

**RESPONSE TO THE PRODUCTIVITY COMMISSION POSITION  
PAPER ON AUTO & COMPONENTS INDUSTRY ASSISTANCE  
POST-2005**

**United Trades and Labor Council**

**ADELAIDE: July 2002**

## UTLC RESPONSE TO THE PRODUCTIVITY COMMISSION POSITION PAPER ON AUTO & COMPONENTS INDUSTRY ASSISTANCE POST-2005

### SUMMARY

The UTLC's interest in this inquiry is the living standards and employment prospects of all South Australians.

Through the 1990's the South Australia's economic growth rate trailed that of the national economy by more than 1% a year due to the enduring effect of the tariff phasedown and the recession in the early part of the decade.

This differential in economic performance translated into both low population growth and higher unemployment levels.

In more recent years SA's manufacturing sector has shown signs of new growth, largely driven by automotive and wine exports.

However this export success also illustrates how narrow the State's industrial base has become, given that most of these exports are produced by a handful of manufacturers.

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The last thing the UTLC wants is a repeat of the low growth of the 1990's.

The UTLC says that the Productivity Commission should have regard to the effect of it's preferred options for industry assistance on regional economies like South Australia's.

As the Commission's position paper concedes there is little to be gained by further reductions in industry assistance in terms of notional economic efficiency, however there is potentially a lot to lose, particularly for regional economies like South Australia's.

The UTLC therefore believes that there should be no further reduction to Australia's tariff barriers until the levels of assistance maintained by our trading partners in the region are significantly reduced.

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### THE IMPORTANCE OF MANUFACTURING TO SOUTH AUSTRALIA

Manufacturing in South Australia employs 100,000 people. 1 in every 7 South Australian in the labour force is employed in manufacturing.

The Auto and Components industry is the single largest manufacturing industry sector directly employing nearly 14,000 workers.

Auto and Components workplaces provide relatively secure jobs with an average annual wage of \$44,000, around \$7,000 above the State average.

The industry contributes one quarter of all manufacturing turnover and around 17 per cent of all State exports.

### THE IMPACT OF CUTS TO INDUSTRY ASSISTANCE ON SOUTH AUSTRALIA

The outcome of this inquiry will not only influence the level of assistance provided to the Auto and components industry but also that provided to manufacturing industry in general.

Cuts to industry assistance levels have already cut a swathe through South Australia's manufacturing industry.

Factory closures directly attributable to the tariff phasedown during the 80's and 90's included GMH Woodville (1983), Yazaki (1991), Clarkes Shoes (1999), Perry Engineering and Malco's in 2000, and many others.

Through the 1990's the South Australia's economic growth rate trailed that of the national economy by more than 1% a year due to the enduring effect of the tariff phasedown and the recession of the early 90's.<sup>1</sup>

This differential in economic performance translated into both low population growth and higher unemployment levels amongst South Australians.

The last thing the UTLC wants is a repeat of the low growth of the 1990's, but that is what could happen if the Productivity Commission's zero tariff "option" were to be implemented.

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<sup>1</sup> 5220.0 Australian National Accounts, State Accounts 1999-2000

## THE COMMISSION'S "PREFERRED OPTION" FOR AUTO INDUSTRY TARIFFS

Period	Tariff level *
2000-2005	5 - 15%
2005- 2010	5 - 10%
2010-2015	5 %
Post 2015	Zero

source: Productivity Commission, June 2002

\* Imported 4WD's and some electronic components currently attract a 5% tariff rather than the 15% applicable to general automotive and components imports.

The UTLC rejects the Productivity Commission's preoccupation with zero tariffs and says that the Commission should have regard to the effect of its preferred options for industry assistance on regional economies like South Australia's.

### POST-2005 ASSISTANCE TO THE AUTO AND COMPONENTS INDUSTRY

We now turn to some of the specific issues associated with the Auto and Components industry.

Car manufacturing is a global industry that works on global rules.

These "global rules" include high tariff levels, non tariff barriers, and expensive investment attraction "incentives".

#### EXAMPLES OF TARIFF AND NON-TARIFF BARRIERS IN APEC

Country	Tariff rates	Non-tariff barriers
Japan	No tariffs on automotive imports.	Barriers include the Vehicle Type Approval system; design rules; environmental and safety standards; a complex and rigid vehicle distribution system.
South Korea	8% for PMVs and between 10% and 13% for automotive components	A variety of customs delays and indirect taxes on automotive imports.
Malaysia	140% to 300% for PMVs; 60% to 200% for 4WD; 25% to 42% on components	A local content scheme requiring 45 to 65 percent local content in PMVs; a quota on imported vehicles; and restrictive and discretionary applied import licenses.
Thailand	60% to 80% on vehicles; 10% to 46% on automotive components	Excise duties of between 35 and 48 per cent on imported vehicles ; customs regulations that lack transparency and consistency, however this is improving.

Source: FCAI & FAPM , 2002 (APEC = Asia Pacific Economic Community)

The Productivity Commission's position paper acknowledges that tariffs and non-tariff barriers in our region are still high but rejects these as an argument against reducing tariffs in Australia.

The Commission also rejects arguments put to it on the likely negative effect of tariff cuts on the industry, but the position paper considers the potential effects of the loss of one local car manufacturer at some length.

The position paper acknowledges that the loss of Mitsubishi would have serious impacts on the South Australia economy and local employment.

With the investment of more than \$900m to produce new models and expand production the UTLC is confident that Mitsubishi will be manufacturing cars in Australia for a long time.

We are not so sure that further cuts to industry assistance will not cause the loss of significant capacity and jobs in the specialist components sector.

Were that to happen South Australia would be facing a likely repeat of the low growth of the 1990's.

## CONCLUSION - THE UTLC POSITION

As the Commission's position paper concedes there is little to be gained by further reductions in industry assistance in terms of notional economic efficiency, however there is potentially a lot to lose, particularly for regional economies like South Australia's.

Development of manufacturing requires continuing support from Governments through barrier protection by tariffs, and through measures like the Automotive Competitiveness and Investment Scheme (ACIS).

In recent years SA's manufacturing sector has shown signs of new growth, largely driven by automotive exports.

However this export success also illustrates how narrow the State's industrial base has become, given that most of these exports are produced by a handful of manufacturers.

The UTLC says that there is no need to lower automotive and components tariffs below the current level of 15% but acknowledges that many industry stakeholders have argued that the lower level of 10% that will apply from 2005 should continue until 2010 when the progress with tariff reform by other countries could be assessed.

In any event the UTLC believes that there should be no further reduction to Australia's tariff and industry assistance arrangements until the levels of assistance provided by our trading partners in the region are significantly reduced.