

# Chapter 1

## Background to the inquiry

1.1 On 25 November 2014, the Senate referred an inquiry into the future of Australia's automotive industry to the Senate Economics References Committee for inquiry and report by the first sitting day in November 2015.<sup>1</sup>

1.2 The terms of reference for the inquiry are:

The future of Australia's automotive industry, with particular reference to:

(a) maintaining the capacity for Australia to engage in advanced manufacturing, by ensuring skills and industrial capabilities that have been sustained by the automotive industry are not lost;

(b) reducing Australia's dependency on commodity exports by diversifying the country's economic base, noting the importance of advanced manufacturing, including the automotive industry, in this diversification;

(c) the role of all sectors of the automotive 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, in supporting an advanced broad-based economy;

(d) the special difficulties faced by component makers in the transition to global supply chains and to other forms of manufacturing, especially as a result of the closure announcements made by the motor vehicle producers;

(e) new technologies influencing the automotive industry, both in Australia and internationally, especially new and developing forms of propulsion, such as hydrogen, electric engines and hybrid engines;

(f) new business models for the industry, including employee share models and attracting international venture capital and private investment;

(g) the possible effects of early closure of motor vehicle producers, including risks and consequences for the industry, skills, capabilities and the broader economy, including social consequences, and what policy actions could mitigate or exacerbate these risks and consequences;

(h) the need to synthesise and consolidate the findings, recommendations and knowledge of other reviews and inquiries pertinent to the automotive industry, in order to identify key policy inconsistencies, regulatory burdens and factors for growth and investment;

(i) the importance of long-term, stable employment for workers in the automotive industry, and the need for greater access to transitional training and career opportunities; and

(j) any other related matters.<sup>2</sup>

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1 *Journals of the Senate*, No. 67, 24 November 2014, pp. 1823–24.

1.3 Given the broad scope of the inquiry and the variety of aspects to consider, the committee resolved to release an interim report on what it considers to be the most vulnerable part of the industry at this time—automotive component manufacturing and vehicle production.

1.4 The committee is continuing to investigate other areas relevant to the future of Australia's automotive industry as set out in the terms of reference.

### **Conduct of inquiry**

1.5 The committee advertised the inquiry on its website and in the *Australian*. The committee also wrote directly to component suppliers, vehicle manufacturers, government agencies, industry groups and associations, academics and other interested parties drawing attention to the inquiry and inviting them to make submissions.

### **Submissions and public hearings**

1.6 The committee received 35 submissions, all of which are publicly available. The submissions and answers to questions on notice are listed at Appendix 1. To date, the committee has held three public hearings:

- 10 March 2015 in Melbourne;
- 13 March 2015 in Adelaide; and
- 15 April 2015 in Canberra.

1.7 A list of witnesses is provided at Appendix 2. References to the Committee Hansard are to the Proof Hansard and page numbers may vary between the Proof and Official Hansard transcripts.

1.8 The committee thanks all the individuals and organisations who assisted with the inquiry, especially those who made written submissions and appeared at hearings.

### **Background to inquiry**

1.9 Australia's automotive industry is currently undergoing a major structural realignment. This realignment is due to the fact that the last locally produced motor vehicle is set to roll off the production line by the end of 2017. After this time, the majority of the Australian automotive industry's activities will relate to vehicle use—that is, predominantly sales, servicing and repairs.

1.10 The Australian Government has long supported local motor vehicle production through a variety of co-investment and assistance programs. Currently, the main government support program to assist domestic motor vehicle production is the Automotive Transformation Scheme (ATS). The ATS provides government co-investment to companies involved in local vehicle manufacturing (motor vehicle producers, automotive component producers, automotive machine tool and automotive tooling producers and automotive services providers).

1.11 The ATS as it was originally designed is intended to support investment and innovation in the Australian automotive industry and assist it to become economically sustainable. It commenced on 1 January 2011 and is legislated to operate through to 31 December 2021.

1.12 Following the decision of local vehicle producers to cease manufacturing in Australia by the end of 2017, the Australian Government publicly stated its intention to reduce funding available under the ATS. A number of measures were announced to amend the ATS:

- The 2013–14 MYEFO included a measure to reduce capped funding available under the ATS by \$500 million over the 2015–2017 calendar years.
- The 2014–15 Budget included a measure to terminate the scheme on 1 January 2018, thereby saving a further \$400 million.

1.13 Legislative amendments embodying these measures were introduced into the House of Representatives on 24 September 2014 and the provisions of the bill were referred to the Senate Economics Legislation Committee on the following day.

1.14 The committee reported back to the Senate on 24 November 2014 and recommended that the government monitor the allocation of funding and investment in automotive research and development towards fostering resilience and diversification among business and industry.

1.15 A dissenting report by Senators Carr, Madigan, Muir and Xenophon expressed the view that:

...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.<sup>3</sup>

1.16 They proposed an alternative recommendation that the Senate Economics References Committee undertake an inquiry to develop a policy framework for the future of Australia's automotive industry covering all sectors. This inquiry fulfils that recommendation.

### **Scope of this inquiry**

1.17 Australia's automotive industry is diverse and encompasses a range of disparate activities which can be characterised broadly into upstream and downstream sectors.

1.18 The upstream automotive sector relates to supply side activities involved in design, development and manufacture of motor vehicles. Upstream activities include the manufacturing processes associated with component manufacturing and motor

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3 Senate Economics Legislation Committee, *Automotive Transformation Scheme Amendment Bill 2014 [Provisions]*, November 2014, p. 28.

vehicle assembly as well as the design, engineering and testing elements of developing automotive components and vehicles.

1.19 The downstream automotive sector relates to demand side activities involved in the sale, maintenance, repair and disposal of motor vehicles. Downstream activities include the sale, distribution and financing of new and used motor vehicles, servicing and repair (including car parts supply chains), disposal and recycling of vehicles and consumables (for example, used oil and tyres).

1.20 The scope of the inquiry is not just limited to passenger motor vehicles but also includes motorcycles, sport utility vehicles (SUVs), buses, trucks, specialist vehicles (such as the quadbikes and racing vehicles), caravans and trailers.

1.21 Interactions between the automotive industry and other industries will also be examined, including, for example, opportunities for component manufacturers to diversify into other advanced manufacturing industries that may be outside the automotive industry.

1.22 Over recent decades, Australia's automotive industry has experienced significant change with motor vehicle producers restructuring their operations in an increasingly competitive global market. The three passenger motor vehicle producers in Australia—Ford, Holden and Toyota—have announced that they will cease manufacturing in Australia over the coming years. Consequently, component manufacturers will face enormous challenges to their viability.<sup>4</sup>

1.23 While the committee accepts the need to develop a coherent strategy to support the future of Australia's automotive industry, it recognises the immediate imperative to assist the automotive manufacturing sector adapt to an environment where there may be no local vehicle production.

1.24 The three remaining local vehicle manufacturers all have plans in place to manage the wind-down and eventual cessation of production, including strategies to assist workers find alternative employment.

1.25 By contrast, many automotive component manufacturers have faced ongoing difficulties as production volumes have decreased and associated demand for their products has fallen. At current levels of production, many component makers are struggling to remain viable and have significantly reduced output and employment.

1.26 The cessation of local vehicle manufacturing will have a profound effect on economic activity and employment in Victoria and South Australia in particular. If such consequences are to be avoided or, at the very least minimised, then this issue needs to be addressed as a matter of urgency.

1.27 Consistent with the original intention of providing industry support, the government needs to assist affected businesses through to the end of vehicle

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4 See Productivity Commission, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, 31 March 2014, pp. 2–3 and Department of Science and Industry website, 'Automotive', <http://www.industry.gov.au/industry/IndustrySectors/automotive/Pages/default.aspx> (accessed 13 August 2015).

production and beyond, where required. In its current form, however, it would appear that the ATS is not an adequate support mechanism to achieve this.

1.28 In April 2015, the Australian Government announced that it would not pursue its proposed amendments to the ATS. While the committee welcomed this decision, it recognises that current production levels and investment by eligible participants of the ATS are unlikely to exhaust the available funding.

1.29 As a result, this interim report considers options to support component manufacturers and assist affected businesses to explore new business activities and/or markets while the opportunity still exists to harness the skills and knowledge of employees. Unless alternative advanced manufacturing activities are in place before vehicle production ceases, the skills and knowledge embodied in these workers may be lost from the Australian economy forever.

### **Structure of this report**

1.30 Chapter 2 explores the local automotive manufacturing sector and the challenges facing component manufacturers in the medium to long term.

1.31 Chapter 3 examines how the automotive manufacturing sector can best be assisted to ensure vehicle production continues until the end of 2017 and businesses are supported to diversify into new markets and/or sectors.

