



**SUBMISSION TO THE
PRODUCTIVITY COMMISSION
Review of Automotive Assistance**

Comments on Position Paper

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1. Introduction

Australian Business Limited (ABL) is a leading industry organisation representing over 14,000 members.

It has championed the cause of Australian business for more than 115 years and represents a wide and diverse group of firms across most sectors of the economy. It provides services through 11 regional offices and affiliated chambers in NSW and the ACT.

2. Importance of the Automotive Sector

ABL believes that a vibrant, internationally competitive automotive sector is a crucial element of our present and future manufacturing sector. The sector is a significant element of Australia's manufacturing industry which has undergone massive restructuring over the last two decades and its members now need time to consolidate their increased efficiencies and competitive ability.

2.1 Regional Australia

The automotive components sector is a significant contributor to regional Australia. Producers impact on local communities such as Albury, Taree, Gosford, Nowra and Newcastle in New South Wales and Ballarat and Bendigo in Victoria and Bell Bay in Tasmania

These and other regional centres have been undergoing significant structural change over the last decade and the Commission must have much greater regard to the impact (most likely negative) of its recommendations on these centres.

Professor Michael Porter has written that "competitiveness is not a national phenomenon. Industries succeed in regions...More and more the factors that really determine competitiveness appear at a very narrow, local level, and not at the level of the nation as a whole."

A key influence in decisions by firms to start up, expand or relocate their businesses in regional areas is the nature of economic and social infrastructure. We believe that any reduction in the activities of these automotive component firms would have a severe negative impact on the critical mass of these regional centres and therefore argue that the issue deserves much greater attention in the Commission's final report.

2.2 Linkages to other industries

The Commission's Draft Report acknowledges that the automotive industry has strong linkages with other industries, but suggests that these attributes are not unique to the industry and as such it does not represent a case for levels of assistance different to other areas of manufacturing.

ABL believes that the automotive industry does have a unique place in Australia's industry infrastructure. It is one of the few high volume, highly complex engineering industries that an economy of Australia's size can hope to

sustain. It sources inputs from a wide range of other industries such as chemicals and plastics, glass, steel, rubber, and paint and with its extremely high quality, technically demanding requirements has been an influential determinant of the implementation of best practice techniques throughout industry. The introduction and implementation of these practices have had important spill-over effects into other areas of the manufacturing sector.

3. Tariff Levels

Whilst the automotive industry will be assisted by tariff levels which are higher than most other areas of manufacturing at the end of the review period, it should be remembered that the industry has undergone considerable adjustment over the last decade as tariffs have been reduced by over 40 percentage points.

At 10% in 2005, Australian tariff levels on imported passenger motor vehicles will be comparable with other developed economies and considerably lower than most developing nations. The level of import penetration into the Australian domestic market indicates that the tariff poses little if any barrier to imports at current levels and the level of imports is in fact considerably greater than most producing countries.

ABL believes that tariffs on finished vehicles and components should be maintained at 10% from 2005 until 2010. We do not believe that deferring further reductions would place Australia at odds with World Trade Organisation (WTO) or APEC commitments

Those who argue that Australia should adopt a leadership role in achieving free trade suggest that Australia has gained much credibility in international trade circles because of our unilateral reductions in trade barriers and that our position would be enhanced by reducing the last areas of tariff protection. ABL believes that Australia should not give away its remaining "negotiating coin" until others have demonstrably and substantially reduced their tariff and non-tariff trade barriers.

The member countries of APEC, including Australia, have committed themselves to free and open trade and investment by 2010 for developed economies and 2020 for developing economies. Apart from the Passenger Motor Vehicle and Textile Clothing and Footwear sectors, Australia would appear to have little problem meeting this commitment. However, ABL understands that there still remains some uncertainty as to the level of commitment from other APEC members. If Australia were to complete its phase down of tariffs based on this commitment, it should be convinced that other APEC economies were similarly committed.

ABL is not opposed to future tariff reductions, but argues that they must be:

- considered in the context of their impact on employment, particularly in regional Australia,
- tied to other reforms, including workplace relations,

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- part of an integrated, whole of government national industry policy, and
 - related to progress in reductions in trade barriers by our trade partners.

We would be particularly concerned at the signal that a unilateral tariff cut would send to the parent companies of the vehicle assemblers about Australia's commitment to having an automotive industry in this country. Manufacturers need predicability and confidence in government policy settings to continue building an export base in Australia.

4. Automotive Competitiveness and Investment Scheme

ABL believes that the Automotive Competitiveness and Investment Scheme (ACIS) has been fundamentally important in the continuing growth and diversification of the industry.

The Scheme has been extremely successful in improving the international orientation of the Australian automotive industry as well as investment and innovation in industry. ABL supports continuation of the scheme to further develop the export potential of the industry.