



27 October 2014

Senate Standing Committee on Economics
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Dear Secretariat

We thank the Committee for the opportunity to comment on the Automotive Transformation Scheme Amendment Bill.

The Australian Industry Group represents both automotive assemblers and component manufacturers, who are currently dealing with the closure of their industry in a relatively short span of time. We recognise the transition assistance provided to the automotive sector by the Federal Government together with the Victorian and South Australian state governments through the \$155mn Industry Growth Fund. However, the proposed legislative changes contained in this Bill, which would cut \$500mn of funding from the Automotive Transformation Scheme over the period 2014-15 to 2017-18 and terminate the program from 2018, would be to the significant detriment to all of our automotive members.

Our automotive component members have stressed that although the three automotive assemblers have given notice of their plans to cease all assembly operations in Australia by 2017, they are already winding down their local production in preparation for their final closure. This is having a significant, negative effect on current levels of demand for automotive components. Further, if this final adjustment phase is not managed carefully and the supply chain cannot be kept intact, there is a very high risk that all automotive assembly in Australia could end well before the final dates announced by Ford, GM Holden and Toyota. For the components suppliers, this situation is serious and urgent.

Ai Group strongly believes government funding approvals and commitments that have already been made must be honoured, in the interests of promoting trust and certainty in industry policy. Clearly, the detail of the ATS must now be revised in response to these new challenges. As we argued in our second submission to the Productivity Commission (attached) and notwithstanding the Industry Growth Fund grants, Ai Group recommends that the remaining ATS funds be redirected to:

- Assist Tier 1, 2 and 3 automotive companies make the necessary transition to new markets and/or industries, focusing especially on the Tier 2 and 3 companies who are more likely to remain committed to operating in Australia; and

- Promote longer-term resilience and diversification among business and industry that will extend well beyond the end of Australian automotive assembly from 2017.

Ai Group believes the Government can play a constructive role in the industry transition underway for these automotive component suppliers by ensuring they are given time to restructure and diversify their businesses and maintaining the ATS funds would enable them to do so together with the Industry Growth Fund initiatives. We understand that it is inevitable that some businesses will close, but speaking with our members, we know there are suppliers that can survive and continue to manufacture and employ locally if the transition in the industry is managed well.

Elsewhere in the manufacturing and industrial sectors, the flow-on effects of the plight of the automotive components manufacturers is already being felt. This means that policies need to be developed and implemented that will strengthen the remainder of our industrial sector and we welcome the policies announced as part of the Government's *Industry Innovation and Competitiveness Agenda*. Such policies are vital to ensure the Australian economy has the resilience and diversity it needs in order to prosper into the future.

Ai Group has made several submissions canvassing the challenges facing the automotive sector highlighted in this letter. We have attached our two submissions made to the Productivity Commission, as well as our response to the final report by the Productivity Commission.

Yours faithfully

Innes Willox
Chief Executive