amendment Bill 2014 [Provisions]

November 2014

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# Senate Economics Legislation Committee

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# Chapter 1

## Introduction

1.1 The Automotive Transformation Scheme Amendment Bill 2014 was introduced by the government into the House of Representatives on 24 September 2014 (the bill). The following day, pursuant to the Senate Standing Committee for the Selection of Bills Committee's report,<sup>1</sup> the Senate referred the provisions of the bill to the Economics Legislation Committee for inquiry and report by 24 November 2014.

1.2 The bill would amend the *Automotive Transformation Scheme Act 2009* (the Act) to reduce the duration and level of assistance provided to registered participants of the Automotive Transformation Scheme (ATS). The ATS has since 2011 subsidised commercial activities including the production of motor vehicles and engines, investment and research and development by approved participants of the scheme. Chapter 2 provides further background on the operation of the ATS, including relevant analysis conducted by the Productivity Commission<sup>2</sup> and the National Commission of Audit.<sup>3</sup>

1.3 The bill passed the House of Representatives on 2 October 2014.

### Provisions

1.4 Items of the amending Schedule to the bill would amend sections 4 and 8 of the Act to reduce the duration and amount of capped assistance available to registered participants of the ATS.<sup>4</sup>

1.5 Section 8 of the Act sets out the upper limits for the total amount of capped assistance that can be provided to approved participants during two separate stages, which are defined in section 4 as follows:

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- 1 The committee stated that the bill was referred to the Economics Legislation Committee 'to explore the impact of the proposed changes to the Automotive Transformation Scheme on the automotive industry, related industries, workers, local regions and the Australian innovation system. Selection of Bills Committee, *Report No. 12 of 2014*, 25 September 2014, Appendix 1.
  - 2 Productivity Commission, *Australia's automotive manufacturing industry*, Inquiry report 70, 31 March 2014.
  - 3 Australian Government National Commission of Audit, <http://www.ncoa.gov.au/index.html> (accessed 13 November 2014).
  - 4 Automotive Transformation Scheme Amendment Bill 2014.

*stage 1* means:

- (a) the period beginning on 1 January 2011 and ending on 31 December 2015; and
- (b) January, February and March 2016.

*stage 2* means:

- (a) the period beginning on 1 January 2016 and ending on 31 December 2020; and
- (b) January, February and March 2021.

1.6 Item 1 of the bill would amend paragraph (a) of the definition of the period of *stage 2* in section 4 'to make clear that the period ends on 31 December 2017', noting that paragraph (b) provides for an additional period.<sup>5</sup>

1.7 Item 2 of the bill would amend paragraph (b) of the definition of *stage 2* to include the first three months of calendar year 2018 as part of the stage,' enabling the payment of assistance to be made for allowable investment or production undertaken in the final quarter of calendar year 2017'.<sup>6</sup>

1.8 Together, Items 1 and 2 of the bill would reduce the duration of *stage 2* of the ATS by three years.

1.9 Item 3 of the bill would amend paragraph 8(1)(a) of the Act to reduce the total amount of capped assistance paid by the Commonwealth to all participants during *stage 1* in from \$1.5 billion to \$1.3 billion,<sup>7</sup> a reduction of \$200 million.

1.10 Item 4 of the bill would amend paragraph 8(1)(b) to reduce the total amount of capped assistance provided during *stage 2* from \$1 billion to \$300 million,<sup>8</sup> a reduction of \$700 million.

## **Financial implications**

1.11 As a result of the amendments, the government would achieve Budget<sup>9</sup> and MYEFO<sup>10</sup> savings of \$900 million over the seven financial years from 2014–15, which are represented in the explanatory memorandum<sup>11</sup> as follows:

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5 Automotive Transformation Scheme Amendment Bill 2014, Explanatory Memorandum, p. 5.

6 Automotive Transformation Scheme Amendment Bill 2014, Explanatory Memorandum, p. 5.

7 Automotive Transformation Scheme Amendment Bill 2014, para 8(1)(a).

8 Automotive Transformation Scheme Amendment Bill 2014, para 8(1)(b).

9 Australian Government, Budget 2014–15, *Budget Measures: Budget Paper No. 2 2014–15*, 13 May 2014, p. 163, [http://www.budget.gov.au/2014-15/content/bp2/download/BP2\\_consolidated.pdf](http://www.budget.gov.au/2014-15/content/bp2/download/BP2_consolidated.pdf) (accessed 11 November 2014). For departmental budget savings, see Economics Legislation Committee Budget Estimates, *Committee Hansard*, 3 June 2014, p. 72.



Expense (\$m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
MYEFO savings	-100.000	-175.000	-150.000	-75.000			
Budget savings				-108.350	-175.000	-91.650	-25.000

### Consideration of the bill by parliamentary legislative scrutiny committees

1.12 The bill was considered by the Senate Standing Committee for the Scrutiny of Bills<sup>12</sup> and the Parliamentary Joint Committee on Human Rights.<sup>13</sup> Neither committee raised concerns about the proposed amendments.

### Conduct of the inquiry

1.13 The committee advertised the inquiry on its website and wrote to relevant stakeholders and other interested parties inviting submissions by 27 October 2014. The committee received 20 submissions, which are listed in the Appendix. The submissions were published on the committee's website. The committee agreed not to hold a public hearing for the inquiry.

### Acknowledgements

1.14 The committee thanks the organisations who provided submissions to the inquiry.

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- 10 The Hon Joe Hockey MP, Treasurer and the Hon Mathias Cormann MP, Minister for Finance, *Mid-year economic and fiscal outlook 2013–14*, December 2013, p. 170.
- 11 Explanatory Memorandum, Automotive Transformation Scheme Amendment Bill 2014, p. 1, <http://www.comlaw.gov.au/Details/C2014B00192/Explanatory%20Memorandum/Text> (accessed 20 November 2014).
- 12 Scrutiny of Bills Committee, Alert Digest No.13 of 2014, p. 7, <http://www.aph.gov.au/~media/Committees/Senate/committee/scrutiny/alerts/2014/pdf/d13.pdf> (accessed 12 November 2014).
- 13 Parliamentary Joint Committee on Human Rights, *Examination of legislation in accordance with the Human Rights (Parliamentary Scrutiny) Act 2011: Thirteenth Report of the 44th Parliament*, October 2014, p. 4 [http://www.aph.gov.au/Parliamentary\\_Business/Committees/Joint/Human\\_Rights/Completed\\_inquiries/2014/Thirteenth\\_Report\\_of\\_the\\_44th\\_Parliament](http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Human_Rights/Completed_inquiries/2014/Thirteenth_Report_of_the_44th_Parliament) (accessed 12 November 2014).



# Chapter 2

## Background

- 2.1 The bill gives effect to the Australian Government's decision to:
- implement the \$500 million savings from the ATS capped assistance of financial years 2014–15 to 2017–18 as set out in the Mid-Year Economic and Fiscal Outlook;<sup>1</sup> and
  - terminate the Automotive Transformation Scheme (ATS) on 1 January 2018 as stated in the 2014–15 Budget Papers.<sup>2</sup>

### ATS

2.2 The ATS is a legislated entitlement scheme that provides assistance to registered participants for the production of motor vehicles and engines.<sup>3</sup> In addition, it provides for investment in allowable research and development and allowable plant and equipment.

2.3 The ATS commenced on 1 January 2011 and was to continue until 31 December 2021.<sup>4</sup> It was intended 'to encourage competitive investment and innovation in the Australian automotive industry and place it on an economically sustainable footing'.<sup>5</sup>

2.4 The ATS replaced the Automotive Competitiveness and Investment Scheme (ACIS) which was originally scheduled to run from 2011 to 2015.<sup>6</sup> Both the ATS and the ACIS were intended to assist the automotive manufacturing industry to adjust to the increasing competition caused by the reduction of trade barriers on imported

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1 The Hon Joe Hockey MP, Treasurer and the Hon Mathias Cormann MP, Minister for Finance, *Mid-year economic and fiscal outlook 2013–14*, December 2013, p. 170.

2 Australian Government, Budget 2014–15, *Budget Measures: Budget Paper No. 2 2014–15*, 13 May 2014, p. 163, [http://www.budget.gov.au/2014-15/content/bp2/html/bp2\\_expense-17.htm](http://www.budget.gov.au/2014-15/content/bp2/html/bp2_expense-17.htm) (accessed 12 November 2014).

3 Department of Industry, *Automotive Transformation Scheme (ATS)*, <http://www.business.gov.au/grants-and-assistance/manufacturing/ats/Pages/default.aspx> (accessed 13 November 2014).

4 *Automotive Transformation Scheme Act 2009*, s 4.

5 Department of Industry, *ATS Fact Sheet*, <http://www.business.gov.au/grants-and-assistance/manufacturing/ats/Pages/Fact-Sheet.aspx> (accessed 15 November 2014).

6 Explanatory Statement, *Automotive Transportation Scheme Regulations 2010*, p. 1.

vehicles,<sup>7</sup> which has had an impact on the number of sales of locally produced vehicles in Australia. The Department of Industry found that:

Nearly 90 per cent of new vehicle sales in Australia are of imported vehicles, with Australian-made cars having lost considerable market share in Australia over the past decade.<sup>8</sup>

2.5 Before the federal election on 7 September 2013, the then opposition announced its intention to reduce the amount of capped assistance available under the ATS as part of 'responsible budget savings'.<sup>9</sup>

2.6 This measure was included in the 2013–14 MYEFO, reducing capped funding available under the ATS by \$500 million over the 2015–2017 calendar years.<sup>10</sup> The MYEFO stated that the savings were to be 'redirected by the Government to repair the Budget and fund policy priorities'.<sup>11</sup>

2.7 In the 2014–15 Budget Papers, the government committed to terminating the ATS on 1 January 2018, saving a further \$400 million.<sup>12</sup> The funding available for the duration of the scheme was explained in Budget Paper No. 2 as:

Funding of approximately \$1.0 billion over five years from 2013–14 will remain available under the Automotive Transformation Scheme to support vehicle manufacturers and supply chain companies.<sup>13</sup>

2.8 In his second reading speech on the bill, the Minister for Industry, the Hon Ian Macfarlane MP, explained the relationship between the withdrawal of automotive manufacturing from Australia and the policy decision to conclude the ATS in 2018:

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7 Productivity Commission, *Australia's automotive manufacturing industry*, Inquiry report 70, 31 March 2014, pp. 108–12; Parliamentary Library, *Bills Digest no. 36*, 17 October 2014, p. 3.

8 Department of Industry, *Key Automotive Statistics 2012*, in *Automotive Manufacturing Productivity Commission, Australia's automotive manufacturing industry*, Inquiry report 70, 31 March 2014, p. 42.

9 The Hon Joe Hockey MP, Shadow Treasurer, and the Hon Andrew Robb AO MP, Shadow Minister for Finance, Deregulation and Debt Reduction, *Joint Media Release - Hockey, Robb - Coalition's responsible budget savings*, 28 August 2013, <http://www.joehockey.com/media/media-releases/details.aspx?r=336> (accessed 12 November 2014); Parliamentary Budget Office (PBO), *Post-election report of election commitments: 2013 general election*, PBO, Canberra, 2013, p. 41.

10 The Hon Joe Hockey MP, Treasurer and the Hon Mathias Cormann MP, Minister for Finance, *Mid-year economic and fiscal outlook 2013–14*, December 2013, p. 170.

11 *ibid.*

12 Australian Government, Budget 2014–15, *Budget Measures: Budget Paper No. 2 2014–15*, 13 May 2014, p. 163, [http://www.budget.gov.au/2014-15/content/bp2/html/bp2\\_expense-17.htm](http://www.budget.gov.au/2014-15/content/bp2/html/bp2_expense-17.htm) (accessed 12 November 2014).

13 Australian Government, Budget 2014–15, *Budget Measures: Budget Paper No. 2 2014–15*, 13 May 2014, p. 163, [http://www.budget.gov.au/2014-15/content/bp2/html/bp2\\_expense-17.htm](http://www.budget.gov.au/2014-15/content/bp2/html/bp2_expense-17.htm) (accessed 12 November 2014).

In light of the decisions by the local car makers to cease manufacturing in Australia by the end of 2017, the Government determined that it was appropriate to terminate the ATS on 1 January 2018, which was announced in the May 2014 Budget. The three local car manufacturers, Ford, Holden and Toyota, have made it clear that the level of government support was not the reason for their decision to cease manufacturing cars in Australia.<sup>14</sup>

## Productivity Commission inquiry

2.9 In June 2013, the Coalition, then in opposition, announced that it would, if elected to office, proceed immediately to request the Productivity Commission (PC) to review the automotive sector in Australia. It would do so in order to ensure there was 'a sensible evidence based approach to taxpayer funded subsidies as well as better funding benchmarks aimed at the long term viability of the industry'.<sup>15</sup>

2.10 The PC's report was released on 26 August 2014. The PC reported that:

Industry-specific assistance provided under the ATS imposes considerable costs on taxpayers and other parts of the Australian economy. Further, the ongoing nature of assistance provided by the ATS (and its predecessor, the Automotive Competitiveness and Investment Scheme) partly shields firms from competitive pressures, and may result in firms making decisions that are not based on a business case that is sound over the long term.<sup>16</sup>

2.11 Release of the report followed a statement by Ford in May 2013 that it would cease automotive manufacturing in Australia by the October 2016.<sup>17</sup> General Motors (for Holden)<sup>18</sup> and Toyota made similar announcements in December 2013 in February 2014, stating that they were reducing local production in preparation for closure by the end of 2017.<sup>19</sup> The committee is advised that Ford and Holden have committed to maintaining their significant design and development facilities in Australia.<sup>20</sup>

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14 Senator the Hon Michael Ronaldson, Minister for Veterans' Affairs, Minister Assisting the Prime Minister for the Centenary of ANZAC and Special Minister of State, *Senate Hansard*, 2 October 2014, p. 7719.

15 Liberal Party of Australia, *The Coalition is committed to the car industry*, <http://www.liberal.org.au/latest-news/2013/06/13/coalition-committed-car-industry> (accessed 15 November 2014).

16 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 14.

17 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 3.

18 [http://www.toyota.com.au/toyota/sustainability/cms/download/Toyota\\_Manufacturing.pdf](http://www.toyota.com.au/toyota/sustainability/cms/download/Toyota_Manufacturing.pdf) (accessed 12 November 2014).

19 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 3.

20 Federal Chamber of Automotive Industries, *Submission 13*, p. 7.

2.12 The PC reported that 'the impending closures [would] fundamentally reshape the industry'.<sup>21</sup> It calculated that the closure would have a direct effect on 'about 6600' employees of Ford, Holden and Toyota.<sup>22</sup> More broadly, the report estimates 'that up to 40,000 employees associated with automotive manufacturing may lose their jobs... staggered over several years'.<sup>23</sup> Areas most affected included North Adelaide, parts of Melbourne and Geelong where 'high rates of unemployment and social disadvantage in some of these regions will likely exacerbate adjustment costs'.<sup>24</sup>

2.13 In light of the announcement by Toyota that, like Holden, they intended to manufacture motor vehicles in Australia until the end of 2017, the PC expressed a view that:

... the Australian Government's announced ATS savings in the 2013–14 Mid-Year Economic and Fiscal Outlook (MYEFO) would add little to the risk of earlier motor vehicle plant closures. Further, component manufacturers would be expected to receive more than 80 per cent of the payments that they would have received under the legislated funding schedule between 2014 and 2017. In the Commission's view, therefore, any adjustment costs associated with implementing the MYEFO funding schedule are likely to be limited and there would be net benefits to the Australian community from the resultant savings.

There are compelling arguments to close the ATS when the three motor vehicle producers cease manufacturing in Australia. The Department of Industry considers it is unlikely that there will be any eligible claimants on ATS funding after the three plants close. The Commission's view is that the ATS legislation should be repealed at that time. Repeal would remove the associated administrative costs, and would deter other parts of the industry from lobbying for access to the pool of unused funds.<sup>25</sup>

2.14 With regard to component manufacturing and related industries, the PC concluded that it:

...does not consider that component manufacturers, or others in the automotive manufacturing supply chain, warrant industry support of any

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- 21 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 3.
- 22 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 34.
- 23 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 34.
- 24 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 34.
- 25 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 15.

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greater magnitude than other businesses elsewhere in the economy threatened with closure or under intense competitive pressure.<sup>26</sup>

2.15 The PC report made a number of findings relating to the automotive manufacturing industry in Australia including that:

The policy rationales for providing industry-specific assistance to the Australian automotive manufacturing industry are weak [Finding 3.2]

The Australian automotive manufacturing industry is one of the most heavily assisted industries in the country. The Commission's estimates of net combined assistance suggest that about \$30 billion (2011–12 dollars) was provided to the automotive manufacturing industry between 1997 and 2012. [Finding 4.1]<sup>27</sup>

2.16 The PC recommended that:

The Australian Government should repeal the *Automotive Transformation Scheme Act 2009* (Cwlth) after Ford, Holden and Toyota have ceased manufacturing motor vehicles in Australia.<sup>28</sup>

2.17 The Australian Government responded in line with the PC's recommendation, stating that:

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.<sup>29</sup>

## National Commission of Audit

2.18 The Treasurer, the Hon Joe Hockey MP, and Minister for Finance, Senator the Hon Mathias Cormann, announced a National Commission of Audit on 22 October 2013 as an independent body to review and report on the performance, functions and roles of the Commonwealth government.<sup>30</sup> The National Commission of Audit, chaired by former Chair of the Business Council of Australia, Mr Tony Shepherd AO, was given:

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26 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 16.

27 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 34.

28 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 32 (Recommendation 5.1).

29 *Government's Response to the Recommendations contained in the Productivity Commission's Report 'Australia's Automotive Manufacturing Industry'* at <http://www.industry.gov.au/industry/IndustrySectors/automotive/Documents/AutomotivePCGovernmentResponse.pdf> (accessed 11 November 2014).

30 Australian Government National Commission of Audit, <http://www.ncoa.gov.au/index.html> (accessed 13 November 2014).

...a broad remit to examine the scope for efficiency and productivity improvements across all areas of Commonwealth expenditure, and to make recommendations to achieve savings sufficient to deliver a surplus of 1 per cent of GDP prior to 2023–24.<sup>31</sup>

2.19 The National Commission of Audit received over 250 submissions and made 86 recommendations in its report *Towards Responsible Government*, released in two phases and three volumes of appendix between February and April 2014. The recommendations offered the government 'savings estimated at \$60 to \$70 billion per year within ten years,'<sup>32</sup> including by changing the government's response to the provision of industry assistance. Volume 2 of the report's appendix made the following recommendation about industry assistance:

Rather than relying on industry assistance, commercial discipline drives firms to reduce costs and improve quality to better meet customer demands. The Commission recommends significant changes be made to the approach to industry assistance in Australia including:

- a) limiting assistance to areas of genuine market failure and occasional transitional assistance to deal with genuine structural change. In all instances the benefit of government intervention must outweigh the costs;
- b) rationalising, phasing out, abolishing or reducing funding for 22 existing industry assistance programmes;
- c) amending Australia's anti-dumping system to include an improved public interest test so that dumping protection is only implemented if the benefits to the affected industry clearly exceed the costs to other industries and Australian consumers; and
- d) the Government continuing its drive to reduce the cost of doing business in Australia in such areas as labour market reform, deregulation, energy policy and provision of economic infrastructure [Recommendation 32].

2.20 The National Commission of Audit considered that 'Government should act in the public interest and only intervene in markets where market solutions clearly fail to produce the best outcome'.<sup>33</sup> It identified the automotive transformation scheme as

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31 Australian Government National Commission of Audit, Terms of reference, [http://www.ncoa.gov.au/docs/NCA\\_TERMS\\_OF\\_REFERENCE.pdf](http://www.ncoa.gov.au/docs/NCA_TERMS_OF_REFERENCE.pdf) (accessed 13 November 2014).

32 *National Commission of Audit Releases Review of the Activities of the Commonwealth Government*, media release, <http://www.ncoa.gov.au/media-release.html> (accessed 13 November 2014).

33 The National Commission of Audit noted Productivity Commission findings that the equivalent of around \$30 billion (2011-12 dollars) was provided to the automotive industry between 1997 and 2012 in the form of tariffs and various subsidies. National Commission of Audit, Appendix Volume 2, <http://www.ncoa.gov.au/report/appendix-vol-2/10-1-industry-assistance.html> (accessed 14 November 2014).



one of 'a number of programmes where there is no genuine market failure and where the benefits accrue entirely or largely to the firm or industry supported'.<sup>34</sup>

2.21 The government responded to the National Commission of Audit report on 13 May 2014, describing it as 'an important input to the Government's considerations... when preparing the 2014–15 Budget'.<sup>35</sup> The government stated that the recommendation for reform in relation to industry assistance 'is in the 2014–15 Budget'.<sup>36</sup>

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34 The National Commission of Audit noted Productivity Commission findings that the equivalent of around \$30 billion (2011-12 dollars) was provided to the automotive industry between 1997 and 2012 in the form of tariffs and various subsidies. National Commission of Audit, Appendix Volume 2, <http://www.ncoa.gov.au/report/appendix-vol-2/10-1-industry-assistance.html> (accessed 14 November 2014).

35 The Hon Joe Hockey MP, Treasurer and the Hon Mathias Cormann MP, Minister for Finance, *Our response to the National Commission of Audit report*, media release, 13 May 2014 [http://www.financeminister.gov.au/media/2014/mr\\_2014-46.html](http://www.financeminister.gov.au/media/2014/mr_2014-46.html) (accessed 14 November 2014).

36 The Hon Joe Hockey MP, Treasurer and the Hon Mathias Cormann MP, Minister for Finance, *Our response to the National Commission of Audit report*, media release, 13 May 2014 [http://www.financeminister.gov.au/media/2014/mr\\_2014-46.html](http://www.financeminister.gov.au/media/2014/mr_2014-46.html) (accessed 14 November 2014).



# Chapter 3

## Issues

3.1 The committee received submissions from automotive manufacturers and engineers and their industry representatives, as well as from state and local government representatives and academics in South Australia about the impact of the bill on the automotive industry, related industries, workers, local regions and the Australian innovation system.

### Support for the ATS

3.2 Many submissions sought to demonstrate the positive contribution of the ATS to the Australian automotive industry and related industries.<sup>1</sup> For example, the Federal Chamber of Automotive Industries submitted that:

The modest level of assistance provided by both Coalition and Labor Governments has acted as a catalyst for investment by global brands in Australian automotive industrial design and engineering capability. This has also extended to the domestic supply industry, which has grown in support of the domestic automotive manufacturing. Today, both the domestic car manufacturers and the supply chain consist of highly trained and professional engineers and designers that produce advanced equipment and technology for use in the manufacturing process.<sup>2</sup>

3.3 The Federation of Automotive Products Manufacturers (FAPM) expressed support for the ATS on behalf of manufacturers engaged in the production of a comprehensive range of automotive products, stating that:

The ATS program is now more important than ever in assisting supply chain companies transition in an environment with no local vehicle manufacturing.<sup>3</sup>

3.4 The Government of South Australia submitted that capped assistance made available under the ATS had a significant positive effect on a local level:

The ATS has been a significant contributor to local automotive manufacturing supply chain enterprises, including many family-owned and operated small and medium-size enterprises, being able to expand their

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1 See, for example, Futuris Automotive Group Ltd, *Submission 2*, p. 1; City of Playford, *Submission 4*, p. 1; FAPM, *Submission 6*, p. 2; AMWU, *Submission 7*, p. 1; Australian Industry Group; *Submission 16*, pp 1-2; Toyota Australia, *Submission 9*, p. 1; Ford Motor Company of Australia Limited, *Submission 8*, p. 2; Hella Australia Pty Ltd, *Submission 5*, p. 1.

2 *Submission 13*, pp. 2–3.

3 *Submission 6*, p. 1.

capacity and capability, and build manufacturing businesses underpinned by design excellence and innovation.<sup>4</sup>

3.5 Automotive lighting manufacturer Hella Australia Pty Ltd provided specific evidence that they:

...have benefited from the ATS scheme since its inception as ACIS, and the funding support made available has been critical to meet the investment demands necessary to develop and manufacture uniquely local lighting solutions for our OE [original equipment] customers.<sup>5</sup>

3.6 The committee received evidence about the potential benefit of the ATS in supporting the industry through the upcoming period of transition, including towards the development of the Australian innovation system. The Australian Motor Industry Federation argued that:

...the ATS should be maintained to meet automotive industry research and development aspirations, product innovation and delivery, and business regeneration as the nation prepares for a revitalised industry after the cessation of automobile manufacturing.<sup>6</sup>

3.7 Futuris Automotive Group Ltd was among submitters who supported the scheme continuing until 2020, arguing that:

The ATS has, and can continue to, deliver significant benefits to the Australian automotive sector and to the Australian economy through to 2020.<sup>7</sup>

### **Duration and level of ATS funding**

3.8 Submissions to the committee did not support items 1 and 2 of the bill, reducing the duration of stage 2 of the ATS by three years to conclude in March 2018.<sup>8</sup> The committee received evidence about the potential benefit of the ATS in supporting the industry through the upcoming period of transition. The Australian Motor Industry Federation argued that:

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4 *Submission 11*, p. 3.

5 *Submission 5*, p. 1.

6 *Submission 14*, p. 2.

7 *Submission 2*, p. 1. See also City of Playford, *Submission 4*, p. 1; FAPM, *Submission 6*, p. 2; AMWU, *Submission 7*, p. 1; Australian Industry Group, *Submission 16*, pp. 1–2; Toyota Australia, *Submission 9*, p. 1; Ford Motor Company of Australia Limited, *Submission 8*, p. 2; Hella Australia Pty Ltd, *Submission 5*, p. 1.

8 Robert Bosch Australia Pty Ltd, *Submission 1*, p. 2; Futuris Automotive Group Ltd, *Submission 2*, p. 1, Professionals Australia, *Submission 3*, p. 4; AMQU, *Submission 7*, p. 9; Toyota Australia, *Submission 9*, p. 3; Geelong Manufacturing Council, *Submission 10*, p. 6; Government of South Australia, *Submission 11*, p. 7; Federal Chamber of Automotive Industries, *Submission 13*, p. 2; Australian Motor Industry Federation, *Submission 14*, p. 1; Australian Industry Group, *Submission 16*, p. 1.

...the ATS should be maintained to meet automotive industry research and development aspirations, product innovation and delivery, and business regeneration as the nation prepares for a revitalised industry after the cessation of automobile manufacturing.<sup>9</sup>

3.9 Futuris Automotive Group Ltd provided a view that:

The ATS has, and can continue to, deliver significant benefits to the Australian automotive sector and to the Australian economy through to 2020.<sup>10</sup>

3.10 The Federation of Automotive Producers and Manufacturers (FAPM) called for the government to 'review the phasing of the proposed ATS reduction, in particular cutting the scheme's funding in 2015 by \$200 million.'<sup>11</sup>

3.11 Many submissions opposed the provisions of the bill and its reduction of the duration and level of funding provided by the ATS.<sup>12</sup> Concerns were raised about the negative impact of the bill on the automotive industry and related industries. For example, Toyota Australia submitted that the proposal 'will place additional pressure on the automotive sector at a critical time of industry transition.'<sup>13</sup>

3.12 The Australian Motor Industry Federation argued that the reduction in funding would have an associated impact on investment in the Australian automotive industry, because:

...[s]ignalling limited or no support through the removal of \$900m from the ATS, the early retirement of the scheme in 2018, and no signal regarding what government proposes beyond that timeframe, will be regarded as a negative by those looking to invest.<sup>14</sup>

3.13 Robert Bosch Australia Pty Ltd submitted that 'the scheme has developed valuable technical skills for this country which are now under threat'.<sup>15</sup> The FAPM

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9 *Submission 14*, p. 2.

10 *Submission 2*, p. 1.

11 *Submission 6*, p. 3.

12 Robert Bosch Australia Pty Ltd, *Submission 1*, p. 2; Futuris Automotive Group Ltd, *Submission 2*, p. 1; Professionals Australia, *Submission 3*, p. 4; AMWU, *Submission 7*, p. 9; Toyota Australia, *Submission 9*, p. 3; Geelong Manufacturing Council, *Submission 10*, p. 6; Government of South Australia, *Submission 11*, p. 7; Federal Chamber of Automotive Industries, *Submission 13*, p. 2; Australian Motor Industry Federation, *Submission 14*, p. 1; Australian Industry Group, *Submission 16*, p. 1.

13 *Submission 9*, p. 3.

14 *Submission 14*, p. 3.

15 *Submission 1*, p. 1.

called for government to 'review the phasing of the proposed ATS reduction, in particular cutting the scheme's funding in 2015 by \$200 million'.<sup>16</sup>

### **Effect of plant closures on employment and local regions**

3.14 Many submitters expressed concerns about the effects of commercial decisions by Holden, Ford and Toyota to withdraw vehicle and engine production operations from Australia by the end of 2017.<sup>17</sup> For example, the Australian Manufacturers and Workers' Union (AMWU) provided evidence about the potential effect on employment as the automotive sector downsizes in Australia:

...the loss of the automotive manufacturing sector means the loss of just under 50,000 direct jobs, many thousands of related jobs (through both industry expenditure and income multiplier effects), the loss of over \$5 billion in industry value added annually, and the loss of the largest source of manufacturing research and development in Australia, worth almost \$700 million annually as well as \$3.6 billion in exports.<sup>18</sup>

3.15 Some submitters were concerned that the global trend away from onshore automotive manufacturing necessarily has significant flow-on effects for component manufacturing, the manufacturing services industry and the automotive aftermarket.<sup>19</sup>

3.16 Specific concerns were raised about the impact of automotive manufacturing facilities in the local region of northern Adelaide. The Australian Workplace Innovation and Social Research Centre, University of Adelaide) submitted that:

The City of Playford in northern Adelaide is forecast to be the most negatively affected LGA [local government area] in Australia as a result of the closure. The closure coincides with the wind down of the Air Warfare Destroyer build. The negative effects on South Australia and northern Adelaide would be compounded by the importation rather than manufacture of the replacement for the Collins Class submarines, and policy uncertainty affecting investment in the renewable energy sector (amongst other things), denying the state and northern Adelaide their best opportunities for industry diversification.<sup>20</sup>

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16 *Submission 6*, p. 3.

17 See, for example, Professionals Australia, *Submission 3*, p. 1; Government of South Australia, *Submission 11*, p. 3; Geelong Manufacturing Council. *Submission 10*, p. 6.

18 *Submission 7*, p. 2.

19 Productivity Commission, *Australia's automotive manufacturing industry*, Inquiry report 70, 31 March 2014, pp. 52–55; Australian Automotive Aftermarket Association Ltd, *Submission 12*, Hella Australia Pty Ltd, *Submission 5*, p. 2.

20 *Submission 15*, p.1. See also Government of South Australia, *Submission 11*, p. 3.

3.17 Geelong Manufacturing Council also raised concerns that the bill's 'amendments have the potential to greatly negatively impact members of the Geelong Manufacturing Council'.<sup>21</sup> They submitted that:

Geelong continues to experience significant transitioning arising from a number of factors including the announcements in May 2013 by Ford Australia of their intention to cease manufacturing in Australia by October 2016, and February 2014 by Alcoa to cease operations at Point Henry in 2014. This will adversely impact on the economic base of the region and necessitates a significant response as evidenced through the creation of the Geelong Region Innovation and Investment Fund announced in 2013.<sup>22</sup>

3.18 This is consistent with the PC report finding that '[e]mployment in automotive manufacturing is geographically concentrated in south-east Australia'.<sup>23</sup>

3.19 The committee notes the PC report recommendation that:

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 which may be placed under pressure through the retrenchment of automotive manufacturing employees.<sup>24</sup>

3.20 The recommendation met with in principle support from the government, who explained:

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.<sup>25</sup>

## Transition

3.21 A number of submitters were concerned about the operation of the automotive industry during its transition period. The FAPM noted that the component manufacturers were 'in a period of transition' and argued that governments 'need

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21 *Submission 10*, p. 3.

22 *Submission 10*, p. 2.

23 In 2011, Victoria accounted for about half of all automotive manufacturing employees (54 per cent), while South Australia and New South Wales each accounted for a further 13 per cent. Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 423.

24 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, Recommendation 7.1, p. 35.

25 *Government's Response to the Recommendations contained in the Productivity Commission's Report 'Australia's Automotive Manufacturing Industry'*, <http://www.industry.gov.au/industry/IndustrySectors/automotive/Documents/AutomotivePCGovernmentResponse.pdf> (accessed 11 November 2014).

to continue to be part of that transition as we move towards the years where there will be no vehicle manufacturing in Australia'.<sup>26</sup>

3.22 The Ford Motor Company of Australia argued that there was:

An urgent need by Government to assist the orderly transition of the automotive supply chain into other parts of the economy.<sup>27</sup>

3.23 The Government of South Australia likewise contended that there was 'an urgent need for government to assist the orderly transition of the automotive supply chain into global supply chains, or other parts of the economy'.<sup>28</sup>

3.24 Toyota Motor Corporation Australia highlighted the importance of providing automotive industry participants with certainty until the end of vehicle manufacturing 'to enable an orderly industry wind down'. It indicated that the continuation of support beyond 2017 'to assist the automotive component sector to diversity and seek opportunities in new or emerging growth sectors'. It stated:

Both suppliers and vehicle manufacturers have made investment decisions based on the current ATS funding profile and have included relevant ATS support as part of their decision making processes. Any change will place additional pressure on the solvency of suppliers and put at risk a progressive and staged vehicle manufacturing exit.<sup>29</sup>

3.25 The Australian Industry Group also referred to the industry transition currently under way and was of the view that the government could have 'a constructive role in assisting automotive component suppliers. It suggested that the government could ensure that they were 'given time to restructure and diversify their businesses'. It its view maintaining the ATS would 'enable them to do so together with the Industry Growth Fund initiatives'.<sup>30</sup>

3.26 The FCAI suggested that in the event that the ATS is abolished, it would support:

...a new automotive R&D [research and development] co-investment policy to maintain and grow the established automotive R&D infrastructure and skills base currently in Australia. Any such replacement program needs to recognise that Australia can be a potential source of design and engineering services for global markets.<sup>31</sup>

3.27 In a similar vein, the Futuris Automotive Group recommended:

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26 *Submission 6*, p.1.

27 *Submission 8*, p. 6.

28 *Submission 11*, p. 5.

29 *Submission 9*, p. 3.

30 *Submission 16*, p. 2.

31 *Submission 13*, p. 8.



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...maintaining the previously committed level of ATS funding for R&D activities for the automotive component sector to support their transition plans and their ongoing R&D and engineering activities in Australia.<sup>32</sup>

3.28 The committee notes that the 2014–15 Budget Papers provide for funding to support the industry in the period leading up to manufacture ceasing in Australia:

Funding of approximately \$1.0 billion over five years from 2013–14 will remain available under the Automotive Transformation Scheme to support vehicle manufacturers and supply chain companies.<sup>33</sup>

### **Use of ATS funding in a diversified industry**

3.29 Some submitters proposed a modification in the use of ATS funding, including to address the 'policy mistake of not providing support for auto supply chain diversification'.<sup>34</sup> The Government of South Australia called for an expansion of ATS guidelines 'to enable companies to use the funds for diversification strategies, so that they can enter new markets for a sustainable future'.<sup>35</sup> Likewise, the Federal Chamber of Automotive Industries (FCAI) submitted that:

...amending the eligibility criteria to facilitate investment in research and development activities to encourage further investment in these, and other, facilities would help nurture complex design and engineering work in Australia, in turn providing significant technical skills for the country. Such amendments would be particularly important as domestic motor vehicle manufacturing winds down in Australia.<sup>36</sup>

3.30 The Australian Motor Industry Federation called for 'the Australian Government to develop a whole-of-industry policy framework for the Australian automotive industry, suggesting that:

...future support and intervention strategies may be in areas such as design; engineering; the convergence of consumer electronics, information technology and mobility; and other niche markets where the nation's considerable expertise and strengths in innovation can be best utilised.<sup>37</sup>

3.31 The FCAI proposed a new direction for Australia as a leader in automotive research and development activities (R&D):

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32 *Submission 2*, p. 2.

33 Australian Government, Budget 2014–15, *Budget Measures: Budget Paper No. 2 2014–15*, 13 May 2014, p. 163, [http://www.budget.gov.au/2014-15/content/bp2/html/bp2\\_expense-17.htm](http://www.budget.gov.au/2014-15/content/bp2/html/bp2_expense-17.htm) (accessed 12 November 2014).

34 AMWU, *Submission 7*, p. 8.

35 *Submission 11*, p. 7. See also City of Playford, *Submission 4*, p. 2; Robert Bosch Australia Pty Ltd, *Submission 1*, p. 2; Futuris Automotive Group Ltd, *Submission 2*, p. 2.

36 *Submission 13*, p. 7.

37 Australian Motor Industry Federation, *Submission 14*, p. 1.

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.<sup>38</sup>

3.32 Likewise, the Geelong Manufacturing Council recommended:

...amending the Regulations to facilitate ongoing investment in research and development activities and encourage further investment would nurture complex design and engineering work in Australia and provide significant technical skills for the country.<sup>39</sup>

3.33 Professionals Australia recommended the establishment of 'alternate government co-investment in auto R&D,' and argued that 'there is still a real opportunity to capitalise on the research and innovation capacity of Australia's automotive engineers.'<sup>40</sup>

### ***Industry Growth Centres***

3.34 On 18 December 2013, the government announced a wide-ranging industry initiative comprising targeted support for regions affected by the wind-down of the car manufacturing industry, On 30 April 2014, the government stated that it would establish a \$155 million Growth Fund 'to generate the jobs of the future for employees and supply-chain businesses in Victoria and South Australia affected by the closure of local automotive manufacturing operations'.<sup>41</sup>

3.35 Professionals Australia commended the government's decision to commence rebuilding industry with its investment of '\$188.5 million in Industry Growth Centres to pursue global excellence in areas of competitive strength'.<sup>42</sup> The City of Playford also welcomed the establishment of the Growth Fund. It recognised that in the wake of Holden and Toyota closures the fund would provide \$100.6 million 'over six years from 2013–14 towards new jobs, investments and economic growth in South Australia and Victoria'. It stressed the importance of 'allowing time and providing a framework for adjustment – particularly of enterprises and supply chains – to provide opportunity for companies to diversify to new product and value chains'.<sup>43</sup> While recognising the Growth Fund, the AMWU described the initiative as 'woefully inadequate'.<sup>44</sup>

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38 *Submission 13*, p. 7.

39 *Submission 10*, p. 6.

40 *Submission 3*, pp. 5–6.

41 The Hon Ian Macfarlane MP, Minister for Industry, '\$155 million to grow the jobs of tomorrow', joint media release with the Prime Minister, the Hon Tony Abbott MP, 30 April 2014, <https://www.pm.gov.au/media/2014-04-30/155-million-fund-grow-jobs-tomorrow> (accessed 17 November 2014).

42 *Submission 3*, p. 2.

43 *Submission 4*, p. 1.

44 *Submission 7*, p. 1.

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## **Towards a global automotive manufacturing industry**

3.36 The PC report placed the Australian experience of reduced onshore manufacturing within a set of global economic trends.<sup>45</sup> The Commission explained:

Motor vehicle producers are increasingly moving to global platforms and are investing in large-scale plants in low-cost locations in regions of growing demand, such as Brazil, China, India and Thailand.<sup>46</sup>

In the PC's view, 'attempting to increase Australian production encounters many constraints due to the nature of the Australian and global markets.'<sup>47</sup>

3.37 The PC noted that a lack of evidence that it is in the national interest to provide financial assistance to the manufacturing industry in a downturn or transition period. Their report commented that:

Many governments are offering significant assistance to retain or attract automotive manufacturing, but there is little transparent analysis that would enable an observer to robustly assess the net benefit (or cost) of this assistance to a nation's economy.<sup>48</sup>

3.38 Interestingly, the PC reported that greater growth in other sectors, including mining and services, often accompanies a decline of manufacturing in developed countries, which can offset the immediate effect on employment:

The greater growth of other sectors, such as mining and the services sector, has resulted in manufacturing recording a relative decline in its share of market sector value added and investment, as well as employment. The declining share of the manufacturing sector as a proportion of GDP is a common trend across developed countries.<sup>49</sup>

3.39 The committee notes the PC's view that as well as imposing costs on taxpayers, industry-specific assistance such as that provided by the ATS comes at a cost to the performance of the economy. In their view, it 'dulls the incentives for firms to improve productivity, seek export opportunities, cease unsuccessful investments and diversify into other industries.'<sup>50</sup>

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45 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 42.

46 *ibid.*

47 *ibid.*, p. 63.

48 *ibid.*

49 *ibid.*, p. 57.

50 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 70.

## **Committee view**

3.40 The committee recognises the contribution of Australian automotive manufacturers and producers to the international motor vehicle market and to Australia's gross domestic product, including during the global financial crisis. The committee notes that Australia continues to play an important role as an innovator in research and development of automotive and related technologies. However, the committee is not persuaded that funding available under the ATS should be continued beyond the closure of local car manufacturing in Australia in March 2018.

3.41 The committee considers the decision to conclude the ATS in 2017/18 as proposed by this bill is consistent with the government's election commitment to measured and responsible spending initiatives.<sup>51</sup>

3.42 Further, the committee is of the view that government must respond to the changing nature of the industry globally. Rather than extending levels of funding for manufacturing operations onshore, the government should monitor opportunities for the industry to contribute to international research and development, which will in turn contribute to a strong and viable future for the national economy.

## **Recommendation 1**

**3.43 The committee recommends that the government monitor the allocation of funding towards and investment in automotive research and development, towards fostering resilience and diversification among businesses and industry.**

## **Recommendation 2**

**3.44 Having regard to Recommendation 1, the committee recommends that the Senate pass the bill in its current form.**

**Senator Sean Edwards  
Chair**

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51 Final Update on Federal Coalition Election Policy Commitments, <http://www.liberal.org.au/latest-news/2013/09/05/final-update-federal-coalition-election-policy-commitments> (accessed 14 November 2014).

# **Minority Report by Senators Carr, Madigan, Muir and Xenophon**

## **TRANSFORMATION OR DISINTEGRATION:**

### **Stop an early automotive manufacturing exit—Save jobs—Plan for an advanced manufacturing rebirth**

#### *Introduction*

1.1 Manufacturing is essential to maintaining Australian living standards. It employs almost a million hard-working Australians, sustaining families and communities throughout the country. The automotive industry is the linchpin of advanced manufacturing. As the Australian Workplace Innovation and Social Research Centre (WISeR) notes in its submission to the inquiry:

Automotive has been, and has to a large extent remained, Australia's most developed integrated and complex value chain...Some of the enabling competences and technologies inherent in automotive manufacturing and engineering include: systems integration, materials science and engineering, process engineering, automation and control technologies, electronics and miniaturisation, digital content, sensing and simulation, high tooling skills, injection moulding, etc.

1.2 Similarly, the Federal Chamber of Automotive Industries (FCAI) notes:

According to the Organisation of Motor Vehicle Producers, OICA, the global automotive industry invested almost €85 billion in R&D in 2005. In Australia, while the manufacturing sector spends the largest amount on business R&D (\$4.8 billion or 26.6 per cent of total business R&D spending in 2010-11), ABS data shows that nearly \$700 million was invested in R&D in motor vehicles and parts in 2010-11. This includes around \$480 million for motor vehicle manufacturing alone. Indeed, innovation in the automotive industry is seen as central to an advanced economy around the world. Out of the 20 countries in the G20, only one currently does not have automotive manufacturing.

1.3 However, the announced departure of the three motor vehicle producers has created a crisis in manufacturing that will affect the lives of hundreds of thousands of Australians.

1.4 The Government effectively goaded GM Holden out of Australia. On 10 December 2013, Treasurer Joe Hockey challenged GM Holden on the floor of the House of Representatives saying:

...join with the Acting Prime Minister and the government in calling on Holden to come clean with the Australian people about their intentions here. We want them to be honest about it—we want them to be fair

dinkum—because, if I was running a business and I was committed to that business in Australia, I would not be saying that I have not made any decision about Australia. **Either you are here or you are not.**

1.5 The following day GM Holden announced that it would cease manufacturing in Australia.

*Exacerbating job losses and business closures*

1.6 Economic modelling by WISeR indicates that about 200,000 jobs will be lost as a result of the shutdown of automotive manufacturing, cutting \$29 billion from GDP.

1.7 Victoria and South Australia will bear the brunt of the shutdown, and there is a real prospect of regional recessions. In the scenario laid out in WISeR's modelling:

Around 100,000 jobs are lost from the Victorian economy, whilst South Australia loses 24,000, with the balance shared amongst other states less dependent on automotive production.

1.8 To put this in perspective, the Holden factory in the City of Playford in South Australia currently has an unemployment rate of 15.5 per cent and is one of the more disadvantaged suburbs in the nation. In its submission to the inquiry, the South Australian Government points to the ongoing long-term unemployment, adverse social consequences, regionalised damage to communities and increased costs to government that will result from an early and unplanned departure of the industry. This is a situation mirrored in Victoria, particularly in regions like Geelong and the South-Eastern suburbs of Melbourne, which have a high concentration of automotive manufacturers and supply chain firms.

1.9 Governments must respond to the crisis by investing, and by helping business to invest, in forms of manufacturing that will maintain, and ultimately extend, Australia's technological capabilities. That cannot happen, however, if the automotive industry, which is still the core of advanced manufacturing in this country, is simply abandoned.

1.10 The Commonwealth Government recognised its role in transitioning workers and industries:

...what we are on about is trying to ensure that the workers of this country transition from good jobs to better jobs, from the industries of the past to the industries of the future. That's what we're on about and we think government does have a role. (Joint press conference, Prime Minister Tony Abbott and Industry Minister Ian Macfarlane 18 December 2013).<sup>1</sup>

1.11 However, the Bill as it has been moved will greatly diminish the chances for any form of successful transition for either employees or businesses and will lead to

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1 <http://www.pm.gov.au/media/2013-12-18/joint-press-conference-parliament-house-canberra>

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substantial lost manufacturing capability for the nation. In fact it markedly increases the likelihood of early manufacturer closures, greater job losses and business failures.

1.12 Our most pressing and serious concern with this Bill is the risk that it will trigger early closures throughout the automotive supply chain, which in turn would force the motor vehicle producers to leave early. This would result in slashing transition times, compromising retraining opportunities for workers and retooling opportunities for companies. This concern is voiced repeatedly in the evidence submitted to the committee. As the Australian Industry Group (Ai Group) states:

If this final adjustment phase is not managed carefully and the supply chain cannot be kept intact, there is a very high risk that all automotive assembly in Australia could end well before the final dates announced by Ford, GM Holden and Toyota. For the component suppliers, this situation is serious and urgent.

1.13 The automotive supplier Futuris states:

The solvency of a number of automotive components producers may be put at risk if the proposed amendments are allowed to go through. The flow on impact of this is likely to be an early exit by the vehicle manufacturers (due to a lack of availability of key components).

1.14 The motor vehicle producers themselves all agree. GM Holden says:

If local suppliers financially fail prematurely, this will jeopardise Holden's ability to manufacture to the end of 2017 and in turn, reduce the time necessary for an orderly transition of the automotive industry, local surrounding communities and the wider economy...A premature shutdown brought on by the early collapse of critical suppliers will have a catastrophic impact on individual people and the economy – and it will likely end up costing governments significantly more to manage the consequences of a disorderly industry shutdown.

1.15 And Toyota Australia says:

Due to the interdependence within the automotive sector, all industry participants must continue operations up until the designated closures of vehicle manufactures or risk an accelerated and uncontrolled industry shut down with approximately 48,000 automotive manufacturing jobs at risk.

1.16 Ford Australia cited agreement with the view of the Federal Chamber of Automotive Industries:

...we are strongly of the view that this is likely to bring about an early closure of the automotive industry. The ATS program is now more important than ever in assisting supply chain companies to an environment without local vehicle manufacturing.

### ***Unacceptably elevating sovereign risk***

1.17 There is also the issue of sovereign risk, as the more than 120 firms currently registered with the Automotive Transformation Scheme have made business

investment decisions based on the availability of funding. As the Australian Manufacturing Workers' Union (AMWU) notes:

The Government's Bill not only represents a serious risk to the auto supply chain and early closure of the industry, it represents a clear example of sovereign risk, where legislated industry policy, which influenced investment decisions, is being undermined in a cheap quest for funds.

1.18 The Federation of Automotive Products Manufacturers (FAPM) says:

The Australian automotive supply chain quotation process is long and complex. A number of companies within the supply chain have already quoted for future contracts based on an assumed ATS return.

1.19 And the Victorian-based automotive lighting manufacturer Hella argues:

In our view, it is essential that the level of funding arrangements offered by the current ATS scheme must be maintained in their current structure. Our strategic plans and investment budgets have been based on continued access to these funds – subject to our eligible development and investment claims. Any structural changes to these plans that would reduce our claims could severely damage our performance to plan, and would be inconsistent with our strategic plans to develop future engineering and manufacturing opportunities in Australia.

1.20 Of no less serious concern are the long-term consequences for employment and for Australia's standing as an advanced industrial economy. As the AMWU notes:

Unless other manufacturing sectors can rapidly grow both in terms of size, international linkages and development and use of advanced technology, it is likely that the true impacts of the closure of the automotive industry will be much higher than any modelling analysis can indicate. Such an impact will be measured in a lower long term economic and productivity growth rate and will compound over time.

1.21 And the South Australian engineering design consultancy applidyne says:

We have observed growth in some other industries, particularly in medical and healthcare products. However the combined growth of these industries has not been sufficient to offset the decline in the traditional industries such as automotive and whitegoods. We have observed this ripple adversely through the supply chain and the attendant loss of technical capability for the last decade or so. I believe that this ripples more widely than most economists and analysts seem to think – I am thus fearful that the employment impact of the loss of the automotive manufacturers is being underestimated.

### ***Undermining successful transition***

1.22 Also of serious concern to us is the effect that such a significant reduction in ATS funding will have on government and industry planning for retraining and reskilling the thousands of displaced workers, a concern voiced in numerous



submissions to the inquiry, including the Government of South Australia, as well as FAPM, which states:

As a result, the industry's 45,000-strong workforce would face unemployment earlier than expected, impairing employment retraining and reskilling opportunities and placing significant stress on employment and community infrastructure.

1.23 The conclusion is unavoidable: by continuing with this Bill the Government would wreak havoc on the entire automotive value chain, and consequently on the livelihoods of those involved in it.

### *Future directions*

1.24 Until the motor vehicle producers depart, the automotive industry—not only the carmakers but the supply chain as well—remains Australia's great repository of advanced skills and industrial capability.

1.25 We are committed to keeping that capability alive because it creates jobs that require high skills and pay good wages.

1.26 This is not the time to put the livelihoods of Australian men and women at risk. It is the time to look to the future, to ensure those jobs are there for generations to come.

1.27 As the Australian Motor Industry Federation (AMIF) notes:

AMIF suggests there is no clearer pathway to meet this aspiration than to retain the ATS so that manufacturers and component and part suppliers can continue to innovate, products can be delivered and business regeneration can begin.

1.28 To secure this regeneration there must be clear policies that allow Australia to maintain crucial manufacturing capabilities, secure new investment and jobs, and support future growth.

1.29 Leadership is needed to ensure a smooth transition from automotive manufacturing to a new, revitalised automotive industry that can retain the considerable knowledge, skills and experience of the existing automotive workforce while creating new employment opportunities for future generations.

1.30 As the AMIF notes:

AMIF believes the industry as a whole and the Australian Government should take stock and identify a longer term policy framework for the entire industry...what is required now is stability, surety and a commitment to a smooth and successful transition to a revitalised environment that is known and reasonably assured.

1.31 The issue is broader than the future of motor vehicle production in Australia. It is about the need for governments to develop a policy framework for the entire

industry—including, but not limited to: motor vehicle production, component making, after-market manufacturing, engineering, servicing, retail motor trades, other forms of sales support, and the training of apprentices.

1.32 A failure to appropriately fund the smooth transition of this sector dismisses the definitive and ingrained presence that the automotive industry has in Australia. As FAPM states:

Nearly 100 years of embedded knowledge will be lost without appropriate regulatory support to ensure competitiveness and securitisation of local engineering, design and production capability.

1.33 These sentiments are mirrored by FCAI, referring to the ATS funding as being imperative at such a turning point in Australian history:

To support the transition of the automotive industry through one of Australia's most significant industrial re-adjustments.

### ***Conclusion***

1.34 The evidence tendered to this committee unanimously called on the Government to reverse its position on the Automotive Transformation Scheme Amendment Bill.

1.35 This is in stark contrast to the Chair's report on this inquiry, which relies heavily on arguments previously put forward by the Productivity Commission and the National Commission of Audit in a lame attempt to justify the Abbott Government's ideological opposition to the automotive industry.

1.36 In our view, by seeking to amend the Act in this way the Government is: displaying a reckless disregard for the future of the tens of thousands of Australian men and women who are employed directly in automotive manufacturing; jeopardising Australia's advanced manufacturing capabilities; and courting serious long-term economic damage. This is a risk that the Labor and cross-bench Senators on this committee are not prepared to accept.

1.37 For these reasons, Senators Carr, Madigan, Muir and Xenophon do not support the majority report and are opposed to the Automotive Transformation Scheme Amendment Bill 2014.

### **Recommendation 1**

**1.38 That the Senate reject this Bill.**

### **Recommendation 2**

**1.39 The Automotive Transformation Scheme should be retained with current levels of funding, so that the motor vehicle producers and component manufacturers can manage an orderly and planned transition as a result of the announced closures of the motor vehicle producers.**

**Recommendation 3**

**1.40** Changes to regulations under the Automotive Transformation Scheme Act, as called for in various submissions to the committee, should urgently be considered to ensure that the Scheme remains effective in supporting manufacturers to maintain automotive capabilities and jobs during the transition.

**Recommendation 4**

**1.41** The Senate Economics References Committee should establish an inquiry to develop a policy framework for the future of Australia's automotive industry, covering all sectors of the industry—including, but not limited to: motor vehicle production, component making, aftermarket manufacturing, engineering, servicing, retail motor trades, other forms of sales support, and the training of apprentices.

**Senator the Hon Kim Carr**  
ALP Senator for Victoria

**Senator John Madigan**  
Independent Senator for Victoria

**Senator Ricky Muir**  
AMEP Senator for Victoria

**Senator Nick Xenophon**  
Independent Senator for South Australia



# APPENDIX

## Submissions received

<b>Submission Number</b>	<b>Submitter</b>
1	Robert Bosch (Australia) Pty Ltd
2	Futuris Automotive Group Ltd
3	Professionals Australia
4	City of Playford
5	Hella Australia Pty Ltd
6	Federation of Automotive Products Manufacturers
7	AMWU
8	Ford Motor Company of Australia Limited
9	Toyota Australia
10	Geelong Manufacturing Council
11	Government of South Australia
12	Australian Automotive Aftermarket Association
13	Federal Chamber of Automotive Industries
14	Australian Motor Industry Federation
15	Australian Workplace Innovation and Social Research Centre (WISeR)
16	Australian Industry Group
17	Confidential
18	Applidyne Australia Pty Ltd
19	GM Holden
20	Bayside Personnel Australia Pty Ltd