9th August 2002

Automotive Industry Enquiry
Productivity Commission
P.O. Box 180
BELCONNEN ACT 2616

Dear Sir,

SUBMISSION TO THE PRODUCTIVITY COMMISSION REVIEW OF POST 2005 ASSISTANCE ARRANGEMENTS FOR THE AUSTRALIAN AUTOMOTIVE INDUSTRY.
COMMENT OF REVIEW OF AUTOMOTIVE ASSISTANCE – POSITION PAPER

Intercast & Forge made its initial Submission to the Productivity Commission dated 7th May 2002. Intercast & Forge wishes to comment on two aspects of the Commission's Position Paper:-

- 4WD and LCV Tariffs
- Transitional Assistance Options - $2.8 Billion.

4WD and LCV Tariffs
In our submission we made reference to "All Wheel Drive (AWD) Vehicle Manufacture" on page 3. The Productivity Commission made reference to the matter in its position paper on Page 130 "No change is warranted for 4WD and LCV tariffs".

The Commission's view is noted but challenged by the needs of the local component industry. The tariff of 15% is for the support of the local Passenger Motor Vehicle (PMV) industry. The classification of 4WD vehicle was developed predominately to cover vehicles used in primary production activity. Changes in fashion, affordability and modified design over time has blurred the interpretation of the classification between true 4WD light commercial vehicles and All Wheel Drive Vehicles.

Clearly many 4WD/AWD vehicles are being used in place of passenger motor vehicles in City/Suburban/Domestic/Private applications.

Locally manufactured PMVs now only represent about 40% of the market and it is clear that the growth in the 4WD/AWD segment has been at the cost of locally manufactured PMVs. AWD vehicle sales are now approaching 20% of the passenger vehicle market in Australia. The fact that the major importers of 4WD/AWD vehicles have been the local PMV manufacturers has not assisted the component industry to grow.

It is now becoming economically viable to produce 4WD/AWD vehicles as variants of existing model platforms in Australia. It would seem logical for the tariff supporting the development of the local automotive industry be refined to support the new vehicles in the new segments being developed. The ability for domestic assemblers and suppliers to compete in the global 4WD/AWD segment has the potential to further integrate Australia with the global market, and reverse the current scale disadvantages in Australia.

The Commission's objection to a 'short-term ad hoc adjustment' fails to recognise that the tariff phase-down period could be anything between 5 to 10 years (2005 – 2015). This may well be the period required for the local 4WD/AWD industry to develop and penetrate this market segment.

In order to achieve this success, Australian manufacturers need access to markets. With relevant tariffs 25% and 80% in the United States and Thailand respectively, the Productivity Commission should strongly recommend that Government continue efforts to reduce market access barriers. To this end, it seems illogical to commit to further unilateral tariff reductions for PMVs. Indeed, by correcting the anomaly of the definition between 4WD and AWD Passenger vehicles would restore the intent of the tariff.

Since the publication of the position paper, I believe that at least some vehicle manufacturers have also called for this anomaly to be put right.

Clearly this issue needs to be revisited by the Productivity Commission in order to:

- Recognise that the tariff classification no longer accurately represents vehicle use or availability in Australia, and
- Properly support the domestic manufacturing operations of the Vehicle Assemblers as they attempt to conquer new market segments both in Australia and internationally.

I therefore submit that the Commission recommend that the Government apply the PMV tariffs to motor vehicles that are used primarily for domestic passenger carrying purposes regardless of the number of powered wheels.

Transitional Assistance Options - $2.8 Billion "Funding should remain capped".

The Commission has considered the 'starting point' of ACIS funding to be in the region of $2.8 Billion (on page 125). The original funding base of $2.8 Billion was established in 1997 with the purpose of supporting the continued development of the industry's global capacity and competitiveness. The starting point of the next ACIS is likely to be 2006, some nine years since the establishment of its predecessor. To preserve the true value (and purchasing power) of ACIS, the funding should be based on the 2006 value of $2.8 billion in 1997. My estimate indicates that equivalent funding for the new scheme should be in the vicinity of $3.6 Billion in 2006 and request that the Commission give some consideration to preserving the real value of ACIS Credits relative to their purchasing power.

We thank you for the opportunity to make a submission and we are is readily available to discuss or elaborate on the contents of this submission at any time.

Ray Petty
General Manager – Strategic Planning