

Chapter 3

Better supporting automotive manufacturing

3.1 This chapter explores the policy challenge of supporting the automotive manufacturing industry's transition through the wind-down of local vehicle production and beyond. It also considers what immediate amendments are required to the main government support program, the Automotive Transformation Scheme, to ensure that the funding already committed to by government is able to be deployed to assist automotive manufacturing.

The policy challenge is complex

3.2 Automotive manufacturing in Australia is currently undergoing a period of change that will leave the industry looking profoundly different in 2018. Many of the companies and associated workforce have been, and will continue to be, affected by the ongoing reduction, and eventual cessation, of local passenger motor vehicle production.

3.3 While some stakeholders do not consider that there is a future in automotive manufacturing in Australia, this view is not shared by the committee. The committee is of the view that automotive manufacturing, and advanced manufacturing more generally, certainly does have a future in Australia and has an important role in ensuring Australia has an advanced, diversified economy.

3.4 The Automotive Australia 2020 Roadmap project, commissioned by the Australian Automotive Industry Innovation Council and undertaken by the AutoCRC, identified four areas of long term sustainability and opportunity for the industry in electrification, light-weighting, gaseous fuels, and data and communications.¹

3.5 The Roadmap projects highlight the enormous potential of the Australian industry to remain at the cutting edge of global advances in technology and product design, including electric vehicles and new battery technologies, carbon fibre, alternative fuels such as hydrogen and LPG, autonomous vehicles, intelligent transport systems and telematics.

3.6 The challenge for policy makers is to attract new automotive and advanced manufacturing industry investment, while providing enough support for manufacturers to make a successful transition without compromising the viability of existing businesses. According to the Federation of Automotive Products Manufacturers:

The level of economic and strategic significance associated with the Australian automotive industry is substantial as is its ability to transform to having a greater focus around advanced manufacturing activities. This makes the challenge for policy makers now to retain as much of the

1 AutoCRC, *Automotive Australia 2020 Roadmap*, <http://www.autocrc.com/about/2020> (accessed 17 August 2015).

industry and its capability as possible for the benefit of the nation's economic future.²

3.7 The committee agrees with those stakeholders that highlighted the important role that automotive manufacturing plays in supporting other advanced manufacturing industries. For example, the Federal Chamber of Automotive Industries considered that:

...an orderly transition out of domestic automotive manufacturing will not mean the end of Australia's advanced engineering and manufacturing capabilities. However, sensible government support through this period is crucial.³

3.8 Indeed, there are parts of the automotive manufacturing sector that will continue to operate, and may even expand, after motor vehicle production ceases. According to the Federation of Automotive Products Manufacturers:

Policymakers should remain open to the prospect that a new entrant may want to enter the Australian market, given the sophisticated automotive and advanced manufacturing capability that still exists in Australia.⁴

3.9 The committee notes that although vehicle manufacturing will cease by the end of 2017, Ford and Holden have committed to maintaining significant design and development facilities in Australia. These facilities are, and will continue to be, important contributors to Australia's industrial design and development capabilities. The Federal Chamber of Automotive Industries noted that:

...while the cessation of large-scale domestic manufacturing is regrettable, Australia can continue to have a valuable link into this important industry through its high-value, innovation-intensive design and product development operations well beyond domestic manufacturing...

However, if Australia is to maintain the technical and design advantage it currently enjoys across automotive product development, then as a country we must have ongoing and consistent internationally competitive policy settings and assistance.⁵

3.10 There is also potential to expand component manufacturing associated with the automotive aftermarket, particularly for export markets. However, the committee notes the concerns of the Australian Automotive Aftermarket Association that any policy aimed at supporting the transition of original equipment component manufacturers should be designed to grow the market, rather than compete directly with existing manufacturers that are already viable.⁶

2 *Submission 17*, p. 9.

3 *Submission 9*, p. 10.

4 *Submission 17*, p. 5.

5 Federal Chamber of Automotive Industries, *Supplementary Submission 9*, pp. 2–3.

6 *Submission 5*, p. 3.

3.11 Also of importance to the committee is reducing, to the extent possible, the job losses from the cessation of vehicle production, particularly where these skills can be redeployed into other automotive manufacturing roles. The Australian Manufacturing Workers' Union submitted that:

It is crucially important, both in order to save as many jobs as possible and in order to preserve an advanced manufacturing, design and engineering capability, that Australia implement a policy that will sustain our automotive manufacturing skills and capabilities and support the diversification and growth of sub-industries such as the aftermarket and specialist parts industry.⁷

3.12 If done well, appropriate policies have the potential to increase the number of high-skilled jobs associated with high-value niche products and advanced manufacturing.

Defining the industry for public policy

3.13 From a public policy perspective, Australia's automotive sector has traditionally been associated with activities relating to passenger motor vehicles, particularly the manufacturing of these vehicles. This approach may have been appropriate in the past, however, this is no longer the case given international developments, advances in technology and services across the entire industry, and with domestic production due to cease by the end of 2017.

3.14 The Australian Automotive Aftermarket Association referred to what it believed was the effect of the Australian Government's narrow focus of the automotive manufacturing industry on passenger vehicle manufacturers and their suppliers:

Over time, the continued narrowing of automotive industry policy has cost the Australian community. The cost is the missed opportunities to build upon the breadth and complexity of automotive production...There are some very real and effective options for government to build upon the profitable automotive segments whilst easing the demise of passenger motor vehicle manufacturing.⁸

3.15 Without new sources of investment in domestic production it may be that Australia's new passenger vehicles will all be imported at some point in the foreseeable future. Be that as it may, the Australian automotive industry will continue to have a manufacturing presence through the assembly and manufacture of small scale specialist road and off-road vehicles; heavy vehicles; agricultural, mining and lifting machinery; vehicle bodies and trailers; and other related activities.⁹

3.16 The focus on the automotive manufacturing industry has also overlooked the significant restructuring which has occurred in the downstream sector of the industry,

7 *Submission 11*, p. 4.

8 Australian Automotive Aftermarket Association, *Submission 5*, pp. 6–7.

9 Motor Trades Association of Australia and Australian Motor Industry Federation, *Submission 30*, p. 10.

including the retail service and repair sectors.¹⁰ The downstream automotive industry will continue to undergo structural adjustments in the short to medium term as a result of the cessation of local production by the end of 2017. The substantial size and contribution of the downstream automotive industry, relative to the automotive manufacturing industry, highlights the importance of reconsidering the approach to the automotive industry.

3.17 Reflecting these changing industry dynamics, governments could, by taking a wider approach to defining what constitutes the automotive industry, facilitate policy development aimed at fostering the growth of the industry as a whole. If a broader definition of the automotive industry were to be adopted, it could include passenger vehicles, motorcycles, caravans and trailers, buses, trucks and special purpose vehicles (such as racing vehicles, quadbikes and all-terrain vehicles, and mining and agricultural machinery). This approach was supported by the AutoCRC which submitted that:

...we consider 'automotive' refers to any form of self-powered vehicle, not purely light passenger vehicles.¹¹

3.18 In addition, the automotive sector may have lessons to offer other industries. In particular, manufacturing activities in other sectors benefit from the dissemination of capabilities developed by automotive component manufacturers and vehicle producers. There are numerous examples where knowledge of such capabilities has already been transferred in areas relating to improved productivity, quality control, engineering design and prototyping, models of capital investment and management of global supply chains.¹²

3.19 The Motor Trades Association of Australia and the Australian Motor Industry Federation noted that the automotive industry is characterised by diversification, segmentation, fragmentation, specialisation and wide geographic distribution. As a result, it has been difficult, if not impossible, to drive whole-of-industry public policy.¹³ They have called for a shift in policy focus to areas of the automotive industry beyond car manufacturing:

There needs to be improved mechanisms for those developing and implementing policy affecting the entire automotive industry, to coordinate and improve transparency of decision making...

What is particularly required is:

- cohesive policy framework for the entire industry;
- an understanding of the critical issues facing each sector;
- clear understanding of policy direction for industry stakeholders;

10 Motor Trades Association of Australia and Australian Motor Industry Federation, *Submission 30*, pp. 11–12.

11 *Submission 34*, p. 1.

12 See, for example, Victorian Government, *Submission 8*; Toyota Australia, *Submission 13*.

13 Motor Trades Association of Australia and Australian Motor Industry Federation, *Submission 30*, p. 12.

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- clearly defined policy outcomes that are measureable and can be implemented.¹⁴

3.20 Indeed, developing a coordinated policy for the entire automotive industry was one of the driving factors in setting up this inquiry. The dissenting report of the inquiry into the *Automotive Transformation Scheme Amendment Bill 2014 [Provisions]* acknowledged that the issue is broader than just motor vehicle production and noted that:

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.¹⁵

3.21 The committee considers that an overarching and internationally competitive policy framework is necessary to ensure that Australia remains a prosperous nation supported by a broad-based economy.

Recommendation 1

3.22 The committee recommends that the Australian Government work with stakeholders—across industry, unions and state and territory governments—to develop an internationally competitive automotive industry policy framework for the entire industry, recognising the strategic role the industry can continue to play in a diversified economy. Government departments should coordinate their efforts to attract new automotive investment and maintain existing skills and capabilities, using the Automotive Australia 2020 Roadmap as a guide.

Reforming the Automotive Transformation Scheme

3.23 The Automotive Transformation Scheme (ATS) is the main program by which government provides financial assistance to the local automotive manufacturing industry.

3.24 The ATS is a legislated entitlement scheme—through the *Automotive Transformation Scheme Act 2009* (ATS Act)—that provides assistance to registered participants for the production of motor vehicles and engines, and for investment in allowable research and development and allowable plant and equipment.¹⁶ The object of ATS was to encourage competitive investment and innovation in the Australian automotive industry, and to place the industry on an economically sustainable footing.

3.25 Originally, a total of over \$3.3 billion was estimated to be available under the scheme from 2010–11 to 2020–21. Two kinds of assistance were available—capped and uncapped assistance. Capped assistance was limited to \$1.5 billion in stage 1

14 Motor Trades Association of Australia and Australian Motor Industry Federation, *Submission 30*, pp. 24–25.

15 Senate Economics Legislation Committee, *Automotive Transformation Scheme Amendment Bill 2014 [Provisions]*, November 2014, p. 27.

16 *Automotive Transformation Scheme Amendment Bill 2014*, Explanatory memorandum, p. [2].

(2010–11 to 2015–16) and \$1 billion in stage 2 (2016–17 to 2020–21), while uncapped assistance was estimated at \$847 million in total.

3.26 Prior to the 2013 Federal Election, the then opposition announced that it would reduce funding available through the ATS by \$500 million.¹⁷ Following the election, this measure was introduced in the 2013–14 Mid-Year Economic and Fiscal Outlook (MYEFO), which set out a \$500 million saving from ATS capped assistance over the financial years 2014–15 to 2017–18.

3.27 Further savings to the ATS were then proposed in the 2014–15 Budget. The budget measure sought to terminate the scheme from 1 January 2018, saving a further \$400 million.¹⁸

3.28 In doing so, the government planned to save \$900 million from the ATS across the remaining life of the scheme. It introduced legislation to this effect into the parliament on 24 September 2014. The Bill passed the House of Representatives on 2 October and was introduced into the Senate on the same day. In March 2015, the government decided that it no longer wanted to pursue legislative changes to the ATS and discharged the bill from the notice paper.¹⁹

3.29 The proposed changes were described by the Federation of Automotive Products Manufacturers as:

...not only detrimental to the prospects of the industry transitioning to a new paradigm, they will contribute to the loss of automotive manufacturing being a 'house of cards' scenario as opposed to a soft landing.²⁰

3.30 Although the legislative measures to reduce funding available through the ATS have now been withdrawn, a significant amount of the assistance that had been earmarked for the ATS is unlikely to be paid out because the amount of assistance provided through the ATS is contingent on the level of vehicle production and various other eligibility criteria.

3.31 The 2015–16 Budget papers forecast that the government will only allocate \$105 million between 2014–15 to 2020–21 in ATS funding, with the remaining underspend moving into consolidated revenue.²¹

3.32 Rather than banking underspending on the ATS as a budget saving, the committee considers that any underspend in this assistance should be made available for the industry to make the most of any opportunities that may arise to diversify into

17 'The Coalition is Committed to the Car Industry', Media Release, 13 June 2013, <http://www.liberal.org.au/latest-news/2013/06/13/coalition-committed-car-industry> (accessed 16 August 2015).

18 *Automotive Transformation Scheme Amendment Bill 2014*, Explanatory memorandum, p. [2].

19 Automotive Transformation Scheme Amendment Bill 2014 page, http://www.aph.gov.au/Parliamentary_Business/Bills_LEGislation/Bills_Search_Results/Result?bld=r5341 (accessed 16 August 2015).

20 *Submission 17*, p. 9.

21 Australian Government, *Budget Paper No. 2: Budget Measures 2015–16*, p. 128

new markets or sectors. In order to achieve this, however, the ATS Act and its associated regulations require some changes. Regarding this point, the Ai Group submitted that:

The businesses and the employees in automotive supply chains are a valuable part of Australia's industrial ecosystem. They have important roles to play in the restructuring of the Australian economy as we build a stronger and more resilient foundation that is less reliant on the investment in mining and energy projects and the high commodity prices that have featured so prominently in the last decade. However, the challenges within the industry mean there is a need for substantial reorientation of the design of the Automotive Transformation Scheme to ensure those businesses who can continue to operate can do so. Ai Group believes this reorientation of the ATS must be finalised as a matter of urgency especially given the weakening economic conditions in Australia.²²

3.33 At a minimum, the committee considers the current level of ATS funding needs to be maintained through to 2021 as provided for in the ATS Act. In addition, current underspends in the ATS should be rephased from stage 1 to stage 2. This will provide certainty to industry participants to plan until vehicle production ceases; help maintain access to banking finance in an increasingly stringent lending environment; and assist in funding diversification activities.²³

3.34 Consistent with the need to develop an overarching automotive industry policy framework, the committee believes that the Automotive Transformation Scheme should be reconceptualised as a broad, automotive-related advanced manufacturing, engineering and design program that is intended to maintain skills and industrial capabilities, and mitigate the loss of jobs by supporting supply chain diversification, new manufacturing investment and jobs growth.

3.35 Accordingly, the object of the ATS Act should better reflect this new reality. When the ATS was legislated, it was assumed that vehicle production would continue through the entire period of the scheme. However, this has not eventuated and there is a need for targeted support to assist manufacturers to diversify and transform, particularly component manufacturers.

3.36 A number of stakeholders submitted that the focus of the ATS should be retargeted. For example, the Australian Manufacturing Workers' Union considered that the ATS should be given a new purpose and support the industry transition to the design and/or production of cars; aftermarket parts and accessories; low emission components, engines and infrastructure; and advanced components, systems and materials for global supply chains producing cars and other vehicles.²⁴

3.37 The Federation of Automotive Products Manufacturers noted that the automotive manufacturing environment had changed:

22 *Submission 31*, p. 19.

23 Federation of Automotive Products Manufacturers, *Submission 11*, p. 3.

24 *Submission 11*, p. 5.

The planned departure of the three Australian vehicle manufacturers fundamentally changes the policy objectives of ATS...The tailoring of the ATS rules in a number of areas will be critical in allowing the existing rules to be amended to achieve the necessary outcomes.²⁵

3.38 And the Federal Chamber of Automotive Industries indicated they would:

...support updating the object of the ATS Act to better reflect the new direction the industry is moving in. Accordingly the FCAI would support a new object that specifies that the ATS is designed for the promotion and growth of an advanced automotive industry in Australia.²⁶

3.39 Accordingly, the committee considers that the object of the ATS Act should be updated to specify that the ATS is designed for the promotion and growth of advanced automotive industries in Australia, including manufacturing components and materials, developing and commercialising new technologies, and engineering and design work for domestic and offshore automotive customers when that work is performed in Australia.

3.40 In addition, a number of the ATS rules and eligibility criteria require amendment to encourage further investment in research and development.

3.41 The Federation of Automotive Products Manufacturers outlined a number of ways that the definition of research and development could be broadened to support diversification:

Currently, none of the ATS participants can claim R&D relating to non-automotive products or services. Clearly, in the new post-2017 industry paradigm, an ability to claim R&D relating to products or services in non-automotive industry sectors will be a key to industry survival.

A further policy conclusion is that the ATS rules will need to change to allow for the claiming of R&D relating to products or services for non-automotive industry sectors, subject to the application of strict competitive neutrality provisions...

The concept of an eligible automotive service in regulation 1.9 also needs to be broadened beyond passenger motor vehicles and light commercial vehicles to cover any kind of vehicle mentioned in Chapter 87 of the Tariff (such as large trucks), or that has the essential character of such vehicles.²⁷

3.42 FAPM also noted potential limitations posed by the once-a-year restriction on moving between ATS registration categories:

As the diversification process unfolds, a key aspect of the administration of ATS that will need to change is the ease of movement between registration categories. Currently, the ATS only provides for a 'once a year' registration window, whereby regulation 2.14 requires applications for ATS registration to occur for an ATS year, to be received by AusIndustry by 31 December of

25 *Submission 17*, p. 11.

26 *Supplementary Submission 9*, p. 3.

27 *Submission 11*, p. 12.

the preceding year. This is a severe impediment to mid-year movements between registration categories that will be required as the industry transitions.

The other related issue is the ease with which ATS participants can change registration categories. At present, the annual re-registration requirement would pose an impediment, but there is also doubt about whether a participant's ATS investment and sales history would also move across to a new registration category. This aspect requires a number of changes to be made to Part 2 of the regulations in particular.²⁸

3.43 The Federal Chamber of Automotive Industries also supported changes to eligibility criteria for the ATS:

Rather than cutting and closing the ATS, 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.²⁹

3.44 The AutoCRC proposed that all Australian-based research and development activities should be eligible for ATS funding:

...the present exclusion from ATS eligibility of Australian-based R&D [research and development] conducted by ACPs [Australian Component Producers] on behalf of and under contract with overseas automotive customers will seriously inhibit opportunities for growth and diversification by ACPs into regional automotive markets, thus threatening their ability to survive the forthcoming cessation of vehicle production in Australia.

We therefore propose that the ATS Regulations be amended to allow eligibility of Australian-based R&D conducted by ACPs on behalf of non-ATS registered parties.³⁰ [emphasis in original]

3.45 The Federal Chamber of Automotive Industries similarly supported changes to the ATS rules to allow for the claiming of research and development activity contained within engineering services activity across the registration categories.³¹

3.46 A number of stakeholders also suggested that ATS funding should be available for possible new niche motor vehicle production or new sources of investment. Simmons Global proposed that the focus on existing vehicle production could be widened:

...given the imminent withdrawal of the remaining Australian [vehicle] manufacturers, it is considered prudent to redesign the assistance

28 *Submission 11*, pp. 13–14.

29 *Submission 9*, p. 11.

30 *Submission 34*, p. 2.

31 *Supplementary Submission 9*, p. 3.

arrangements to specifically cater to potential new entrants. This would involve assistance for new vehicle development costs prior to production.³²

3.47 The committee considers that it is necessary to amend the ATS rules and eligibility requirements to support manufacturers to continue to secure complex design and engineering work, and provide greater support for diversification initiatives.

Recommendation 2

3.48 **The committee recommends that the Australian Government maintain the current level of Automotive Transformation Scheme (ATS) funding through to 2020–21 as provided for in the ATS Act, and allow current underspends in the ATS to be rephased from stage 1 (ending 2015–16) to stage 2 (ending 2020–21).**

Recommendation 3

3.49 **The committee recommends redefining the Automotive Transformation Scheme (ATS) into a broader, automotive-related advanced manufacturing, engineering and design program that is intended to maintain skills and industrial capabilities and mitigate the loss of jobs by supporting supply chain diversification, new manufacturing investment and new opportunities for growth and investment throughout the whole of the automotive industry.**

Recommendation 4

3.50 **The committee recommends that the object of the *Automotive Transformation Scheme Act 2009* be updated to better reflect the current situation within industry and the need for targeted support for diversification and transformation activities, particularly in the automotive manufacturing supply chain. The new object should specify that the ATS is designed for the promotion and growth of advanced automotive industries in Australia, including: manufacturing components and materials; developing and commercialising new automotive technologies; and engineering and design for both domestic and offshore customers when that work is performed in Australia.**

Recommendation 5

3.51 **The committee recommends that the Automotive Transformation Scheme (ATS) rules and eligibility criteria (governed by the Automotive Transformation Scheme Regulations 2010) should be amended, in consultation with industry, to encourage further investment in research and development (R&D) so that manufacturers can continue to secure complex design and engineering work and to provide greater support for diversification initiatives. Amendments to ATS regulations to be considered include (but are not limited to):**

- **amend the ATS rules to allow for the claiming of R&D relating to products and services for non-automotive industry sectors to facilitate the transition of manufacturers out of motor vehicle production;**

32 *Submission 22*, p. [2].

- **amend the ATS rules to allow for the claiming of R&D and engineering services across the registration categories for both domestic and offshore automotive customers when that work is performed in Australia;**
- **amend the definition of automotive services so that the concept of eligible automotive services is broader than passenger motor vehicles and light commercial vehicles (and covers all modes of mobility);**
- **remove the once a year registration requirement to allow for ease of movement between ATS registration categories as the transition within the industry progresses;**
- **amend the ATS rules to allow motor vehicle producers to remain eligible for the scheme, even in the event of declining production volumes; and**
- **amend the ATS national interest provisions to ensure these provisions are utilised to enable new entrants to the scheme and to attract new investment. Amendments to national interest provisions should include removing the current requirement that the Minister must not grant an ATS participant permission to continue registration under this regulation for a period of more than two successive ATS years.**

Senator Sam Dastyari
Chair

