Automotive Transformation Scheme Amendment Bill 2014

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Economics Section

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Date introduced: 24 September 2014

House: House of Representatives
Portfolio: Industry
Commencement: On Royal Assent.

Links: The links to the Bill, its Explanatory Memorandum and second reading speech can be found on the Bill’s home page, or through the Australian Parliament website.

When Bills have been passed and have received Royal Assent, they become Acts, which can be found at the Comlaw website.
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The Bills Digest at a glance

The Automotive Transformation Scheme (ATS), established by the Automotive Transformation Scheme Act 2009 provides for, amongst other things, payments to the automotive industry by way of grants being:

- total capped assistance of $1.5 billion from 2011 to 2015
- total capped assistance of $1 billion from 2016 to 2020 and
- total uncapped assistance of approximately $850 million from 2011 to 2020.

The Automotive Transformation Scheme Amendment Bill 2014 (the Bill) amends the Automotive Transformation Scheme Act to make two reductions.

The first is a measure included in the 2013–14 Mid-Year Economic and Fiscal Outlook (MYEFO), which will reduce the ATS capped component by $500 million over the 2015–2017 calendar years. Some stakeholders have expressed concerns that this reduction may worsen the impact of the industry’s closure, or cause early closure, ahead of the announced 2017 dates.

The second reduction to the ATS capped component was announced in the 2014–15 Budget: closing the ATS capped component from 2018, thereby saving $400 million. This reflects the fact that there are likely to be no claims for ATS capped funding after 2017.

Background

The Commonwealth Government provides assistance to the automotive manufacturing industry through direct budgetary assistance and tariff protection. The ATS is a key component of direct budgetary assistance to the industry. The ATS was announced in November 2008, as part of the A New Car Plan for a Greener Future package for the automotive industry, replacing the existing Automotive Competitiveness and Investment Scheme (ACIS).

The ATS and its predecessor the ACIS were intended to assist the automotive manufacturing industry to adjust to increasing competition as tariff barriers on vehicle imports were reduced. As currently legislated, the ATS provides grants to eligible industry participants, through both capped assistance (a total of $2.5 billion between 2011–2021), and uncapped assistance.

In the lead up to the 2013 election, the Coalition announced its intention to reduce assistance under the ATS capped component by $500 million. This reduction in ATS funding was included as a measure in the 2013–14 MYEFO presented on 17 December 2013.

Productivity Commission inquiry

In May 2013 Ford announced an end to nearly 100 years of manufacturing in Australia. In response to ongoing concerns about the viability of Australia’s other two automotive manufacturers, Holden and Toyota, the

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3. Ibid., pp. 130–144.
5. For a more detailed discussion of this issue, see the Productivity Commission, Australia’s automotive manufacturing industry, Inquiry report 70, op. cit., pp. 108–112.
6. Ibid., pp. 130–135. Under section 8 of the Automotive Transformation Scheme Act, the total of $2.5 billion represents $1.5 billion in the stage 1 capped component, and $1 billion in the stage 2 capped component.
7. J Hockey (Shadow Treasurer) and A Robb (Shadow Minister for Finance, Deregulation and Debt Reduction), Coalition policy costings and savings, joint media release, 28 August 2013; Parliamentary Budget Office (PBO), Post-election report of election commitments: 2013 general election, PBO, Canberra, 2013, p. 41, accessed 7 October 2014. No modifications to uncapped assistance have been announced, or included in this Bill.
Treasurer commissioned the Productivity Commission to undertake an inquiry into public support for Australia’s automotive manufacturing industry stating:

Australian and State Government support for the automotive manufacturing industry is provided through the current Automotive Transformation Scheme, which provides assistance in respect of production and support for research and development and capital investment, through ad hoc grants provided to vehicle and component manufacturers, through tariffs and through relief from some state taxes.

With the withdrawal of some manufacturers from local production in Australia, recent uncertainty surrounding tax policies affecting the industry, variability in exchange rates and the increasing openness of Australia’s automotive retail market, the circumstances under which assistance is provided to the industry warrant review.

However, before the Productivity Commission could report formally, General Motors announced in December 2013 that Holden would cease motor vehicle manufacturing in Australia in 2017.\textsuperscript{12} Toyota made a similar announcement in February 2014.\textsuperscript{13}

During its inquiry, the Productivity Commission considered the impact of the MYEFO cuts. A position paper released 31 January 2014 (after GM Holden’s announcement, but before Toyota’s announcement) suggested that MYEFO funding reductions might result in earlier plant closures by Ford and Holden.\textsuperscript{14} While some stakeholders supported this view (see \textit{Position of major interest groups}, below), the Productivity Commission’s final report (completed in March 2014 and released in August 2014) concluded that the MYEFO reductions were unlikely to result in significant additional impacts on the industry.\textsuperscript{15}

The final Productivity Commission report recommended that the Government should repeal the Automotive Transformation Scheme Act after motor vehicle manufacturing by Ford, Holden and Toyota had ceased in Australia.\textsuperscript{16} Consistent with that recommendation the Government announced in the 2014–15 Budget that the ATS would no longer be available from 2018.\textsuperscript{17}

This Bill enacts the reductions announced in the 2013–14 MYEFO, and in the 2014–15 Budget.

\textbf{Committee consideration}

\textbf{Senate Standing Committee on Economics}

The Bill has been referred to the Senate Standing Committee on Economics for inquiry and report by 24 November 2014.\textsuperscript{18} At the time of writing this Bills Digest, the Committee had not received any submissions.

\textbf{Senate Standing Committee for the Scrutiny of Bills}

The Senate Standing Committee for the Scrutiny of Bills considered the Bill at its meeting on 1 October 2014 but had no comment on the Bill.\textsuperscript{19}

\begin{footnotes}
\item[	extsuperscript{10}] M Dunckley, ‘\textit{Ford’s exit will hurt: Holden boss},’ \textit{The Australian Financial Review}, 22 June 2013, p. 2; M Kenny and S Ottley, ‘\textit{Ford pullout sparks worry industry is finished},’ \textit{The Sydney Morning Herald}, 25 May 2013, p. 4, accessed 7 October 2014.
\item[	extsuperscript{11}] J Hockey (Treasurer) and I MacFarlane (Minister for Industry), \textit{Commission commences consideration of automotive industry support}, joint media release, 30 October 2013, accessed 7 October 2014.
\item[	extsuperscript{12}] D Crowe, ‘\textit{Coalition tactics forced General Motors to act},’ \textit{The Australian}, 12 December 2013, p. 6, accessed 7 October 2014.
\item[	extsuperscript{13}] R Wallace, ‘\textit{Toyota to stop making cars in Australia, follows Ford and Holden},’ \textit{The Australian} (online), 10 February 2014, accessed 7 October 2014.
\item[	extsuperscript{14}] Productivity Commission (PC), ‘\textit{Australia's automotive manufacturing industry},’ PC website; Productivity Commission (PC), \textit{Australia's automotive manufacturing industry}, Position paper, PC, January 2014, p. 13, accessed 25 September 2014.
\item[	extsuperscript{15}] PC, \textit{Australia's automotive manufacturing industry}, op. cit., p. 139.
\item[	extsuperscript{16}] Ibid., p. 144.
\item[	extsuperscript{18}] Details of the relevant terms of reference, submissions to the Economics Committee and the final report (when published) are on the \textit{inquiry homepage}, accessed 7 October 2014.
\item[	extsuperscript{19}] Senate Standing Committee for the Scrutiny of Bills, \textit{Alert Digest No. 13 of 2014}, The Senate, Canberra, 1 October 2014, p. 7, accessed 9 October 2014.
\end{footnotes}
Parliamentary Joint Committee on Human Rights

In its report of 1 October 2014 the Parliamentary Joint Committee on Human Rights noted that it considered that the Bill is compatible with human rights.20

Statement of Compatibility with Human Rights

As required under Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011 (Cth), the Government has assessed the Bill’s compatibility with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of that Act.21 The Government considers that the Bill is compatible.

Policy position of non-government parties/independents

The Bill was introduced into the House of Representatives on 24 September 2014 and was agreed to on 2 October 2014.22 The Bill was introduced in the Senate on the same day.

Australian Labor Party

The Australian Labor Party voted against the Bill in the House of Representatives.23 During the debate on the Bill, Kate Ellis stated:

... this is a bill that spells disaster for the 200,000 Australian men and women who rely directly and indirectly on the automotive manufacturing industry for their jobs ... If passed, this bill will likely lead to the early closure of Holden, crippling South Australia’s economy further and leaving companies and workers in the wilderness much sooner than they were promised.24

Australian Greens

Australian Greens member Adam Bandt also voted against the Bill in the House of Representatives.25 He stated that:

... cutting the subsidy early may have the effect of hastening significant unemployment for tens of thousands of people who work not just for the car makers but for the components manufacturers as well. That puts them in a very difficult position, because people are relying on this next couple of years to diversify their companies.26

Independents

Katter’s Australia Party leader Bob Katter voted against the Bill in the House of Representatives.27

Whilst no debate has yet occurred in the Senate, Senator Nick Xenophon has expressed opposition to the ATS cuts.28 Similarly Senator John Madigan has stated that component manufacturing companies should continue to receive ‘similar levels of government support’.29

In an interview, Senator Ricky Muir stated that:

As far as the Automotive Transformation Scheme and making sure there’s a transitional period for employees, that is something we’re working on. We’re having conversations with both the government, the cross benchers and opposition and speaking to the industry, so it is something we are very interested in supporting.30

21. The Statement of Compatibility with Human Rights can be found at page 2 of the Explanatory Memorandum to the Bill.
29. J Madigan, An Ad-Hockey Budget that is hostile to families, media release, 13 May 2014, 7 October 2014.
Position of major interest groups

The Senate Economics Committee inquiry into the Bill has not yet received any submissions published all submissions. However, during the Productivity Commission inquiry, a number of submissions (made after the Holden closure announcement, and in most cases after the Toyota closure announcement) discussed the impact of the MYEFO cuts (which will reduce the funding levels between 2015 to 2017). They highlighted a number of concerns, including:

• whether cuts to the ATS prior to the announced closures would precipitate earlier closures
• whether the cuts would impede a smooth transition process to eventual plant closures and
• whether the cuts to the ATS would create a funding gap which would be a catalyst for business failures—particularly in relation to the overall automotive supply chain.

BusinessSA

BusinessSA was concerned about the impact of potential cuts to the ATS. In its submission to the Productivity Commission BusinessSA stated:

Given there is now an end date for auto-manufacturing in Australia, the focus of Government policy now needs to be on ensuring that any changes to the Automotive Transformation Scheme (ATS) funding do not further impede the transition that auto companies will have to begin over the next four years ...

Business SA agrees that any significant reduction of subsidy funding (as outlined in the MYEFO estimates) during the next critical few years of transition could result in adjustment costs greater than the savings benefits to Government .... These [MYEFO] savings should not be followed by additional cuts during that early period, given it will discourage innovation, research and development and impede the diversification of auto component companies away from locally based auto manufacturing.31

Federal Chamber of Automotive Industries

The Federal Chamber of Automotive Industries (FCAI) argued that:

... the FCAI is strongly of the view that this [the profile of the MYEFO cuts] is likely to precipitate an early closure of the entire automotive industry, particularly through increased financial pressure on the supply chain that have already factored in the ATS to their long-term business and investment decision-making process. Undermining this certainty will bring forward the early closure of the supply chain and the closure of the three domestic manufacturers.32

An FCAI press release following the introduction of the Bill stated it was ‘important the Government realised the impact any cut to the Scheme would have on the Australian automotive supply chain, who have already factored ATS funding into their long-term business plans’.33

Ford Motor Company of Australia

The Ford Motor Company of Australia stated in January (after GM Holden’s closure announcement but prior to the announcement by Toyota) that:

... the large reduction in ATS funding in 2015 results in a considerable industry-wide funding gap that could become a catalyst for business failures within the supply chain with the potential to directly impact the viability of local manufacturing and possibly lead to earlier than intended plant closures. Ford Australia supports calls for a more

linear approach to reductions in ATS funding in 2015–17 to ensure the industry is able to adequately adjust during a critical transition period. Given the recent manufacturing announcements by both Holden and Toyota, it may be possible for the Federal Government to bring forward ATS funding from 2018–20 to fill the gaps and ensure a smooth industry transition.34

**Government of South Australia**

In its submission to the Productivity Commission (made after the closure announcements), the Government of South Australia recommended that ‘the Australian Government reinstate the $500 million removed from the ATS thereby reducing the risk of earlier plant closures by Ford, GM Holden and Toyota at a time of already major structural change’.35

**Financial implications for the Commonwealth**

The Bill will result in savings to the Commonwealth of $608.35 million over the forward estimates, and $900 million in total, as set out in the Table below. As outlined further below (and in the Appendix to this Bills Digest), the amounts specified in financial years do not match how funding is allocated under the ATS on a calendar year basis.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Financial impact ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MYEFO savings</td>
<td>-100</td>
</tr>
<tr>
<td>Budget savings</td>
<td>-</td>
</tr>
</tbody>
</table>


**Special appropriations**

The *Automotive Transformation Scheme Act* includes a special appropriation (section 10), which specifies that ‘capped assistance under the Automotive Transformation Scheme is to be paid out of the Consolidated Revenue Fund, which is appropriated accordingly’.36 By reducing the amount of funding available under the capped component of the ATS, this Bill also reduces the special appropriation in the *Automotive Transformation Scheme Act*.

**Key provisions**

The provisions in the Bill amend the *Automotive Transformation Scheme Act* to reduce the amount of funding provided under the capped component of the ATS, and reduce the period over which the ATS will operate.

The *Automotive Transformation Scheme Act* establishes the ATS so that it takes place in two stages. Section 4 defines **stage 1** as:

(a) the period beginning on 1 January 2011 and ending on 31 December 2015; and  
(b) January, February and March 2016.

**Stage 2** is defined as:

(a) the period beginning on 1 January 2016 and ending on 31 December 2020; and  
(b) January, February and March 2021.

Item 1 modifies the end date of stage 2, by changing the final year from 2020 to 2017. Item 2 reflects this change to the stage 2 end date, by changing the final transitional period from 2021 to 2018.\(^{37}\)

Section 8 of the *Automotive Transformation Scheme Act* sets out the amount of capped assistance under the ATS for each stage. Subsection 8(1) provides that the total amount of capped assistance under the ATS must not exceed:

(a) for stage 1—$1.5 billion; and

(b) for stage 2—$1 billion.

Item 3 reduces funding available under stage one of the ATS’s capped component from $1.5 billion to $1.3 billion. Item 4 of the Bill amends paragraph 8(1)(b) of the *Automotive Transformation Scheme Act* to reduce funding available under stage two of the ATS’s capped component from $1 billion to $300 million.

**Key Issue—financial implications to the automotive industry**

Table 2 below shows the overall changes to the funding of the ATS which are proposed in the Bill; capped payments will be reduced, including prior to the closure of the automotive industry in 2017.

**Table 2**

<table>
<thead>
<tr>
<th>Stage</th>
<th>As legislated</th>
<th>If amended by the Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Time-frames (a)</td>
<td>$ billion</td>
</tr>
<tr>
<td>1</td>
<td>2011–2015</td>
<td>1.5</td>
</tr>
<tr>
<td>2</td>
<td>2016–2020</td>
<td>1.0</td>
</tr>
<tr>
<td>Combined stage 1 &amp; 2</td>
<td>2011–2020</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Sources: *Automotive Transformation Scheme Act 2009*, sections 4 and 8; *Automotive Transformation Scheme Amendment Bill 2014*, sections 1–4. Notes: (a) The final year for both stages one and two includes the three months of the subsequent year. For example although stage one finishes in 2015, the legislation also covers January—March 2016, to enable payments to be made to cover the final quarters of 2015 (Explanatory Memorandum, *Automotive Transformation Scheme Amendment Bill 2014*, p. 1).

Figure 1 demonstrates the funding gap which emerges in 2015 as a result of the MYEFO cuts. This is the gap which stakeholders were concerned might precipitate earlier closures within the automotive industry as participants who had budgeted for a longer transition away from the ATS experience a funding shortfall.

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37. ATS payments are made quarterly in arrears; a payment for an eligible investment made in the last quarter of 2017 ‘will not be made until March 2018’; for that reason the legislation covers the first three months of the year after the final year (that is, Jan-March 2018 or 2021; Explanatory Memorandum, *Automotive Transformation Scheme Amendment Bill 2014*, p. 1, accessed 9 October 2014).
Figure 1  
Funding amounts under the current legislation, and after the changes in the Bill


However, while the funding in the 2015 calendar year may be cut to $100 million, the actual disbursement may be higher; the ATS capped component allows funding which is not disbursed in one year to be rolled forward to a subsequent year. The Department of Industry’s projections suggest that around $160 million will be disbursed in 2015 (see below).

The 2013–14 MYEFO cuts and possibility of early closures

The reductions included in the 2013–14 MYEFO were initially announced prior to the election, and involve a $500m reduction to the capped component, across stages one and two, between 2014–15 to 2017–18. Based on data provided by the Department of Industry to the Productivity Commission, it appears that the cuts will fall in the 2015–2017 calendar years. The Figure below shows historical disbursed amounts, and the Department of Industry’s projections for capped ATS payments to 2017, under the legislated schedule and under the MYEFO measure.

38. Automotive Transformation Scheme Act, subsection 8(3).
40. J Hockey (Shadow Treasurer) and A Robb (Shadow Minister for Finance, Deregulation and Debt Reduction), Coalition policy costings and savings, op. cit.; Parliamentary Budget Office (PBO), Post-election report of election commitments: 2013 general election, op. cit., p. 41.
In its position paper (released 31 January 2014; after Holden’s announcement but prior to Toyota’s), the Productivity Commission had commented that:

While the effect of the MYEFO funding schedule on adjustment costs is unclear, the uneven funding profile could elevate the risk of earlier plant closures by Ford and Holden and might negatively affect investment decisions by Toyota and its component suppliers. The changes to the legislated funding schedule could therefore result in costs greater than the savings benefits by front-loading large, simultaneous adjustment costs throughout the automotive manufacturing industry. The announced savings will potentially elevate policy uncertainty for the automotive manufacturing industry at a time of already major structural change. A smoother reduction profile would delay the savings benefits, but may also reduce adjustment costs.\(^{42}\)

A number of stakeholders supported this view (see Position of major interest groups, above). Writing after the closure announcements by Holden and Toyota, the Federal Chamber of Automotive Industries argued that the MYEFO cuts could result in early factory closures, prior to the planned 2017 closures. Their submission stated:

... the FCAI is strongly of the view that this [the profile of the MYEFO cuts] is likely to precipitate an early closure of the entire automotive industry, particularly through increased financial pressure on the supply chain that have already factored in the ATS to the their long-term business and investment decision-making process. Undermining this certainty will bring forward the early closure of the supply chain and the closure of the three domestic manufacturers.\(^{43}\)

However, in its final report, the Productivity Commission concluded that although the MYEFO cuts would result in less funding provided to manufacturers and component suppliers,\(^{44}\) the overall cuts were appropriate:

... the implementation of the MYEFO funding schedule would add little to the risk of earlier motor vehicle plant closures ... component producers 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. 45

2014–15 Budget cuts—end of the ATS

In the 2014–15 Budget the Government announced its intention to close the ATS from 2018, ‘to reflect announcements by vehicle manufacturers that they will cease vehicle manufacturing in Australia by the end of 2017’. 46 Closing the ATS from 2018 is expected to save $400m. The Productivity Commission noted that the ‘Department of Industry considers it unlikely that there will be any eligible claimants on ATS funding after the three plants close’. 47

Assistance to the automotive industry

The Productivity Commission included an extensive examination of a number of industry assistance issues in its final inquiry report. It identified a number of arguments put forward to support automotive industry assistance, including:

• the benefit of spill-overs, or benefits to the economy through mechanisms such as skills transfers, diffusion of management techniques, and new innovation as a result of industry R&D 48

• industry linkage or multipliers—the additional economic activity generated as a result of the automotive manufacturing industry 49 and

• the need to compete with other countries, in attracting investment. 50

Despite the views of a number of stakeholders, the Productivity Commission argued that there was not a strong policy rationale for specific assistance to automotive manufacturers. 51

Conclusion

Ford had already announced its intention to cease manufacturing motor vehicles in Australia at the time that the Government included its proposed cuts to the ATS in the 2013–14 MYEFO. Since MYEFO, Holden and Toyota have also decided to cease motor vehicle production in this country in 2017.

This Bill amends the Automotive Transformation Scheme Act to enact the 2013–14 MYEFO cuts as well as additional cuts to the ATS which were announced in the 2014–15 Budget. The effect of the amendments will be to cut funding in the 2015–2017 calendar years, and bring the ATS to an end from 2018. The amendments are consistent with the recommendation of the Productivity Commission that there was not a strong policy rationale for providing specific financial assistance to automotive manufacturers. However, critics remain concerned that the cuts, and in particular the timing of the cuts to the ATS:

• will precipitate the earlier closure of car manufacturers in Australia

• will impede a smooth transition process to eventual plant closures and

• will create a funding gap which would be a catalyst for business failures—particularly in relation to the overall automotive supply chain.

45. Ibid., p. 139.
47. PC, Australia’s automotive manufacturing industry, op. cit., p. 139.
48. Ibid., p. 85.
49. Ibid., pp. 90–92.
50. Ibid., pp. 92–98.
51. Ibid., pp. 104–105.
Appendix: Funding amounts

This Appendix summarises the information available on the various amounts and estimates in relation to the ATS. There are a number of factors which complicate this, including:

- adjustments in different budget measures
- some sources specify calendar years, while others specify financial years
- the amount of funding available in a given year may exceed the legislated cap, as funding is brought forward from previous years
- disbursed amounts may be lower than the funding available in a given period.

Table 1 sets out information from a number of sources on the amount of funding available, and the Department of Industry’s projections for likely disbursement provided to the Productivity Commission. The funding amounts do not include any unspent funding rolled forward; this may be a significant component in 2015 (up to $63 million).

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>Funding (a)</th>
<th>Payments (e)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Legislated (b)</td>
<td>After MYEFO cuts (c)</td>
</tr>
<tr>
<td>2011</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>2012</td>
<td>300</td>
<td>300</td>
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<td>2013</td>
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<tr>
<td>2018</td>
<td>216.7</td>
<td>216.7</td>
</tr>
<tr>
<td>2019</td>
<td>133.3</td>
<td>133.3</td>
</tr>
<tr>
<td>2020</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>2,500</td>
<td>2,000</td>
</tr>
</tbody>
</table>

Sources and notes: (a) Funding amounts specified here do not include unspent amounts rolled forward in previous years; that is, for 2015 the projected disbursement likely reflects both the funding available, and the unspent amounts rolled forward from previous years.
(b) *Automotive Transformation Scheme Regulations 2010*, 3.9.
(f) The Department of Industry’s projections were made after the closure announcements, so assume that no ATS claims will be made from 2018 onwards under any scenario (*Australia’s automotive manufacturing industry*, op. cit., p. 134).

53. Parliamentary Library estimates based on Department of Industry, quoted in Productivity Commission, *Australia’s automotive manufacturing industry*, op. cit., p. 135. The Department of Industry projects $163 million in disbursements in 2015, while the funding profile suggests $100 million in funding; the difference is the unspent amount from previous years, brought forward.
Automotive Transformation Scheme Amendment Bill 2014

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