



Australian Government
Productivity Commission

**Modelling Economy-wide
Effects of Future
Automotive Assistance**

**Productivity Commission
Research Report**

May 2008

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The Productivity Commission

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The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by consideration for the wellbeing of the community as a whole.

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Foreword

Assistance to the automotive industry, while exceeding that for most other Australian industries, has been greatly reduced over the past two decades. Following a public inquiry by the Productivity Commission in 2002, assistance is scheduled to be further reduced to align more closely with the manufacturing norm by 2015.

On 14 February 2008, the Australian Government commissioned a review of the current assistance program by a panel headed by the former Premier of Victoria, the Hon. Steve Bracks. The panel is to report by the end of July 2008. When announcing the review, it was foreshadowed that the Government would separately request the Productivity Commission to undertake modelling of economy-wide effects of future assistance options. This study responds to that request.

Models can capture many, but not all, of the economy-wide ramifications of changes in industry assistance. Moreover, as policy changes become smaller, models may be too blunt to rank nuanced options. Accordingly, the Commission has complemented its modelling with analysis of other factors which potentially bear on the outcomes.

The Commission's modelling indicates that there would be economy-wide benefits from reductions in assistance to the automotive sector, particularly for tariffs, and that the benefits would be larger under the program currently in place than options entailing lesser reductions. In the Commission's assessment, these conclusions are not materially affected by consideration of influences not captured directly by the model.

In preparing its study, the Commission had early meetings with Mr Bracks and the Review Secretariat. Three modelling experts refereed the modelling, with 'work-in progress' discussed at a technical workshop attended by them, as well as by members of the secretariat and other officials. The Commission is grateful to all for their cooperation and input.

Gary Banks AO
Chairman

30 May 2008

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Abbreviations

Abbreviations

ABS	Australian Bureau of Statistics
ACIS	Automotive Competitiveness and Investment Scheme
ANZSIC	Australian and New Zealand Standard Industrial Classification
ASEAN	Association of Southeast Asian Nations
ATO	Australian Taxation Office
AutoCRC	The Cooperative Research Centre for Advanced Automotive Technology
CoPS	Centre of Policy Studies
ERA	Effective rate of assistance
ETS	Emissions Trading Scheme
FAPM	Federation of Automotive Product Manufacturers
FCAI	Federal Chamber of Automotive Industries
f.o.b.	Free on board
GCIF	Green Car Innovation Fund
GDP	Gross Domestic Product
GE	General Equilibrium
GNE	Gross National Expenditure
GSP	Gross State Product
HS	Harmonised System
IAC	Industries Assistance Commission
IC	Industry Commission
ICA	Institute of Chartered Accountants in Australia
IOIG	Input–Output Industry Group

IOPC	Input–Output Product Classification
MFN	Most-Favoured-Nation
MMRF	Monash Multi-Regional Forecasting
MVP	Motor vehicle and parts
OBPR	Office of Best Practice Regulation
PC	Productivity Commission
PMV	Passenger motor vehicle
PTA	Preferential trade agreement
R&D	Research and Development
SIC	Strategic Investment Coordination
TCF	Textile, clothing and footwear
WTO	World Trade Organization