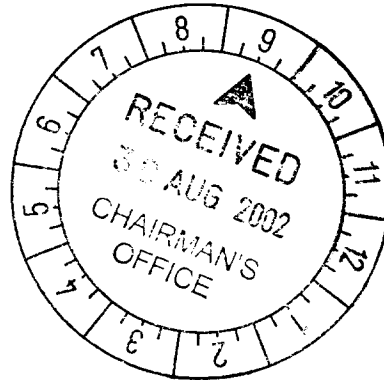




Premier of New South Wales  
Australia

TCO/16309-1

Mr Gary Banks  
Chairman  
Productivity Commission  
Automotive Industry Inquiry  
P O Box 80  
BELCONNEN ACT 2616



26 AUG 2002

Dear Mr Banks

**Productivity Commission's Review of Automotive Assistance – New South  
Wales Government Response**

The New South Wales Government, in broad terms, is supportive of the Productivity Commission's preliminary findings outlined in the Position Paper for the *Review of Automotive Assistance*.

The New South Wales Government recognises that assistance measures provided to date to the automotive sector had a positive impact on the development of significant manufacturing activity in this country. The sector generates considerable economic value and is a significant employer. It has introduced a range of technologically advanced manufacturing processes that have benefited other industries outside the automotive sector.

The automotive component industry in New South Wales is a large employer. While vehicle assembly is no longer undertaken within New South Wales, there is a significant level of component production that is located in Sydney and, importantly, in a number of major regional centres throughout the State. These include Gibbons Industries at Taree, as well as Intercast and Forge, Bishops Steering Technology Group, Tristar Steering and Suspension, and Spicer Axle in Sydney.

The automotive industry in Australia and New South Wales is also an important contributor to export earnings. These earnings have a significant impact on the Australian current account position, facilitate the repayment of loans and increase national wealth. They stimulate economic growth and promote further investment within the industry. Spillover effects to other industries are also significant.

The Australian automotive industry is predominantly overseas owned and the producers are present in Australia because of current relative economic conditions such as the value of the Australian dollar, government incentives and generally favourable economic and political conditions. Any change in the nature of these conditions, vis a vis those in other automotive producing competitor nations, will impact on investment decisions and could even see the withdrawal of production from the Australian economy. This was most recently witnessed with the circumstances surrounding Mitsubishi in South Australia.

The New South Wales Government supports manufacturing as an activity and has expended considerable resources in attracting overseas investment in this and other related areas such as aluminium smelting, information technology and finance. Once attracted, the New South Wales Government supports policies that retain that investment but also encourage efficiency improvements over time.

Finally, it is important that Australia's commitment to global trade liberalisation is maintained. However, it is also important to remain cognisant of the fact that many countries with which Australia trades maintain significant assistance programs for their own domestic automotive industries. It would be useful to obtain a more realistic assessment of the protection levels in other economies. These can then be incorporated into the Commission's considerations of the continuing size and timing of reductions of current and future automotive tariff levels in Australia.

Following are some comments on the preliminary findings in the Productivity Commission's Position Paper *Review of Automotive Assistance*.

- **Tariff Reductions**

The Commission's preferred policy option would see tariffs stabilise at the ten per cent rate for five years after 2005, before dropping to five percent in 2010 and pausing again at that lower general rate until 2015. The Commission argues that initiating further tariff reductions immediately after the step-down to ten percent could increase structural adjustment pressures.

The New South Wales Government supports the Commission's position that recognises that an immediate reduction in tariffs is likely to have a significantly negative impact on the Australian automotive sector. Given the relatively small size of the Australian market, the New South Wales Government considers that the productivity efficiency benefits, in terms of skills and technological transfer,

would best be enhanced by progressively phasing out such assistance over a period of time. This would allow sufficient opportunity for economies of such scale to develop and structural adjustments to take place.

In undertaking the progressive phasing out of assistance, the New South Wales Government favours transparent, pre-announced and incremental reductions in the tariff rate from ten per cent in 2005 to five per cent in 2015, or whatever is the average rate of tariff for the manufacturing sector in 2015. This would have the advantage of:

- providing greater economic incentives to achieve dynamic efficiency gains; and
- minimising adjustment pressures compared to the large stepped-down tariff reductions favoured by the Commission.

- **Automotive Competitiveness and Investment Scheme.**

In terms of the Australian Competitiveness and Investment Scheme (ACIS), the Commission proposes that ACIS be maintained at \$600 million a year for ten years and then be abolished. A sudden withdrawal of \$600 million of assistance would cause economic and social hardship that could be avoided if the assistance was scaled down over the ten year period, reducing by \$60 million a year. It is also proposed that the assistance be used only to help the industry, including car component manufacturers, undertake structural adjustment.

In conclusion, the New South Wales Government broadly supports the thrust of the Commission's preferred options, but with a more incremental phase-out of tariff rates and ACIS assistance to facilitate structural adjustment.

This approach will provide a more predictable and transparent mechanism that will provide businesses in the automotive sector with greater certainty in their business environment and provide sufficient time to allow for structural change to occur in a planned and systematic manner.

Yours sincerely



Bob Carr  
Premier