
FCAI Submission to the Senate Economic Legislation Committee Inquiry into the Automotive Transformation Scheme Amendment Bill



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OVERVIEW

The FCAI welcomes the opportunity to respond to the Senate Committee's inquiry into the Automotive Transformation Scheme Amendment Bill 2014.

The FCAI is the peak industry organisation representing vehicle manufacturers and importers of passenger motor vehicles, SUVs, light commercial vehicles and motor cycles in Australia.

The FCAI opposes the Australian Government's proposal to remove \$900 million from the ATS and close the scheme on 1 January 2018 as outlined in the *Automotive Transformation Scheme Amendment Bill 2014*.

The FCAI argues that the ATS continues to provide essential assistance to support the transition of the automotive industry through one of Australia's most significant industrial re-adjustments. Amending the ATS funding profile prior to the cessation of vehicle manufacturing in Australia will increase the likelihood of an uncontrolled collapse of the automotive supply chain, and puts at risk the continued operations of highly skilled and innovative businesses that form a strategic part of Australia's industrial backbone.

Due to the interdependence of the automotive sector, all industry participants must continue operations up until the closure of vehicle manufacturing (end 2017) or risk an accelerated industry shut down. Any amendments to the current funding levels may result in unintended impacts on all ATS participants and will not provide the industry the time to adjust and in some cases diversify into other industry sectors.

THE ROLE OF GOVERNMENT ASSISTANCE

The Australian automotive industry is one of Australia's most advanced industries. It deploys advanced manufacturing techniques, technologies and adds value through the broader economy far beyond its manufacturing core.

Historically the Australian Government has seen value in supporting the development of this industry through a variety of funding and structural assistance mechanisms. The Automotive Transformation Scheme (ATS) is the latest incarnation of this assistance, providing capped funding of \$300 million per year to encourage competitive production, investment and innovation in the Australian automotive industry. Prior to this, the Australian Competitiveness and Investment Scheme (ACIS) also provided an effective mechanism to encourage and nurture investment in automotive R&D.

It is with the assistance provided by programs like the ATS that the automotive industry has been able to develop in Australia. The modest level of assistance provided by both Coalition and Labor Government's 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.

This assistance has helped Australia to become one of only a few nations in the world with the capability to produce a car from concept to delivery. The Australian automotive industry today competes globally and designs, engineers and manufactures a complete range of automotive components including body and chassis systems, electrical and control systems, drivelines, interiors and aftermarket accessories.

THE AUTOMOTIVE INDUSTRY IS AN INNOVATION INCUBATOR

These skills and the innovation that is endogenous to the industry deliver benefits to the broader economy, magnifying their value, and the value of government assistance, further. While difficult to quantify, these spillovers are well-recognised through the broader economy. Such spillovers benefit the economy in ways that are clearly recognized by industry leaders around the nation. These include chief executives of companies like Boeing, BHP Billiton, Rio Tinto and Coca-Cola Amatil, each of whom have directly related the success of their own businesses to the skills and expertise gleaned from the automotive industry in Australia.¹ The Australian Government has also recognized that the automotive industry benefits the broader economy through its extensive linkages into other parts of the economy like heavy engineering, tool making, aerospace and marine.² Many of these stretch across related industries, like defence and even into the services sector such as banking.

This strong focus on innovation has been greatly assisted by the international linkages the domestic automotive industry maintains. The Australian automotive industry is replete with highly skilled designers and engineers involving high-value and high-technology practices. The major car companies, notwithstanding their decisions to cease automotive manufacturing in Australia by the end of 2017, have designers and engineers who work on global projects for their parent companies. These operations exist in very few locations around the world; they exist in Australia because the expertise of the people involved and the high regard in which they are held throughout their parent companies. In other words, we have an advanced innovation capability, which has developed in part because of the assistance provided by successive federal governments.

This focus on innovation has extended into other parts of the economy. In particular by the very strong links the domestic automotive industry has developed, and maintains, with the Australian university sector. The domestic industry has developed strong working relationships with the University of Melbourne, Deakin University, the Royal Melbourne Institute of Technology and the Australian National University. These universities provide not just graduates and the necessary technical skills for the industry, but they also provide an important conduit to the research community for technologies commercialised by the automotive industry.

¹ *The Strategic Role of the Australian Automotive Manufacturing*, p.38

² <http://www.industry.gov.au/industry/automotive/Pages/AbouttheAutomotiveIndustry.aspx>

Arguably, it is the innovation provided by the industry to the broader economy that is of greatest value to a country like Australia. Innovation is central to automotive manufacturing and design. According to the Organisation of Motor Vehicle Manufacturers, OICA, the global automotive industry invested almost €85 billion in R&D in 2005.³ 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.⁴

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. Those countries have seen automotive manufacturing as a strategic investment and all provide significant assistance to their local automotive industries in a range of ways.

THE AUTOMOTIVE TRANSFORMATION SCHEME

The Automotive Transformation Scheme is a legislated entitlement scheme that is designed to encourage competitive production, investment and innovation in the Australian industry. The ATS provides assistance to registered participants for investment and production. Eligible participants receive assistance for:

- production of motor vehicles (MVPs only)
- 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.

The three domestic motor vehicle manufacturers (Holden, Ford and Toyota) as well as companies in the supply chain, are eligible to apply for assistance under the scheme.

The ATS consists of two funding stages. The first stage runs from the period beginning on 1 January 2011 and ends on 31 December 2015. The second stage runs from the period beginning on 1 January 2016 and ending on 31 December 2020.

The Automotive Transformation Scheme Act 2009 states at Division 2 – Assistance (p.7), that:

- (1) The total amount of capped assistance under the Automotive Transformation Scheme must not exceed:
 - (a) for stage 1 - \$1.5 billion; and
 - (b) for stage 2 - \$1billion

The ATS legislation specifies that the total amount of capped assistance paid must not exceed \$300 million in a calendar year. If the total amount of capped assistance paid in respect of a particular year is less than \$300 million then the balance may be paid as capped assistance in respect of any

³ *The Strategic Role of the Australian Automotive Manufacturing Industry*, p.4

⁴ *Research and Experimental Development, Businesses, Australia, 2010-2011*, Cat. No. 8104.0

later year within the relevant stage (ie, within stage 1 or within stage 2). This assistance cannot be paid on or after 1 April in the following year.

The ATS operates on a calendar year basis. Division 3.2 (Caps on Scheme and ATS participants) of the ATS Regulations specify the capped assistance schedule.⁵

3.9 Capped assistance for ATS years

Subject to section 8 of the Act, for each ATS year of the Scheme listed in the table below, the Secretary must not make a payment of capped assistance that in total exceeds the amount specified for the ATS year (the ATS year cap).

| ATS year | ATS year cap (\$) |
|----------|-------------------|
| 1 | 300 000 000 |
| 2 | 300 000 000 |
| 3 | 300 000 000 |
| 4 | 300 000 000 |
| 5 | 300 000 000 |
| 6 | 300 000 000 |
| 7 | 300 000 000 |
| 8 | 216 700 000 |
| 9 | 133 300 000 |
| 10 | 50 000 000 |

Note 1: Subsection 8(1) of the Act provides that total capped assistance under the Scheme must not exceed \$1.5 billion for stage 1 and \$1 billion for stage 2.

Note 2: Subsection 8(3) of the Act allows payment of unspent capped assistance in a different ATS year in some circumstances.

Capped assistance divided between motor vehicle producers (MVPs) and others is also specified in the regulations. The ATS year cap for capped assistance for an ATS year set out in regulation 3.9 must be divided as follows:

- (a) MVPs—55% of the ATS year cap;
- (b) ACPs, AMTPs and ASPs—45% of the ATS year cap.

WHAT DO THE FEDERAL GOVERNMENT'S CUTS TO THE ATS MEAN?

The Australian Government has made three announcements regarding the reduction of ATS funding, including:

1. Mid-Year Economic and Fiscal Outlook (December 2013) - ATS funding reduction of \$500 million from 2015-2017.
2. Federal Budget (May 2014) - Closure of ATS on 1 January 2018 (saving a further \$400m).
3. ATS Amendment Bill (September 2014) – Legislation to enact the announcements above

⁵ http://www.comlaw.gov.au/Details/F2013C00256/Html/Text#_Toc356480174

1. MYEFO cuts

There is currently \$1.3 billion allocated for 2015-2020. This includes \$300 million in 2015 and \$1 billion from 2016-2020 (see Attachment 1).

2. Budget cuts

The Australian Government announced in the 2014 budget that it will close the ATS program on 1 January 2018. This will generate a further saving of \$400 million by removing all funding from 2018-2020.

3. ATS Amendment Bill

The ATS Amendment Bill gives effect to the Government's decision to cut ATS funding by \$500 million between 2015 and 2017 and to cease the scheme from 1 January 2018. This means that in total \$900 million will be cut from the \$1.3 billion allocated from 2015 to 2021 (see below).

| ATS Calendar Year | 2015 (\$m) | 2016 (\$m) | 2017 (\$m) | 2018 (\$m) | 2019 (\$m) | 2020 (\$m) | Total |
|--|------------|------------|------------|------------|------------|------------|-------|
| Capped Funding as Currently Legislated under ATS Regulation 3.9 | 300.0 | 300.0 | 300.0 | 216.7 | 133.3 | 50.0 | 1.3b |
| Less MYEFO + Budget announcement Savings | 200.0 | 150.0 | 150.0 | 216 | 133.3 | 50.0 | 900m |
| Capped Funding After MYEFO Savings (and subject to legislative amendment) | 100.0 | 150.0 | 150.0 | 0 | 0 | 0 | |
| Funding reduction | 66% | 50% | 50% | 100% | 100% | 100% | |

FCAI POSITION

The FCAI opposes both the \$500 million reduction to the ATS funding profile, and the ceasing of the scheme from 1 January 2018, particularly at a time of substantial ongoing structural adjustment in the industry. 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 by Government to assist the orderly transition of the automotive supply chain into other parts of the economy.

As currently drafted, the proposed ATS cuts will limit the ability of the industry, particularly the component suppliers, to commence their transition to a post-automotive manufacturing environment. The FCAI is particularly concerned that the proposed \$200 million cut in calendar year 2015 will simply mean that many suppliers will not be able to continue their operations, let alone seek to diversify out of automotive supply and into other areas of the economy.

Specifically, business viability will be impacted where ATS participants have made investment decisions in 2013-14 which due to the averaging of ATS funding across the following three year period (12 equal instalments) the expected benefit will be reduced.

This assistance is essential to the industry in Australia and to supporting the jobs of many thousands of employees. If allowed to pass through the Parliament, these cuts will have a potentially detrimental impact on the operations of the three domestic car manufacturers and the many businesses in the supply chain that support them, and will take away their opportunity to transition out of automotive manufacturing and into other parts of the economy.

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

It is therefore crucial to help those companies innovate into other product and business streams. The ATS can assist in this important transformation.

The future of automotive innovation in Australia

The FCAI remains optimistic that an orderly transition out of domestic automotive manufacturing will not mean the end of Australia's advanced engineering and manufacturing capabilities. Sensible government support through this period is, however, crucial.

While it is regrettable that automotive manufacturing will cease in Australia, both Ford and Holden have committed to maintaining their significant design and development facilities in Australia. These are important facilities for Australian industrial design and automotive innovation capabilities into the future. They are also significant businesses in their own right. Holden, Ford and Toyota continue to engage in significant services exports through their design capability, with all three having recently played a lead role in the development of new car models for their respective parent companies.⁶ Nissan also maintains a considerable manufacturing presence in Australia at its casting plant and provides a range of advanced componentry for the technologically advanced Nissan Leaf electric vehicle.⁷

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.

Internationally competitive R&D support

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 consistent, long-term internationally competitive policy assistance.

⁶ *The Strategic Role of the Australian Automotive Manufacturing*, p. 39

⁷ <http://www.themotorreport.com.au/54651/first-australian-made-nissan-leaf-components-shipped-to-japan>

The automotive industry's competitiveness in attracting global capital is strongly influenced by the level of support, including financially, provided by the national government. On this measure, Australia is at the bottom of the league table.⁸ Eroding this modest level of assistance, by reducing the total amount of financial support or by altering the existing Automotive Transformation Scheme in ways that erode this policy framework as is currently proposed through the reduction of \$500 million in assistance between 2015 and 2018, and the cessation of the ATS program in 2018, increases the level of uncertainty in automotive policy and decreases the attractiveness of Australia as an investment destination.

An important first step as part of this is reversing the Government's current announced intention to reduce the available assistance from 2015 to 2018 by \$500 million, and the closure of the scheme from 2018. This would mean the continuation of the Automotive Transformation Scheme at current levels through to 2020. Secondly, the Government needs to make changes to the ATS regulations to allow OEMs to continue accessing funds for automotive R&D once manufacturing ceases.

In the event that the ATS is to be abolished, the FCAI would support a new automotive R&D 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. 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.

The FCAI trusts that the information contained in this submission assists the Committee's inquiry and the Chamber would be happy to participate further with the Inquiry.

⁸ See *The Strategic Role of the Australian Automotive Manufacturing*, p.6

Attachment 1: Automotive Transformation Scheme Act 2009

17 December 2013 MYEFO Announcement

Automotive Transformation Scheme - Legislated Capped Funding Profile by Financial Year - Before and After MYEFO Savings

| | 2010-11 | 2011-12 | 2012-13 | 2013-2014 | 2014-2015 | 2015-2016 | 2016-2017 | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | Total |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|----------------|
| ATS Financial Year | (\$m) | (\$m) | (\$m) | (\$m) |
| Current ATS Financial Year Budget from 2013/14 | 148.9 | 296.2 | 280.7 | 324.2 | 300.0 | 300.0 | 300.0 | 258.4 | 175.0 | 91.7 | 25.0 | 2,500.0 |
| MYEFO Savings (\$500m) | - | - | - | - | 100.0 | 175.0 | 150.0 | 75.0 | - | - | - | -500.0 |
| Revised Accrual Budget | 148.9 | 296.2 | 280.7 | 324.2 | 200.0 | 125.0 | 150.0 | 183.4 | 175.0 | 91.7 | 25.0 | 2,000.0 |

Automotive Transformation Scheme - Legislated Capped Funding Profile by Calendar Year - Before and After MYEFO Savings

| ATS Calendar Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|----------------|
| | (\$m) | (\$m) | (\$m) |
| Capped Funding as Currently Legislated under ATS Regulation 3.9 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 | 216.7 | 133.3 | 50.0 | 2,500.0 |
| Less MYEFO Savings | - | - | - | - | 200.0 | 150.0 | 150.0 | - | - | - | 500.0 |
| Capped Funding After MYEFO Savings (and subject to legislative amendment) | 300.0 | 300.0 | 300.0 | 300.0 | 100.0 | 150.0 | 150.0 | 216.7 | 133.3 | 50.0 | 2,000.0 |