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Dear Senator Edwards and colleagues,

**Federation of Automotive Products Manufacturers (FAPM) submission to the Senate Economics Legislation Committee inquiry into the *Automotive Transformation Scheme Amendment Bill 2014*.**

The Federation of Automotive Products Manufacturers is the association for manufacturers engaged in the production of a comprehensive range of automotive products. It was formed in 1958 and currently consists of some 80 member companies.

The objectives of the FAPM include promoting the interests and welfare of the automotive components industry, to encourage and support government policies which support the operation of a large and diverse industry and to advance the development in Australia of an increasingly efficient and internationally competitive motor vehicle industry.

The FAPM welcomes the Senate's inquiry into the *Automotive Transformation Scheme Amendment Bill 2014* and the opportunity to make a submission.

The FAPM believes that the onus for driving growth and sustainability rests with the industry, but believe that government has a key role in providing a policy environment that does not disadvantage the Australian industry against global competitors. The FAPM submission advocates for stable policy framework that ensures a viable and sustainable industry future.

The component manufacturers are in a period of transition; governments need to continue to be part of that transition as we move towards the years where there will be no vehicle manufacturing in Australia.

The FAPM submission addresses the impact of the proposed amendments and offers a number of measured recommendations. Should the Commission require any further information, clarity or detail, the FAPM is available as required.

FAPM would be pleased to present to the Committee when hearings are called.

Yours sincerely

Richard Reilly  
Chief Executive

Jim Griffin  
National President



**Senate Economics Legislation Committee**

**Automotive Transformation Scheme Amendment Bill 2014**

**Executive Summary of Recommendations**

**Automotive Transformation Scheme (ATS)**

**Recommendation 1:**

- Maintain pre-MYEFO funding amounts in order to assist an orderly transition while Automotive Component Producers (ACPs) are still manufacturing components

**Recommendation 2:**

- Abolish 5% automotive sales cap to reflect reducing industry production volumes

**Recommendation 3:**

- Allow quarterly payments to ATS entitlements to improve cash flow for eligible companies as they transition

**Recommendation 4:**

- Allow all automotive R&D performed in Australia to be eligible for funding under ATS not just for products sold in the domestic market

**ATS post-2017**

**Recommendation 5:**

- Transform ATS post-2017 to include support for advanced design, engineering services and automotive related consultancy opening up domestic capacity to South East Asia and developing automotive manufacturing countries

**Recommendation 6:**

- Transform ATS post-2017 to include production of aftermarket components, after-sales production support and advanced manufacturing where that manufacturing is based on automotive principles

**Recommendation 7:**

- Investment of ATS funds into attracting a niche global vehicle manufacturer which would maintain manufacturing operations and provide stimulus for the development of globally leading technologies

**Recommendation 8:**

- Investment in a global automotive taskforce to promote and seek new business for domestic firms over the transition period

**Recommendation 9:**

- Investment in a global integration of engineering capability program ensuring domestic engineers are exposed to global best practices, new technologies and increased understanding of global trends and where the domestic market can be competitive.

## **Background**

The Automotive Transformation Scheme (ATS) is a legislated entitlement scheme that will encourage competitive investment and innovation in the Australian industry. The ATS was initially scheduled to run from 1 January 2011 to 31 December 2020 and will provide up to \$2 billion to the automotive industry.

The ATS provides assistance to registered participants for investment and production. Eligible participants receive assistance for:

- production of motor vehicles
- investment in research and development to a maximum rate of 50 per cent
- investment in plant and equipment to a maximum rate of 15 per cent.

Funding is allocated between Motor Vehicle Producers (MVPs) at 55% and Automotive Component Producers (ACPs) at 45%.

## **Current Status**

In its Mid-Year Economic and Fiscal Outlook (MYEFO), the Federal Government outlined how it would achieve a reduction of \$500 million in the ATS funding.

When modelled on a calendar year basis, the ATS will be reduced by \$200 million in 2015, leaving \$100 million for the industry, with a further \$150 million in both 2016 and 2017.

Furthermore, the 2014 Budget proposes an early closure of the ATS from 1 January 2018 with an accompanying loss from the scheme of \$400 million.

## **Impact**

Given that all three domestic automotive manufacturers have announced they will cease automotive manufacturing in Australia by the end of 2017, there is 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.

As initially intended, the ATS allows local manufacturers to be competitive against firms in other parts of the world and provides incentives to maintain a local manufacturing base.

The effect of the phasing of these reductions as outlined in MYEFO will mean that 66 per cent of funding in 2015 will be cut, leaving both the automotive manufacturers and its supply base without the support they require as part of the industry's transition and consolidation.

The ATS program is now more important than ever in assisting supply chain companies transition in an environment with no local vehicle manufacturing. There will be a significant impact on the business operations of supply chain companies and material uncertainty without the ATS.

### **Federation of Automotive Products Manufacturers**

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. The early closure of the scheme by 2018 would seriously impact the competitiveness of these quotes and effectively fast-track the closure of some firms.

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.

### **Review of current proposed reduction in funding**

The budgetary proposal to withdraw \$900 million from the ATS will leave the supply chain with limited access to government assistance to transition into global supply chains and from automotive manufacturing.

We believe there are a number of changes required to the ATS to assist the automotive supply chain to ensure business adjustment and relevance as the MVPs cease manufacturing in Australia. The program requires reform to support diversification activities.

We urge the Government to review the phasing of the proposed ATS reduction, in particular cutting the scheme's funding in 2015 by \$200 million.

The early closure of the scheme from 1 January 2018 and the loss of the accompanying \$400 million in those years mean that the suppliers will be impacted further, especially given the announced closure dates of the vehicle manufacturers.

Rather than removing funds from the ATS, amending the eligibility criteria to facilitate 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.

## **Recommendations for the ATS**

### **MYEFO / Budget**

FAPM believes it is vital that the ATS continues to 2020 as currently legislated. This will assist those suppliers who have managed to diversify their businesses or to enter export markets.

The funding profile of ATS as currently proposed in the MYEFO will lead to program participants receiving lower benefits between 2015 and 2017.

FAPM is in agreement with the Productivity Commission on this matter. FAPM considers that the funding profile of ATS must re-phase to better reflect the anticipated industry activity during this critical wind-down phase as suggested in Appendix 1.

### **5% Sales Cap**

The access arrangements for the ATS program need to be amended to reflect new supply chain requirements as local production winds down. FAPM's position is that the 5% automotive sales cap should be abolished for ACPs only from 1 January 2015.

### **Quarterly payments**

In order to assist supplier companies with their significant restructuring or closure costs, consideration should be given to suppliers being able to receive their full ATS receivables in the quarter following the current quarterly claim. This would significantly assist cash flow over the years of local production wind down.

### **R&D benefit**

At present, the ATS provides a co-payment for funds spent by a supply chain company on R&D in Australia, but only for work on products sold in the domestic market.

As local production winds down, ATS should change to allow a supply chain company to claim on any automotive R&D undertaken in Australia. This will ensure companies maintain a strong R&D presence locally.

## **Transformation of the ATS**

FAPM recognises automotive manufacturing will significantly decline with the cessation of operations by the MVPs in 2017/18. As a result, consideration must be given to transforming the ATS to secure a sustainable long-term future for firms and employees of the automotive industry.

Australia is a mature automotive market with advanced capability in design, development, prototyping, production and manufacture of vehicles. 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.

The proposed MYEFO funding reduction will greatly impact the ability of supply chain companies to maintain operations and transition to new industries and markets; however existing funding post-2017 can be reallocated to better support firms willing to continue operations and supports existing employment and niche manufacturing operations.

Post-2017 funding may include initiatives such as the following:

### **Increase eligible applicants**

Funding could include support for advanced design, engineering services and automotive related consultancy. This secures operations such as Ford Engineering and opens up domestic expertise and capacity to South East Asia and developing automotive manufacturing countries who are soliciting for Australian design and development capability.

### **Increase eligible manufacturing applicants**

Funding could be allocated to include production of aftermarket components, after-sales production and advanced manufacturing where that manufacturing is based on automotive principles.

This would unite the automotive original equipment and aftermarket manufacturers and promote collaboration between companies as well as improve competitiveness in a growing South East Asia customisation and aftermarket industries.

### **Investment in niche MVPs**

New investment is required to secure high skill, high wage automotive jobs in Australia. The global vehicle manufacturers and their associated supply chains invest significant resources into safety, environmental and consumer touch-points to compete globally.

The loss of the current MVPs could be replaced with niche MVPs with a global outlook to maintain local automotive innovation.

Australia offers a strong business case within the Asia-Pacific region to attract additional niche market MVPs, especially as Asian countries advance their economic status. In addition to the suite of existing capabilities and structures to support automotive production, the Australian market is attractive in its own right, with new vehicle sales of more than 1 million units annually.

The FAPM believes the concept of a 'game changing' initiative for the industry needs to be incorporated into future policy settings. This would create the circumstances for potential investment attraction programs around organisations such as:

- Tesla – high end performance electric vehicles which will be targeting the Asia-Pacific region
- Contract manufacturers such as Magna Steyr and Valmet Automotive, who specialise in mixed and flexible production runs suited to the fragmented Australian market
- Mahindra Reva – The Indian EV manufacturer promoting a franchise manufacturing model with a maximum annual capacity of 30,000 units per plant.

Investment by the ATS directly to international firms willing to establish operations in Australia supports a long-term niche industry that will then continue to develop advanced technology and best practice principles.

This is significantly increased with an MVP that is developing global leading technology such as electric or fuel-cell vehicles which will stimulate further technology development locally.

### **Investment in supply chain technology development**

Despite falling production volumes, the automotive industry remains the largest contributor to Australian manufacturing R&D. This reflects the advanced technology requirements to deliver vehicles in a global market. The sector accounted for \$694 million expenditure in R&D in 2011-12, which equated to 15% of total manufacturing expenditure on R&D.

In addition, the range of advanced capabilities and R&D opportunities within the supply chain were highlighted in the 2010 roadmap study into industry capabilities, *2020 Automotive Australia* (AA2020). This resulted from collaborations between component producers, non-automotive producers, MVPs and various research institutions.

AA2020 validated the range of advanced world-class capabilities within our industry and identified four key long-term priority areas to support the future technology needs. These are:

- Vehicle electrification - hybrid and EV components ranging from high energy density batteries, electric powertrains, electric motors and supercapacitors



- Light weighting – opportunities for Australian industry to include lightweight body panels, road wheels, steel alternatives, composite seats and interior structures
- Gaseous fuels – technologies including LPG direct injection, fast fill platforms and high capacity storage tanks
- Data and Communication – reflecting the increased availability of in-vehicle information systems such as by-wire systems. The major applications are in improved human-machine interfaces and driver information systems.

The AA2020 roadmap demonstrated the range of advanced technology capabilities within Australian industry which can be competitive on a world-scale. The study provided a platform to identify opportunities for the industry to contribute to the technologies of tomorrow, and reinforced the broader value of the automotive industry in driving development of the world's leading technologies.

### **Global automotive trade taskforce**

The pursuit of niche MVPs and supplier development requires a substantial, industry-wide effort in securing global customers, developing business cases and identifying areas of competitive advantage. Originally recommended in the Bracks Automotive Industry Review (2008), a “Team Australia Automotive” approach to exposing the local industry in international discussions is required.

An industry wide approach would require coordination from a central body and policy investment for collaboration between companies that advantages local supplier companies without hindering operating and competition practices.

As a result, a government in liaison with the industry supporting a coordinated team of dedicated automotive subject-matter experts and experienced business development executives would present a united Australian automotive capability amongst the portfolio of components and technologies accessible to global players.



### **Global integration of engineering capability**

In addition to a specific automotive trade taskforce, substantial investment in exposing local engineers to global OEMs allows the Australian industry the best chance of securing global contracts. The FAPM recommends investment in a global exchange of engineers by introducing cost of living incentives to attract globally recognised engineers to Australia.

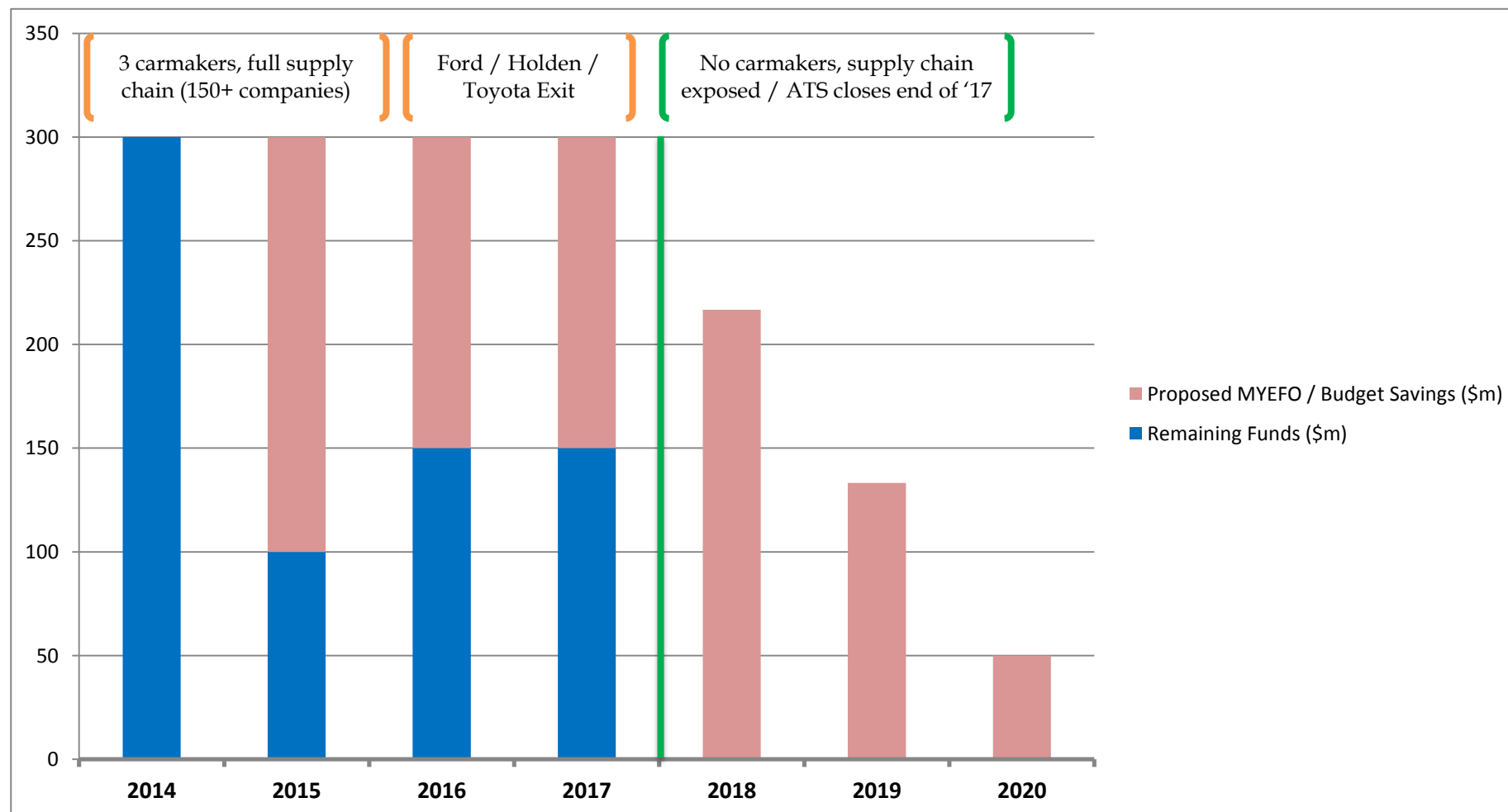
This could be through subsidised tax and living costs initiatives and access to higher education positions. Ideally, a stand-out engineer would intern locally for a period of three years and in return be a candidate for higher qualifications. The benefit would be knowledge built within the local industry that would be returned to other markets.

In exchange, a similar program could be implemented with trading partners whereby exported engineers would be afforded travel and living cost subsidies and be placed within global OEMs.

The benefit to the industry and country would be an exposure to global best practices that would be implemented within local companies on return.



## Automotive Federal Assistance (ATS & Growth Fund) Proposed Changes



Federation of Automotive Products Manufacturers