

Chapter 3

Issues

3.1 The committee received submissions from automotive manufacturers and engineers and their industry representatives, as well as from state and local government representatives and academics in South Australia about the impact of the bill on the automotive industry, related industries, workers, local regions and the Australian innovation system.

Support for the ATS

3.2 Many submissions sought to demonstrate the positive contribution of the ATS to the Australian automotive industry and related industries.¹ For example, the Federal Chamber of Automotive Industries submitted that:

The modest level of assistance provided by both Coalition and Labor Governments 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.²

3.3 The Federation of Automotive Products Manufacturers (FAPM) expressed support for the ATS on behalf of manufacturers engaged in the production of a comprehensive range of automotive products, stating that:

The ATS program is now more important than ever in assisting supply chain companies transition in an environment with no local vehicle manufacturing.³

3.4 The Government of South Australia submitted that capped assistance made available under the ATS had a significant positive effect on a local level:

The ATS has been a significant contributor to local automotive manufacturing supply chain enterprises, including many family-owned and operated small and medium-size enterprises, being able to expand their

1 See, for example, Futuris Automotive Group Ltd, *Submission 2*, p. 1; City of Playford, *Submission 4*, p. 1; FAPM, *Submission 6*, p. 2; AMWU, *Submission 7*, p. 1; Australian Industry Group; *Submission 16*, pp 1-2; Toyota Australia, *Submission 9*, p. 1; Ford Motor Company of Australia Limited, *Submission 8*, p. 2; Hella Australia Pty Ltd, *Submission 5*, p. 1.

2 *Submission 13*, pp. 2–3.

3 *Submission 6*, p. 1.

capacity and capability, and build manufacturing businesses underpinned by design excellence and innovation.⁴

3.5 Automotive lighting manufacturer Hella Australia Pty Ltd provided specific evidence that they:

...have benefited from the ATS scheme since its inception as ACIS, and the funding support made available has been critical to meet the investment demands necessary to develop and manufacture uniquely local lighting solutions for our OE [original equipment] customers.⁵

3.6 The committee received evidence about the potential benefit of the ATS in supporting the industry through the upcoming period of transition, including towards the development of the Australian innovation system. The Australian Motor Industry Federation argued that:

...the ATS should be maintained to meet automotive industry research and development aspirations, product innovation and delivery, and business regeneration as the nation prepares for a revitalised industry after the cessation of automobile manufacturing.⁶

3.7 Futuris Automotive Group Ltd was among submitters who supported the scheme continuing until 2020, arguing that:

The ATS has, and can continue to, deliver significant benefits to the Australian automotive sector and to the Australian economy through to 2020.⁷

Duration and level of ATS funding

3.8 Submissions to the committee did not support items 1 and 2 of the bill, reducing the duration of stage 2 of the ATS by three years to conclude in March 2018.⁸ The committee received evidence about the potential benefit of the ATS in supporting the industry through the upcoming period of transition. The Australian Motor Industry Federation argued that:

4 *Submission 11*, p. 3.

5 *Submission 5*, p. 1.

6 *Submission 14*, p. 2.

7 *Submission 2*, p. 1. See also City of Playford, *Submission 4*, p. 1; FAPM, *Submission 6*, p. 2; AMWU, *Submission 7*, p. 1; Australian Industry Group, *Submission 16*, pp. 1–2; Toyota Australia, *Submission 9*, p. 1; Ford Motor Company of Australia Limited, *Submission 8*, p. 2; Hella Australia Pty Ltd, *Submission 5*, p. 1.

8 Robert Bosch Australia Pty Ltd, *Submission 1*, p. 2; Futuris Automotive Group Ltd, *Submission 2*, p. 1, Professionals Australia, *Submission 3*, p. 4; AMQU, *Submission 7*, p. 9; Toyota Australia, *Submission 9*, p. 3; Geelong Manufacturing Council, *Submission 10*, p. 6; Government of South Australia, *Submission 11*, p. 7; Federal Chamber of Automotive Industries, *Submission 13*, p. 2; Australian Motor Industry Federation, *Submission 14*, p. 1; Australian Industry Group, *Submission 16*, p. 1.

...the ATS should be maintained to meet automotive industry research and development aspirations, product innovation and delivery, and business regeneration as the nation prepares for a revitalised industry after the cessation of automobile manufacturing.⁹

3.9 Futuris Automotive Group Ltd provided a view that:

The ATS has, and can continue to, deliver significant benefits to the Australian automotive sector and to the Australian economy through to 2020.¹⁰

3.10 The Federation of Automotive Producers and Manufacturers (FAPM) called for the government to 'review the phasing of the proposed ATS reduction, in particular cutting the scheme's funding in 2015 by \$200 million.'¹¹

3.11 Many submissions opposed the provisions of the bill and its reduction of the duration and level of funding provided by the ATS.¹² Concerns were raised about the negative impact of the bill on the automotive industry and related industries. For example, Toyota Australia submitted that the proposal 'will place additional pressure on the automotive sector at a critical time of industry transition.'¹³

3.12 The Australian Motor Industry Federation argued that the reduction in funding would have an associated impact on investment in the Australian automotive industry, because:

...[s]ignalling limited or no support through the removal of \$900m from the ATS, the early retirement of the scheme in 2018, and no signal regarding what government proposes beyond that timeframe, will be regarded as a negative by those looking to invest.¹⁴

3.13 Robert Bosch Australia Pty Ltd submitted that 'the scheme has developed valuable technical skills for this country which are now under threat'.¹⁵ The FAPM

9 *Submission 14*, p. 2.

10 *Submission 2*, p. 1.

11 *Submission 6*, p. 3.

12 Robert Bosch Australia Pty Ltd, *Submission 1*, p. 2; Futuris Automotive Group Ltd, *Submission 2*, p. 1, Professionals Australia, *Submission 3*, p. 4; AMWU, *Submission 7*, p. 9; Toyota Australia, *Submission 9*, p. 3; Geelong Manufacturing Council, *Submission 10*, p. 6; Government of South Australia, *Submission 11*, p. 7; Federal Chamber of Automotive Industries, *Submission 13*, p. 2; Australian Motor Industry Federation, *Submission 14*, p. 1; Australian Industry Group, *Submission 16*, p. 1.

13 *Submission 9*, p. 3.

14 *Submission 14*, p. 3.

15 *Submission 1*, p. 1.

called for government to 'review the phasing of the proposed ATS reduction, in particular cutting the scheme's funding in 2015 by \$200 million'.¹⁶

Effect of plant closures on employment and local regions

3.14 Many submitters expressed concerns about the effects of commercial decisions by Holden, Ford and Toyota to withdraw vehicle and engine production operations from Australia by the end of 2017.¹⁷ For example, the Australian Manufacturers and Workers' Union (AMWU) provided evidence about the potential effect on employment as the automotive sector downsizes in Australia:

...the loss of the automotive manufacturing sector means the loss of just under 50,000 direct jobs, many thousands of related jobs (through both industry expenditure and income multiplier effects), the loss of over \$5 billion in industry value added annually, and the loss of the largest source of manufacturing research and development in Australia, worth almost \$700 million annually as well as \$3.6 billion in exports.¹⁸

3.15 Some submitters were concerned that the global trend away from onshore automotive manufacturing necessarily has significant flow-on effects for component manufacturing, the manufacturing services industry and the automotive aftermarket.¹⁹

3.16 Specific concerns were raised about the impact of automotive manufacturing facilities in the local region of northern Adelaide. The Australian Workplace Innovation and Social Research Centre, University of Adelaide) submitted that:

The City of Playford in northern Adelaide is forecast to be the most negatively affected LGA [local government area] in Australia as a result of the closure. The closure coincides with the wind down of the Air Warfare Destroyer build. The negative effects on South Australia and northern Adelaide would be compounded by the importation rather than manufacture of the replacement for the Collins Class submarines, and policy uncertainty affecting investment in the renewable energy sector (amongst other things), denying the state and northern Adelaide their best opportunities for industry diversification.²⁰

16 *Submission 6*, p. 3.

17 See, for example, Professionals Australia, *Submission 3*, p. 1; Government of South Australia, *Submission 11*, p. 3; Geelong Manufacturing Council. *Submission 10*, p. 6.

18 *Submission 7*, p. 2.

19 Productivity Commission, *Australia's automotive manufacturing industry*, Inquiry report 70, 31 March 2014, pp. 52–55; Australian Automotive Aftermarket Association Ltd, *Submission 12*, Hella Australia Pty Ltd, *Submission 5*, p. 2.

20 *Submission 15*, p.1. See also Government of South Australia, *Submission 11*, p. 3.

3.17 Geelong Manufacturing Council also raised concerns that the bill's 'amendments have the potential to greatly negatively impact members of the Geelong Manufacturing Council'.²¹ They submitted that:

Geelong continues to experience significant transitioning arising from a number of factors including the announcements in May 2013 by Ford Australia of their intention to cease manufacturing in Australia by October 2016, and February 2014 by Alcoa to cease operations at Point Henry in 2014. This will adversely impact on the economic base of the region and necessitates a significant response as evidenced through the creation of the Geelong Region Innovation and Investment Fund announced in 2013.²²

3.18 This is consistent with the PC report finding that '[e]mployment in automotive manufacturing is geographically concentrated in south-east Australia'.²³

3.19 The committee notes the PC report recommendation that:

Governments should plan for, and ensure the appropriate resourcing of the delivery of, generally available welfare, training and employment services for all clients in those regions which may be placed under pressure through the retrenchment of automotive manufacturing employees.²⁴

3.20 The recommendation met with in principle support from the government, who explained:

The Government will introduce a Skills and Training Programme to provide pre-emptive support for automotive workers Australia-wide, including skills recognition and training whilst on-the-job. It will assist automotive workers transition to new jobs.²⁵

Transition

3.21 A number of submitters were concerned about the operation of the automotive industry during its transition period. The FAPM noted that the component manufacturers were 'in a period of transition' and argued that governments 'need

21 *Submission 10*, p. 3.

22 *Submission 10*, p. 2.

23 In 2011, Victoria accounted for about half of all automotive manufacturing employees (54 per cent), while South Australia and New South Wales each accounted for a further 13 per cent. Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 423.

24 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, Recommendation 7.1, p. 35.

25 *Government's Response to the Recommendations contained in the Productivity Commission's Report 'Australia's Automotive Manufacturing Industry'*, <http://www.industry.gov.au/industry/IndustrySectors/automotive/Documents/AutomotivePCGovernmentResponse.pdf> (accessed 11 November 2014).

to continue to be part of that transition as we move towards the years where there will be no vehicle manufacturing in Australia'.²⁶

3.22 The Ford Motor Company of Australia argued that there was:

An urgent need by Government to assist the orderly transition of the automotive supply chain into other parts of the economy.²⁷

3.23 The Government of South Australia likewise contended that there was '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'.²⁸

3.24 Toyota Motor Corporation Australia highlighted the importance of providing automotive industry participants with certainty until the end of vehicle manufacturing 'to enable an orderly industry wind down'. It indicated that the continuation of support beyond 2017 'to assist the automotive component sector to diversity and seek opportunities in new or emerging growth sectors'. It stated:

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.²⁹

3.25 The Australian Industry Group also referred to the industry transition currently under way and was of the view that the government could have 'a constructive role in assisting automotive component suppliers. It suggested that the government could ensure that they were 'given time to restructure and diversify their businesses'. It its view maintaining the ATS would 'enable them to do so together with the Industry Growth Fund initiatives'.³⁰

3.26 The FCAI suggested that in the event that the ATS is abolished, it would support:

...a new automotive R&D [research and development] 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.³¹

3.27 In a similar vein, the Futuris Automotive Group recommended:

26 *Submission 6*, p.1.

27 *Submission 8*, p. 6.

28 *Submission 11*, p. 5.

29 *Submission 9*, p. 3.

30 *Submission 16*, p. 2.

31 *Submission 13*, p. 8.

...maintaining the previously committed level of ATS funding for R&D activities for the automotive component sector to support their transition plans and their ongoing R&D and engineering activities in Australia.³²

3.28 The committee notes that the 2014–15 Budget Papers provide for funding to support the industry in the period leading up to manufacture ceasing in Australia:

Funding of approximately \$1.0 billion over five years from 2013–14 will remain available under the Automotive Transformation Scheme to support vehicle manufacturers and supply chain companies.³³

Use of ATS funding in a diversified industry

3.29 Some submitters proposed a modification in the use of ATS funding, including to address the 'policy mistake of not providing support for auto supply chain diversification'.³⁴ The Government of South Australia called for an expansion of ATS guidelines 'to enable companies to use the funds for diversification strategies, so that they can enter new markets for a sustainable future'.³⁵ Likewise, the Federal Chamber of Automotive Industries (FCAI) submitted that:

...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.³⁶

3.30 The Australian Motor Industry Federation called for 'the Australian Government to develop a whole-of-industry policy framework for the Australian automotive industry, suggesting that:

...future support and intervention strategies may be in areas such as design; engineering; the convergence of consumer electronics, information technology and mobility; and other niche markets where the nation's considerable expertise and strengths in innovation can be best utilised.³⁷

3.31 The FCAI proposed a new direction for Australia as a leader in automotive research and development activities (R&D):

32 *Submission 2*, p. 2.

33 Australian Government, Budget 2014–15, *Budget Measures: Budget Paper No. 2 2014–15*, 13 May 2014, p. 163, http://www.budget.gov.au/2014-15/content/bp2/html/bp2_expense-17.htm (accessed 12 November 2014).

34 AMWU, *Submission 7*, p. 8.

35 *Submission 11*, p. 7. See also City of Playford, *Submission 4*, p. 2; Robert Bosch Australia Pty Ltd, *Submission 1*, p. 2; Futuris Automotive Group Ltd, *Submission 2*, p. 2.

36 *Submission 13*, p. 7.

37 Australian Motor Industry Federation, *Submission 14*, p. 1.

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.³⁸

3.32 Likewise, the Geelong Manufacturing Council recommended:

...amending the Regulations to facilitate ongoing 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.³⁹

3.33 Professionals Australia recommended the establishment of 'alternate government co-investment in auto R&D,' and argued that 'there is still a real opportunity to capitalise on the research and innovation capacity of Australia's automotive engineers.'⁴⁰

Industry Growth Centres

3.34 On 18 December 2013, the government announced a wide-ranging industry initiative comprising targeted support for regions affected by the wind-down of the car manufacturing industry, On 30 April 2014, the government stated that it would establish a \$155 million Growth Fund 'to generate the jobs of the future for employees and supply-chain businesses in Victoria and South Australia affected by the closure of local automotive manufacturing operations'.⁴¹

3.35 Professionals Australia commended the government's decision to commence rebuilding industry with its investment of '\$188.5 million in Industry Growth Centres to pursue global excellence in areas of competitive strength'.⁴² The City of Playford also welcomed the establishment of the Growth Fund. It recognised that in the wake of Holden and Toyota closures the fund would provide \$100.6 million 'over six years from 2013–14 towards new jobs, investments and economic growth in South Australia and Victoria'. It stressed the importance of 'allowing time and providing a framework for adjustment – particularly of enterprises and supply chains – to provide opportunity for companies to diversify to new product and value chains'.⁴³ While recognising the Growth Fund, the AMWU described the initiative as 'woefully inadequate'.⁴⁴

38 *Submission 13*, p. 7.

39 *Submission 10*, p. 6.

40 *Submission 3*, pp. 5–6.

41 The Hon Ian Macfarlane MP, Minister for Industry, '\$155 million to grow the jobs of tomorrow', joint media release with the Prime Minister, the Hon Tony Abbott MP, 30 April 2014, <https://www.pm.gov.au/media/2014-04-30/155-million-fund-grow-jobs-tomorrow> (accessed 17 November 2014).

42 *Submission 3*, p. 2.

43 *Submission 4*, p. 1.

44 *Submission 7*, p. 1.

Towards a global automotive manufacturing industry

3.36 The PC report placed the Australian experience of reduced onshore manufacturing within a set of global economic trends.⁴⁵ The Commission explained:

Motor vehicle producers are increasingly moving to global platforms and are investing in large-scale plants in low-cost locations in regions of growing demand, such as Brazil, China, India and Thailand.⁴⁶

In the PC's view, 'attempting to increase Australian production encounters many constraints due to the nature of the Australian and global markets.'⁴⁷

3.37 The PC noted that a lack of evidence that it is in the national interest to provide financial assistance to the manufacturing industry in a downturn or transition period. Their report commented that:

Many governments are offering significant assistance to retain or attract automotive manufacturing, but there is little transparent analysis that would enable an observer to robustly assess the net benefit (or cost) of this assistance to a nation's economy.⁴⁸

3.38 Interestingly, the PC reported that greater growth in other sectors, including mining and services, often accompanies a decline of manufacturing in developed countries, which can offset the immediate effect on employment:

The greater growth of other sectors, such as mining and the services sector, has resulted in manufacturing recording a relative decline in its share of market sector value added and investment, as well as employment. The declining share of the manufacturing sector as a proportion of GDP is a common trend across developed countries.⁴⁹

3.39 The committee notes the PC's view that as well as imposing costs on taxpayers, industry-specific assistance such as that provided by the ATS comes at a cost to the performance of the economy. In their view, it 'dulls the incentives for firms to improve productivity, seek export opportunities, cease unsuccessful investments and diversify into other industries.'⁵⁰

45 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 42.

46 *ibid.*

47 *ibid.*, p. 63.

48 *ibid.*

49 *ibid.*, p. 57.

50 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 70.

Committee view

3.40 The committee recognises the contribution of Australian automotive manufacturers and producers to the international motor vehicle market and to Australia's gross domestic product, including during the global financial crisis. The committee notes that Australia continues to play an important role as an innovator in research and development of automotive and related technologies. However, the committee is not persuaded that funding available under the ATS should be continued beyond the closure of local car manufacturing in Australia in March 2018.

3.41 The committee considers the decision to conclude the ATS in 2017/18 as proposed by this bill is consistent with the government's election commitment to measured and responsible spending initiatives.⁵¹

3.42 Further, the committee is of the view that government must respond to the changing nature of the industry globally. Rather than extending levels of funding for manufacturing operations onshore, the government should monitor opportunities for the industry to contribute to international research and development, which will in turn contribute to a strong and viable future for the national economy.

Recommendation 1

3.43 The committee recommends that the government monitor the allocation of funding towards and investment in automotive research and development, towards fostering resilience and diversification among businesses and industry.

Recommendation 2

3.44 Having regard to Recommendation 1, the committee recommends that the Senate pass the bill in its current form.

**Senator Sean Edwards
Chair**

51 Final Update on Federal Coalition Election Policy Commitments, <http://www.liberal.org.au/latest-news/2013/09/05/final-update-federal-coalition-election-policy-commitments> (accessed 14 November 2014).