



The Hon Chris Bowen MP
Assistant Treasurer
Minister for Competition Policy and Consumer Affairs

Mr Gary Banks AO
Chairman
Productivity Commission
Locked Bag 2, Collins St
East Melbourne VIC 8003

Dear Mr Banks

Pursuant to Section 20 of the *Productivity Commission Act 1998*, I am writing to ask the Productivity Commission to undertake modelling on the economy-wide effects of future assistance options for the Review of Australia's Automotive Industry (the Review).

I attach a letter from the Leader of the Review, the Hon Steve Bracks, with eight suggested scenarios for the Commission to model. Modelling these scenarios will assist the Review Panel to assess various policy options, foster public debate and inform the Government's deliberations in this area. The Commission should feel free to consult with the Review Panel directly to discuss the details of the task.

I ask that the Commission report to the Government with its findings by the end of May 2008. In keeping with the Government's interests of sustaining a full, open and frank assessment of the challenges currently facing the industry, this report should be published by the Commission at that time.

Yours sincerely

CHRIS BOWEN

enc.

cc: Treasurer; Minister for Innovation, Industry, Science and Research

**REVIEW OF
AUSTRALIA'S AUTOMOTIVE INDUSTRY**

innovation.gov.au/automotivereview

31 March 2008

The Hon Chris Bowen MP
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Dear Assistant Treasurer

On 14 February 2008 the Minister for Innovation, Industry, Science and Research, Senator the Hon Kim Carr, announced a comprehensive Review of Australia's automotive industry. Mr Carr also announced that I would be Chair of the Review and would be supported by an expert panel comprising Mr Tim Harcourt, Mr Peter Upton, Dr Elizabeth Webster and Mr Nixon Apple.

In announcing the Review, Senator Carr noted the Government would separately request the Productivity Commission to undertake modelling on the economy-wide effects of future assistance options, and that this would be released publicly to help inform the panel's examination of the industry and the Government's deliberations in this area.

As such, I am writing to inform you of the policy options that the Automotive Review Panel would like the Government to ask the Productivity Commission to model. The policy options cover the gamut of possible automotive assistance arrangements, from the removal of all support to the provision of additional support, both through maintaining the current levels of tariff protection and increasing funding under the Automotive Competitiveness and Investment Scheme (ACIS).

At the outset, the Panel would like the base-case scenario to be the current automotive industry support arrangements. That is, a reduction in the passenger motor vehicle and parts thereof tariffs from 10 percent to 5 percent on 1 January 2010. The light commercial vehicle and parts thereof tariff would remain at 5 percent from 1 January 2010. The base-case scenario would include the current tariff arrangements under Australia's negotiated free trade agreements (FTAs). The base-case scenario would also include the current ACIS funding arrangements as well as the introduction of the Green Car Innovation Fund in 2011.

Possible scenarios that the Productivity Commission could be asked to be modelled include:

- The base case scenario as outlined above. This being the current automotive industry support arrangements which includes the tariff reduction on 1 January 2010, the change to ACIS funding under Stage 3 and the introduction of the Green Car Innovation Fund;

- Reducing the passenger motor vehicle and parts thereof tariff to 5 percent on 1 January 2010 but increasing support under current ACIS arrangements (ie, through the issuance of duty credits);
- Reducing the passenger motor vehicle and parts thereof tariff to 5 percent on 1 January 2010 but increasing support under different ACIS arrangements (ie, through the issuance of grants);
- Maintaining the passenger motor vehicle and parts thereof tariff at 10 percent post-2010 and maintaining the current ACIS support arrangements;
- Maintaining the passenger motor vehicle and parts thereof tariff at 10 percent post-2010 but increasing support under the current ACIS arrangements (ie, through the issuance of duty credits);
- Maintaining the passenger motor vehicle and parts thereof tariff at 10 percent post-2010 but discontinuing ACIS;
- Reducing all automotive tariffs to zero post-2010 and discontinuing ACIS; and
- Maintaining the base-case scenario but increasing the exchange rate to \$A/\$US parity so as to determine the sensitivity of the industry to further movements in the exchange rate.

The impact of changing the current policy options on the economy and the motor vehicle and automotive components sectors would prove very instructive in helping the Panel assess various policy options, as would the impact of alternative policy options on different regions in Australia.

I thank you for the opportunity to provide the panel's advice on the policy options and trust that it is given careful consideration. In concluding, the Panel has no objection to the Productivity Commission publicly releasing the letter from you tasking them with modelling the economic effects of the various automotive assistance arrangements.

Yours sincerely



Hon Steve Bracks
Leader
Review of Australia's Automotive Industry

cc Senator the Hon Kim Carr
Minister for Innovation, Industry, Science and Research
Parliament House
CANBERRA ACT 2600

cc The Hon Wayne Swan MP
Treasurer
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