

Toyota Motor Corporation Australia Limited
Submission to the Senate Economic Legislation Committee ATS Inquiry

The Toyota logo, consisting of the word "TOYOTA" in a bold, red, sans-serif typeface.

Submission by
Toyota Australia
to the
Senate Economic Legislation Committee
Inquiry into the Automotive
Transformation Scheme
October 2014

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Key facts

Toyota Australia facts and statistics	<ul style="list-style-type: none">▪ Presence in Australia since 1959▪ 11 consecutive years as Australia's best-selling automotive brand with 18.9% market share in 2013▪ 3,900 employees▪ 2013 production and sales:<ul style="list-style-type: none">- Toyota domestic sales: 214,630- Vehicles produced: 106,278- Vehicles exported: 70,588- Engines produced: 105,243- Engines exported: 10,140- Export countries: 13- Export value \$1.4b
Toyota Australia tier 1 supply chain facts and statistics	<ul style="list-style-type: none">▪ 55 local OE suppliers▪ Geographically concentrated in Victoria and South Australia, with some presence in Western Australia and New South Wales▪ Over 9,000 employees▪ 2013 value of buy approx. \$1.2b

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1. Overview

Toyota Australia welcomes the opportunity to provide input to the Senate Economic Legislation Committee Inquiry into the Automotive Transformation Scheme (ATS).

Toyota Australia does not support the proposals outlined in the *Automotive Transformation Scheme Amendment Bill 2014* (ATS Bill). This Bill proposes the removal of \$500m from the ATS program during the period 2015-17 and the cessation of the scheme on 1 January 2018 removing a further \$400m from the program. This proposal, which was announced as part of the Australian Government's 2013-14 Mid-Year Economic and Fiscal Outlook (MYEFO) and the 2014 Budget, will place additional pressure on the automotive sector at a critical time of industry transition.

Toyota Australia is wholly committed to maintaining vehicle and engine production until the end of 2017 to honour our commitments to our customers both domestic and overseas, suppliers and employees. By continuing production for this period, our suppliers and employees will be provided with a period of time to adjust and transition to new opportunities outside of automotive manufacturing in other industry sectors.

Ongoing ATS support by the Australian Government during this period is an essential element of the sector's ability to sustain operations until the end of 2017. Due to the interdependence within the automotive sector, all industry participants must continue operations up until the designated closures of vehicle manufacturers or risk an accelerated and uncontrolled industry shut down with approximately 48,000 automotive manufacturing jobs¹ at risk.

The continuation of the current ATS funding profile across both component suppliers and manufacturers until the end of vehicle manufacturing will facilitate an orderly manufacturing transition while providing a level of certainty where investments have been made based on existing legislated support levels.

2. Potential impacts

As stated above, automotive industry participants require funding certainty till the end of vehicle manufacturing to enable an orderly industry wind down and the continuation of support beyond 2017 to assist the automotive component sector to diversify and seek opportunities in new or emerging growth sectors.

During this period of industry uncertainty where business viability of component suppliers is at risk, the changes proposed in the ATS Bill will place additional burden on industry and threaten the ability of suppliers to continue operations. 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.

The April 2014 report of the Panels for the Reviews of the South Australian and Victorian Economies headed by the Hon Ian Macfarlane MP, Minister for Industry titled *Growing Opportunities: South Australian and Victoria Comparative Advantages* stated:

Knee-jerk and politically-expedient responses are neither appropriate nor a strategic response to the cessation of automotive assembly in 2017.²

¹ Automotive Industry Score Card, Department of Industry. June 2014.

<<http://www.industry.gov.au/industry/automotive/Statistics/Pages/automotivedatacard.aspx>>.

² Panels for the Reviews of the South Australian and Victorian Economies. *Growing Opportunities: South Australian and Victoria Comparative Advantages*. April 2014. pg. i

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The report also identifies a number of growth and export opportunities for Victorian and South Australian businesses, including businesses in the automotive sector, such as:

- advanced manufacturing including medical devices
- aerospace and machined products
- health and biomedical products
- biomedical products

Toyota Australia believes reducing ATS funding during a period of industry transition represents an inappropriate response, particularly as the industry continues to bring new products to market. A reduction in funding and early closure will also inhibit the industry's ability to pursue new opportunities in growth sectors including those identified in the report.

We understand there are currently over 100 ATS participants many of whom are small to medium businesses operating in the automotive component, tooling and service sectors. Toyota Australia's supply base of 55 tier 1 local OE suppliers for example have an average of 170 employees. Without certainty of ATS funding the future of these businesses, including those with highly skilled and innovative workforces will be at risk. This is particularly the case in the year 2015 where under the ATS Bill, two thirds of program funding is to be removed.

3. Recommendations

Toyota Australia supports the retention of the current ATS program funding levels till the end of 2020 with priority given to ensuring the stability of the industry till the end of vehicle manufacturing.

To provide a level of certainty to industry, the funding split between suppliers and vehicle manufacturers as outlined in the current ATS regulations should continue for this period. Because of the interrelated nature of the automotive industry, any amendments in this space may result in unintended impacts on other ATS participants and the broader industry.

To reflect the changing industry environment and to ensure that industry participants remain eligible for ATS funding, Toyota Australia suggests an amendment to the objects of the *Automotive Transformation Scheme Act 2009*. The current objects are as follows:

- (a) to encourage competitive investment and innovation in the Australian automotive industry; and
- (b) to place the industry on an economically sustainable footing;
by providing assistance to a participant in the Automotive Transformation Scheme based on the participant's investment if the investment is of a kind prescribed by the Scheme.

A revision of the objects of the Act to reflect a new purpose of facilitating an orderly manufacturing transition of the automotive sector may be a means to ensure eligibility of all current ATS participations until the cessation of vehicle manufacturing in Australia and encourage the retention of investment and R&D in a post vehicle manufacturing environment.

Toyota Australia trusts that the information contained in this submission assists the Committee's inquiry and we would welcome the opportunity to participate further if required.