

POST 2005 ASSISTANCE ARRANGEMENTS FOR THE AUTOMOTIVE MANUFACTURING SECTOR

*ACCI SUBMISSION
TO THE
THE PRODUCTIVITY COMMISSION*

MAY 2002

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BACKGROUND

The Australian Chamber of Commerce and Industry (ACCI) is the peak council of Australian business associations. ACCI's members are employer organisations in all States and Territories and all major sectors of Australian industry.

Through our membership, ACCI represents over 350,000 businesses nation-wide, including the top 100 companies, over 55,000 enterprises employing between 20-100 people, and over 280,000 enterprises employing less than 20 people. This makes ACCI the largest and most representative business organisation in Australia.

Membership of ACCI comprises State and Territory Chambers of Commerce and national employer and industry associations. Each ACCI member is a representative body for small employers or sole traders, as well as medium and large businesses.

Inquiry Focus

The Productivity Commission has been asked by the Government to provide an information report by 20 September 2002 on options for Post 2005 Assistance Arrangements for the Automotive Manufacturing Sector. The public inquiry directly covers the activities of the four vehicle assemblers and around 200 automotive component and tooling producers and providers of design and development services – many of which are members of ACCI's member organizations.

The Commission has been asked to:

- evaluate the outcomes of the Automotive Competitiveness and Investment Scheme and the reform of automotive tariffs;
- assess the interdependence between vehicle assemblers and component producers;
- identify strengths, weaknesses and opportunities for the sector including major impediments to its long term viability;
- examine the impacts of changes in road safety and environmental requirements; and
- report on progress in trade liberalisation of the automotive sector in existing and prospective export markets.

The Commission is required to identify a range of policy options – consistent with Australia's international obligations under the

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World Trade Organisation (WTO) and the Asia Pacific Economic Cooperation (APEC) forum – to facilitate the achievement of an internationally competitive and globally integrated Australian automotive manufacturing sector.

Background

Government policy announced in June 1997, which was subsequently legislated, has the passenger motor vehicle tariff at 15 per cent from January 2000 until it is reduced to 10 per cent on 1 January 2005. On balance, ACCI supported the Government's approach.

Another key element of automotive industry arrangements is the Automotive Competitiveness and Investment Scheme (ACIS) which commenced on 1 January 2001 and is directed towards encouraging investment and innovation in the automotive industry in the context of trade liberalisation. The scheme provides \$2 billion in capped benefits over the five years to 2005. The industry is also supported by the Automotive Market Access and Development Strategy, aimed at opening and developing key automotive export markets.

ACCI's approach to the previous review was developed after lengthy debate. On 12 March 1997, in the context of the draft Productivity Commission report on the review of automotive arrangements, ACCI resolved:

The ACCI supports continuing removal of international trading barriers, but believes that any further reductions in Australian tariffs (outside those already announced) must be considered in the context of a whole of government industry policy.

The scheduling of any further cuts in the level of protection must be part of a wider package of comprehensive, domestic reform to taxation, workplace relations, waterfront, other regulatory compliance and microeconomic reform, implementation of national competition policy, and, in terms of external trade, improved market access.

The revenue implications of any measures that may be implemented need to be accounted for, and alternate revenue sources or expenditure cuts be identified.

In assessing the possible outcomes of any further reductions in assistance to the textiles, clothing and footwear, and

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passenger motor vehicle industries, full account should be taken of the economic, strategic and social impacts.

In respect of the automotive inquiry, ACCI resolves:

- *That tariffs for passenger motor vehicles be maintained at 15 per cent until at least the year 2005; and*
- *That a further review be undertaken by the Productivity Commission in the year 2004.*

Since the 1997 Automotive Review, there has also been a review of general tariffs. In the Government's response on 19 December 2000 to the Productivity Commission's Review of General Tariffs, the Government decided to retain the general tariff rate at 5 per cent. The Government stated that:

...it believed that the general tariff could be removed when there are clear and substantive benefits including trade benefits in doing so... we consider there would be benefit in holding these current arrangements for the present and moving to withdraw them at a time consistent with trade and fiscal objectives.

ACCI supported the removal of the general rate of tariff in the context of multilateral negotiations, or by 1 January 2005 at the latest.

COMMENT

For the purposes of this inquiry, ACCI proposes to only address our comments to the issue of tariffs for PMVs.

Tariffs are no longer the major issue in Australian industry policy. With the tariff applied to all items other than TCF and PMV at 5 or less per cent, there remains little in the way of tariff barriers into Australian markets.

The lesser importance of tariffs as an issue in Australian industry policy should not impede the momentum for further tariff reductions. The benefits that have accrued over the past decade are evidence of the need for further reductions in tariffs.

The main issue for Australia in relation to tariffs in the next decade is not ensuring that Australia's remaining tariff barriers are

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removed, but rather maintaining the impetus for international reductions in our trading partners (tariff and non-tariff) trade barriers.

While ACCI recognises that there are benefits to the Australian economy from unilateral reductions in tariffs and believes that Australia should continue to reduce tariff duties, such benefits would be vastly increased if there were simultaneous reductions in protection levels by our trading partners. It would therefore appear to us that unilateral tariff reductions should not be pursued, but that bilateral and multilateral tariff reductions be pursued instead.

Additionally, with the progressive removal of international tariff barriers the Australian Government must ensure that Australia's trading partners do not seek to replace tariff barriers with equally restrictive non-tariff barriers to trade. Non-tariff barriers do in effect present the same restriction to trade as tariffs and have the potential to reduce or remove potential benefits from multilateral tariff reductions.

Consistent with our earlier policy approach to both general tariff reduction and automotive tariff arrangements, ACCI:

- Supports the PMV tariff phasing to 10 per cent on 1 January 2005; and
- Argues that any further reduction to the PMV tariff should be in the context of multilateral negotiations.

The automotive industry has been the subject of substantial government involvement in its affairs for over 50 years, dating back to 1948 when Holden produced the first passenger motor vehicle. Indeed tariff assistance for vehicle bodies and components dates back to 1907. Industry specific arrangements have evolved over time into industry wide plans covering a number of manufacturers.

The arrangements applying in the industry have been periodically reviewed by the Productivity Commission, the Industry Commission and its predecessors. Since 1985 the arrangements have included three main components:

- Steadily declining tariffs on vehicles and components;
- An arrangement which gives vehicle producers duty free entry of components and vehicles to a level of their value of production; and
- An export facilitation scheme / Competitiveness and Investment Scheme.

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It is clear that reductions in assistance since the mid 1980s have led to increased productivity and performance by the automotive industry. The competitiveness of the industry has increased as evidenced by the rapid growth in exports in the last few years. With exports nearly \$4.7 billion in 2000/01, the industry has surpassed a goal that it did not expect to reach until 2010.

For the industry, critical issues include re-investment in plant and equipment given the global nature of the industry, innovation, an appropriately skilled workforce, and environmental regulations will affect the competitiveness of the Australian industry in the world market.

Recommendation

ACCI recommends that the PMV tariff remain at 10 per cent from 2005, and be traded away in the context of multilateral negotiation – either through WTO negotiations in the Doha Round, or through the APEC commitment of zero tariffs in 2010.