

Chapter 2

Background

- 2.1 The bill gives effect to the Australian Government's decision to:
- implement the \$500 million savings from the ATS capped assistance of financial years 2014–15 to 2017–18 as set out in the Mid-Year Economic and Fiscal Outlook;¹ and
 - terminate the Automotive Transformation Scheme (ATS) on 1 January 2018 as stated in the 2014–15 Budget Papers.²

ATS

2.2 The ATS is a legislated entitlement scheme that provides assistance to registered participants for the production of motor vehicles and engines.³ In addition, it provides for investment in allowable research and development and allowable plant and equipment.

2.3 The ATS commenced on 1 January 2011 and was to continue until 31 December 2021.⁴ It was intended 'to encourage competitive investment and innovation in the Australian automotive industry and place it on an economically sustainable footing'.⁵

2.4 The ATS replaced the Automotive Competitiveness and Investment Scheme (ACIS) which was originally scheduled to run from 2011 to 2015.⁶ Both the ATS and the ACIS were intended to assist the automotive manufacturing industry to adjust to the increasing competition caused by the reduction of trade barriers on imported

1 The Hon Joe Hockey MP, Treasurer and the Hon Mathias Cormann MP, Minister for Finance, *Mid-year economic and fiscal outlook 2013–14*, December 2013, p. 170.

2 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).

3 Department of Industry, *Automotive Transformation Scheme (ATS)*, <http://www.business.gov.au/grants-and-assistance/manufacturing/ats/Pages/default.aspx> (accessed 13 November 2014).

4 *Automotive Transformation Scheme Act 2009*, s 4.

5 Department of Industry, *ATS Fact Sheet*, <http://www.business.gov.au/grants-and-assistance/manufacturing/ats/Pages/Fact-Sheet.aspx> (accessed 15 November 2014).

6 Explanatory Statement, *Automotive Transportation Scheme Regulations 2010*, p. 1.

vehicles,⁷ which has had an impact on the number of sales of locally produced vehicles in Australia. The Department of Industry found that:

Nearly 90 per cent of new vehicle sales in Australia are of imported vehicles, with Australian-made cars having lost considerable market share in Australia over the past decade.⁸

2.5 Before the federal election on 7 September 2013, the then opposition announced its intention to reduce the amount of capped assistance available under the ATS as part of 'responsible budget savings'.⁹

2.6 This measure was included in the 2013–14 MYEFO, reducing capped funding available under the ATS by \$500 million over the 2015–2017 calendar years.¹⁰ The MYEFO stated that the savings were to be 'redirected by the Government to repair the Budget and fund policy priorities'.¹¹

2.7 In the 2014–15 Budget Papers, the government committed to terminating the ATS on 1 January 2018, saving a further \$400 million.¹² The funding available for the duration of the scheme was explained in Budget Paper No. 2 as:

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.¹³

2.8 In his second reading speech on the bill, the Minister for Industry, the Hon Ian Macfarlane MP, explained the relationship between the withdrawal of automotive manufacturing from Australia and the policy decision to conclude the ATS in 2018:

7 Productivity Commission, *Australia's automotive manufacturing industry*, Inquiry report 70, 31 March 2014, pp. 108–12; Parliamentary Library, *Bills Digest no. 36*, 17 October 2014, p. 3.

8 Department of Industry, *Key Automotive Statistics 2012*, in *Automotive Manufacturing Productivity Commission, Australia's automotive manufacturing industry*, Inquiry report 70, 31 March 2014, p. 42.

9 The Hon Joe Hockey MP, Shadow Treasurer, and the Hon Andrew Robb AO MP, Shadow Minister for Finance, Deregulation and Debt Reduction, *Joint Media Release - Hockey, Robb - Coalition's responsible budget savings*, 28 August 2013, <http://www.joehockey.com/media/media-releases/details.aspx?r=336> (accessed 12 November 2014); Parliamentary Budget Office (PBO), *Post-election report of election commitments: 2013 general election*, PBO, Canberra, 2013, p. 41.

10 The Hon Joe Hockey MP, Treasurer and the Hon Mathias Cormann MP, Minister for Finance, *Mid-year economic and fiscal outlook 2013–14*, December 2013, p. 170.

11 *ibid.*

12 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).

13 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).

In light of the decisions by the local car makers to cease manufacturing in Australia by the end of 2017, the Government determined that it was appropriate to terminate the ATS on 1 January 2018, which was announced in the May 2014 Budget. The three local car manufacturers, Ford, Holden and Toyota, have made it clear that the level of government support was not the reason for their decision to cease manufacturing cars in Australia.¹⁴

Productivity Commission inquiry

2.9 In June 2013, the Coalition, then in opposition, announced that it would, if elected to office, proceed immediately to request the Productivity Commission (PC) to review the automotive sector in Australia. It would do so in order to ensure there was 'a sensible evidence based approach to taxpayer funded subsidies as well as better funding benchmarks aimed at the long term viability of the industry'.¹⁵

2.10 The PC's report was released on 26 August 2014. The PC reported that:

Industry-specific assistance provided under the ATS imposes considerable costs on taxpayers and other parts of the Australian economy. Further, the ongoing nature of assistance provided by the ATS (and its predecessor, the Automotive Competitiveness and Investment Scheme) partly shields firms from competitive pressures, and may result in firms making decisions that are not based on a business case that is sound over the long term.¹⁶

2.11 Release of the report followed a statement by Ford in May 2013 that it would cease automotive manufacturing in Australia by the October 2016.¹⁷ General Motors (for Holden)¹⁸ and Toyota made similar announcements in December 2013 in February 2014, stating that they were reducing local production in preparation for closure by the end of 2017.¹⁹ The committee is advised that Ford and Holden have committed to maintaining their significant design and development facilities in Australia.²⁰

14 Senator the Hon Michael Ronaldson, Minister for Veterans' Affairs, Minister Assisting the Prime Minister for the Centenary of ANZAC and Special Minister of State, *Senate Hansard*, 2 October 2014, p. 7719.

15 Liberal Party of Australia, *The Coalition is committed to the car industry*, <http://www.liberal.org.au/latest-news/2013/06/13/coalition-committed-car-industry> (accessed 15 November 2014).

16 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 14.

17 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 3.

18 http://www.toyota.com.au/toyota/sustainability/cms/download/Toyota_Manufacturing.pdf (accessed 12 November 2014).

19 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 3.

20 Federal Chamber of Automotive Industries, *Submission 13*, p. 7.

2.12 The PC reported that 'the impending closures [would] fundamentally reshape the industry'.²¹ It calculated that the closure would have a direct effect on 'about 6600' employees of Ford, Holden and Toyota.²² More broadly, the report estimates 'that up to 40,000 employees associated with automotive manufacturing may lose their jobs... staggered over several years'.²³ Areas most affected included North Adelaide, parts of Melbourne and Geelong where 'high rates of unemployment and social disadvantage in some of these regions will likely exacerbate adjustment costs'.²⁴

2.13 In light of the announcement by Toyota that, like Holden, they intended to manufacture motor vehicles in Australia until the end of 2017, the PC expressed a view that:

... the Australian Government's announced ATS savings in the 2013–14 Mid-Year Economic and Fiscal Outlook (MYEFO) would add little to the risk of earlier motor vehicle plant closures. Further, component manufacturers would be expected to receive more than 80 per cent of the payments that they would have received under the legislated funding schedule between 2014 and 2017. In the Commission's view, therefore, any adjustment costs associated with implementing the MYEFO funding schedule are likely to be limited and there would be net benefits to the Australian community from the resultant savings.

There are compelling arguments to close the ATS when the three motor vehicle producers cease manufacturing in Australia. The Department of Industry considers it is unlikely that there will be any eligible claimants on ATS funding after the three plants close. The Commission's view is that the ATS legislation should be repealed at that time. Repeal would remove the associated administrative costs, and would deter other parts of the industry from lobbying for access to the pool of unused funds.²⁵

2.14 With regard to component manufacturing and related industries, the PC concluded that it:

...does not consider that component manufacturers, or others in the automotive manufacturing supply chain, warrant industry support of any

21 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 3.

22 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 34.

23 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 34.

24 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 34.

25 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 15.

greater magnitude than other businesses elsewhere in the economy threatened with closure or under intense competitive pressure.²⁶

2.15 The PC report made a number of findings relating to the automotive manufacturing industry in Australia including that:

The policy rationales for providing industry-specific assistance to the Australian automotive manufacturing industry are weak [Finding 3.2]

The Australian automotive manufacturing industry is one of the most heavily assisted industries in the country. The Commission's estimates of net combined assistance suggest that about \$30 billion (2011–12 dollars) was provided to the automotive manufacturing industry between 1997 and 2012. [Finding 4.1]²⁷

2.16 The PC recommended that:

The Australian Government should repeal the *Automotive Transformation Scheme Act 2009* (Cwlth) after Ford, Holden and Toyota have ceased manufacturing motor vehicles in Australia.²⁸

2.17 The Australian Government responded in line with the PC's recommendation, stating that:

In light of the decision by Ford, Holden and Toyota to cease motor vehicle manufacturing in Australia by the end of 2017, there is no sound policy rationale to maintain the ATS beyond 2017.²⁹

National Commission of Audit

2.18 The Treasurer, the Hon Joe Hockey MP, and Minister for Finance, Senator the Hon Mathias Cormann, announced a National Commission of Audit on 22 October 2013 as an independent body to review and report on the performance, functions and roles of the Commonwealth government.³⁰ The National Commission of Audit, chaired by former Chair of the Business Council of Australia, Mr Tony Shepherd AO, was given:

26 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 16.

27 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 34.

28 Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, p. 32 (Recommendation 5.1).

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

30 Australian Government National Commission of Audit, <http://www.ncoa.gov.au/index.html> (accessed 13 November 2014).

...a broad remit to examine the scope for efficiency and productivity improvements across all areas of Commonwealth expenditure, and to make recommendations to achieve savings sufficient to deliver a surplus of 1 per cent of GDP prior to 2023–24.³¹

2.19 The National Commission of Audit received over 250 submissions and made 86 recommendations in its report *Towards Responsible Government*, released in two phases and three volumes of appendix between February and April 2014. The recommendations offered the government 'savings estimated at \$60 to \$70 billion per year within ten years,'³² including by changing the government's response to the provision of industry assistance. Volume 2 of the report's appendix made the following recommendation about industry assistance:

Rather than relying on industry assistance, commercial discipline drives firms to reduce costs and improve quality to better meet customer demands. The Commission recommends significant changes be made to the approach to industry assistance in Australia including:

- a) limiting assistance to areas of genuine market failure and occasional transitional assistance to deal with genuine structural change. In all instances the benefit of government intervention must outweigh the costs;
- b) rationalising, phasing out, abolishing or reducing funding for 22 existing industry assistance programmes;
- c) amending Australia's anti-dumping system to include an improved public interest test so that dumping protection is only implemented if the benefits to the affected industry clearly exceed the costs to other industries and Australian consumers; and
- d) the Government continuing its drive to reduce the cost of doing business in Australia in such areas as labour market reform, deregulation, energy policy and provision of economic infrastructure [Recommendation 32].

2.20 The National Commission of Audit considered that 'Government should act in the public interest and only intervene in markets where market solutions clearly fail to produce the best outcome'.³³ It identified the automotive transformation scheme as

31 Australian Government National Commission of Audit, Terms of reference, http://www.ncoa.gov.au/docs/NCA_TERMS_OF_REFERENCE.pdf (accessed 13 November 2014).

32 *National Commission of Audit Releases Review of the Activities of the Commonwealth Government*, media release, <http://www.ncoa.gov.au/media-release.html> (accessed 13 November 2014).

33 The National Commission of Audit noted Productivity Commission findings that the equivalent of around \$30 billion (2011-12 dollars) was provided to the automotive industry between 1997 and 2012 in the form of tariffs and various subsidies. National Commission of Audit, Appendix Volume 2, <http://www.ncoa.gov.au/report/appendix-vol-2/10-1-industry-assistance.html> (accessed 14 November 2014).

one of 'a number of programmes where there is no genuine market failure and where the benefits accrue entirely or largely to the firm or industry supported'.³⁴

2.21 The government responded to the National Commission of Audit report on 13 May 2014, describing it as 'an important input to the Government's considerations... when preparing the 2014–15 Budget'.³⁵ The government stated that the recommendation for reform in relation to industry assistance 'is in the 2014–15 Budget'.³⁶

34 The National Commission of Audit noted Productivity Commission findings that the equivalent of around \$30 billion (2011-12 dollars) was provided to the automotive industry between 1997 and 2012 in the form of tariffs and various subsidies. National Commission of Audit, Appendix Volume 2, <http://www.ncoa.gov.au/report/appendix-vol-2/10-1-industry-assistance.html> (accessed 14 November 2014).

35 The Hon Joe Hockey MP, Treasurer and the Hon Mathias Cormann MP, Minister for Finance, *Our response to the National Commission of Audit report*, media release, 13 May 2014 http://www.financeminister.gov.au/media/2014/mr_2014-46.html (accessed 14 November 2014).

36 The Hon Joe Hockey MP, Treasurer and the Hon Mathias Cormann MP, Minister for Finance, *Our response to the National Commission of Audit report*, media release, 13 May 2014 http://www.financeminister.gov.au/media/2014/mr_2014-46.html (accessed 14 November 2014).

