



**FORD MOTOR COMPANY OF AUSTRALIA LIMITED**

**(ABN 30 004 116 223)**

**A RESPONSE TO THE PRODUCTIVITY COMMISSION**

**POSITION PAPER ON POST 2005**

**AUTOMOTIVE POLICY ARRANGEMENTS**

**July 2002**

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This submission is made by Ford Motor Company of Australia Limited (ABN 30 004 116 223). The company is subsequently referred to as Ford Australia. This submission is made in response to the Productivity Commission's position paper published on 27 June, and follows an earlier comprehensive submission submitted on 10 May. In addition to these submissions, Ford Australia has also contributed to submissions made by the Federal Chamber of Automotive Industries.

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## **1.0 EXECUTIVE SUMMARY**

- 1.1** Ford Australia is keen to work toward an environment where a dynamic domestic automotive manufacturing industry can successfully operate at lower levels of assistance. This could be possible over time provided a concerted approach is adopted to enhancing industry performance and removing some structural obstacles.
- 1.2** Ford Australia is proposing the adoption of a comprehensive "action agenda" by industry and government to systematically address the abovementioned impediments. It believes co-operative "action agenda" could address workplace relations, taxation, trade and environmental issues. It is also proposing a close monitoring of global industry developments.
- 1.3** Ford Australia believes that while an "action agenda" seeks to address key reform issues, and recognising the modest wider economic gains now likely from further reductions in assistance, it is unnecessary to commit to further reduce assistance arrangements based upon pre-determined and fixed end-points. Therefore, Ford Australia holds to its original policy recommendations, but with further elaboration and now underpinned by a targetted "action agenda".
- 1.4** Because of the abovementioned approach, Ford Australia does not intend at this point to indicate a preference for specific tariff/ACIS options canvassed by the Productivity Commission.

### **FORD AUSTRALIA KEY RECOMMENDATIONS**

- **A lower tariff:**
  - **a 10% tariff in 2005, but no present commitments to further specific reductions.**
- **A more innovative ACIS Program:**
  - **enhanced support for R & D**
  - **no capping of the present uncapped elements**
  - **a repeat \$2b capped program 2006-10**
- **An "action agenda" that will drive key reforms, including:**
  - **the creation of a single industry union.**
  - **the comprehensive reform of payroll tax.**
  - **better market access including new free trade agreements.**
  - **the early introduction of new fuels.**

## **2.0 A CO-ORDINATED POLICY APPROACH**

- 2.1** Ford Australia is keen to work toward an environment where a dynamic and successful domestic automotive manufacturing industry is underpinned by lower levels of assistance. It believes that such an outcome is ultimately possible over time, but only if a number of industry and public policy challenges, some quite complex, are successfully addressed. For this reason, Ford Australia proposes a results-oriented "action agenda" be established where industry and government can tackle these challenges, and pave the way for a later determination by Government, of the precise scope and timing of longer term assistance changes. This proposal is put forward as a more detailed evolution of the broad issues canvassed in Ford Australia's earlier submission.
- 2.2** Ford Australia believes the Productivity Commission's position paper represents a constructive contribution to post 2005 assistance arrangements for the automotive manufacturing industry, and provides a useful platform for further discussion. The Productivity Commission has recognised the industry's significant performance gains over recent years, highlighted some competitive strengths and identified a range of strategic, structural and commercial challenges confronting it.
- 2.3** Ford Australia acknowledges the Productivity Commission's observation that the future policy calculus for the automotive manufacturing industry is more complex, and involves finer judgements, than was previously the case. Furthermore, there is an appreciation of the very modest wider economic gains that would emerge from further reductions in tariff assistance. This recognises the much lower levels of assistance now underpinning the automotive manufacturing industry.
- 2.4** Ford Australia believes the above mentioned observations, combined with a dynamic changing global automotive industry environment, suggest the appropriate approach toward determining 2005 assistance arrangements for the automotive manufacturing industry should be a flexible and cautious one, unhindered by prescriptive end-points. It is for this important reason that Ford Australia is suggesting a more "action agenda" policy approach than the largely "cold shower" approach that has traditionally been employed.

2.5 Ford Australia's proposed "action agenda" would be underpinned in the post 2005 period by a 10% tariff and the continuation of an ACIS Program involving capped and uncapped elements. It is proposed the "action agenda" would incorporate such initiatives as:

#### **AUTOMOTIVE ACTION AGENDA**

- **Workplace Relations**
  - **Significant reform including the introduction of new single industry union coverage.**
- **Taxation**
  - **Significant reform to payroll tax arrangements including a major reduction in the burden carried by automotive industry.**
- **Trade**
  - **Significant improvements in market access including early free trade agreements with such countries as Thailand.**
- **Environment & Safety**
  - **Significant improvements in the availability and price of 95 RON type fuels to foster the introduction of new vehicle technologies, and lower fuel consumption. Also, an acceleration of the harmonisation of global design standards.**

2.6 In the absence of its suggested co-ordinated policy approach where reform progress was delivered from an "action agenda"; Ford Australia is concerned that the necessary reforms that could enable the automotive manufacturing industry to operate with lower levels of assistance may not happen; or may happen too late. It looks to an "action agenda" as providing a potentially strong catalyst at industry and government (Federal and State) levels to develop and implement a reform "road map".

#### **KEY MESSAGE:**

**Ford Australia believes a co-ordinated "action agenda" policy approach is necessary to provide the outcomes that could allow the automotive industry to successfully operate over time at lower levels of assistance. The company does not support a prescriptive end point.**

## **3.0    TARIFF & ACIS**

### **Tariff**

- 3.1** Ford Australia's earlier submission to the Productivity Commission's review of post 2005 assistance arrangements incorporated two key recommendations - acceptance by the company of a 10% passenger car tariff without a further prescribed reduction, and the need for an on-going, but more innovative, ACIS Program.
- 3.2** Following its review of the policy options incorporated in the Productivity Commission's position paper, Ford Australia believes the abovementioned recommendations remain appropriate. The company does not believe it prudent for the Australian automotive industry to lock into a pre-determined and set end-point, particularly at a level that is lower than those in existence in the vast majority of global automotive economies, and at a time when Australian automotive access to many regional markets is restricted.
- 3.3** In its earlier submission, Ford Australia said that while small by global standards, the Australian automotive manufacturing industry was well placed to play a lead role in driving a further evolution of the knowledge economy. Its on-going transition to a low cost and high value producer would be driven by continued innovation, and its ability to capture on-going global investment funds. A stable and internationally comparable policy framework would be a critical component of this process.
- 3.4** In the absence of significant economy-wide economic benefits from lower levels of automotive industry assistance, and the fine policy judgements that are now therefore necessary, Ford Australia does not believe there is an urgency for implementation of significant reductions in assistance.
- 3.5** Although allowing for the longer term transitional window proposed by the Productivity Commission, there is a risk under the three tariff options canvassed that investment decisions could be taken in the context of known and prevailing conditions, as opposed to what future conditions could be. This could disadvantage Australia. This latter point appeared to be recognised by the Federal Government in 2000 when it announced its longer term general tariff policy saying Australia was at the forefront of trade liberalisation in the Asia-

Pacific region, and that it was now time to consolidate and allow the rest of the world to catch up with Australia's lead.

- 3.6** Ford Australia believes the abovementioned comments by the Federal Government (Costello/Minchen, December 2000) are as equally applicable to the automotive industry and the legislated 2005 tariff level of 10% as they were to the general tariff level. However, as outlined in the previous chapter of this submission, Ford Australia is proposing a co-ordinated new policy approach designed to facilitate the automotive manufacturing industry's ability over time to operate with a lower level of assistance. Ford Australia believes that by adopting an "action agenda" approach with its focus on domestic cost considerations and trade policy issues including WTO Doha, APEC and FTA progress, significant competitive gains can be achieved as well as global industry development trends observed. With this knowledge in hand, future policy decisions could be made on a more informed basis without any significant wider economic penalty to the community.
- 3.7** Ford Australia also does not believe an automotive industry tariff held at 10% at present is contrary toward the achievement of broader trade policy objectives. In fact, by using it as a negotiating tool (however strong it may be) it can be argued it is facilitating greater regional trade liberalisation as opposed to impeding it. Importantly, it can be demonstrated that the Australian automotive market is one of the most competitive in the world with a significant diversity of brand, model and source country. This diversity has been driven in large part by the accessibility and low entry costs for imported products.
- 3.8** Ford Australia also believes that as the wider economic benefits of tariff reform have been significantly delivered, the justification for unilateral policy action by Australia to reduce historically high levels of industry assistance has passed. In fact, the company submits an approach of taking global issues, like market access, into consideration is prudent and sensible policy.
- 3.9** The Productivity Commission has suggested some new vehicles planned by domestic manufacturers would by inference be profitable at a lower 5% tariff. Ford Australia submits this view is a significant over-simplification of the situation. In the case of Ford Australia, its new E265 - a second vehicle line due for launch in 2004 - cannot be said to be profitable at a 5% tariff. What makes this project



potentially profitable is the fact it will be built off an existing vehicle platform and will consequently share a significant number of Ford Falcon components.

### **ACIS**

- 3.10** Ford Australia's earlier submission, and that of the Federal Chamber of Automotive Industries (FCAI), emphasised the importance of the Automotive Competitiveness and Investment Scheme (ACIS). Ford Australia appreciates the Productivity Commission's acknowledgement in its position paper of the importance of the scheme, and its suggestion of possible future applications.
- 3.11** The value of ACIS in contributing toward enhanced investment and research and development activity has been highlighted in a study undertaken by Deloitte Touche Tohmatsu. The FCAI is supplying details of this study to the Productivity Commission. From Ford Australia's perspective, ACIS has been fundamental to lifting the company's performance and to its ability to secure corporate approval for major new investment initiatives such as the \$500 million Project E265 involving the design and manufacture of a second vehicle line.
- 3.12** For post 2005, Ford Australia supports a continuation until 2010 of a capped \$2 billion program.
- 3.13** In suggesting the present uncapped production credit element should be capped post 2005, Ford Australia suggests the Productivity Commission has misunderstood a fundamental design of the program. The 15% uncapped production credit element was formerly known as the duty-free allowance (DFA). The Government in 1997 made a firm policy decision to continue the DFA unchanged, but later, for largely administrative reasons, incorporated it under the umbrella of the new ACIS Program.
- 3.14** The DFA reflects previously prescriptive local content schemes. At 15%, the scheme reflected an optimum level of local content and compensated vehicle producers for tariff assistance provided to component suppliers by providing duty-free access to high technology components not generally made in Australia. The DFA also has a strong compensatory element in that the automotive industry is excluded from participation in the tariff concession order scheme.

- 3.15** Ford Australia would be strongly opposed to any capping of the automotive industry's access to the production-credit based DFA. Its existence has underpinned longer-term sourcing strategies. The company also believes the DFA-type concept is more flexible, predictable and administratively efficient than access to the tariff concession order scheme would be .
- 3.16** A capping of the DFA element of ACIS at present forecast levels, would also harm the industry's growth prospects by increasing its cost base. This would be at a time when an expansion of the industry's volume base, particularly via new model derivatives in the domestic market, is an important ingredient of its enhanced competitiveness.
- 3.17** In determining the future levels of funding for the capped aspects of a future ACIS Program, Ford Australia believes it important that the industry's future growth prospects are taken into consideration. It is for this reason that a minimum of \$2 billion 2006-2010 program is sought. An important aspect of new investment decisions and forward business planning is predictability. While the company is quite prepared to confront the variables inherent in a robust and highly competitive marketplace, it does not believe it should also potentially face the uncertain variability and impact of short-term modulation(s).
- 3.18** The Productivity Commission has suggested that consideration could be given to the establishment of separate funding pools within a new ACIS Program. Ford Australia believes such an approach has merit. However, some significant issues would need to be satisfactorily addressed in determining the appropriate size of any respective vehicle manufacturer and component supplier pools. Ford Australia, for example, could not accept funding pools based on the present levels of capped ACIS benefits between respective industry sectors, nor a situation where the DFA element of the program was an integral part of any formal funding division. Firstly, such division would inherently assume the present divisions of benefit represent a desirable on-going approach. Secondly, it must be noted that activity levels within the component supplier sector are currently considerably higher than originally anticipated. This has severely impacted on vehicle manufacturers via the present high level of modulation. Thirdly, the ability of an ACIS Program to attract on-going investment in major new vehicle programs must be maintained, and potentially enhanced.

- 3.19** In its earlier submission to the Productivity Commission, Ford Australia indicated a preference to some key design changes to the present ACIS Program, particularly as it related to research and development activity. The Productivity Commission has indicated an apparent preference for limiting any design changes to the program. Ford Australia repeats its earlier assertion that some changes are desirable including a recognition of the value and inherent logic in vehicle producers being able to claim benefits for "own-use" research and development.
- 3.20** A fundamental catalyst of a successful domestic automotive manufacturing industry is the design and engineering of vehicles. It is from this core activity that research and development opportunities emerge for the component supplier sector. The strong examples of this, and the extensive linkages generated across the industry, are Falcon and Commodore.
- 3.21** Under the present ACIS Program, research and development activity for the design, engineering or production of the local models, undertaken by the Australian vehicle manufacturers themselves, receive no incremental benefits than if the vehicle manufacturers picked up and transplanted a complete overseas design for local production. In fact, ACIS Program benefits would be maximised if a domestic manufacturer undertook contract R & D projects for an external (perhaps overseas) source and, in turn, sourced the R & D aspects of a vehicle for local manufacture from that external source.
- 3.22** With the tariff due to fall to 10% in 2005, the present ACIS Program will also see a further shift in reward value from the vehicle producer to component supplier sectors. For example, and assuming for illustrative purposes that an imported unit is worth \$1, a vehicle producer can presently import one unit for every \$1 of allowable production. This situation exists whether the tariff is 15% or 10%. For a supplier, \$1 of allowable R & D currently enables 3 units to be imported. With a tariff at 10%, this will increase to 4.5 units. Ford Australia submits this erosion of sector relativity will need to be addressed in the design of a new ACIS Program, and will need to be achieved within the confines of the capped element of the program.

**3.23** Ford Australia submits that some of the finer design detail is probably better left to discussion between industry and government once the overall funding elements have been determined. However, the company believes it would be useful if the Productivity Commission was to highlight some of the abovementioned issues and anomalies.

**KEY MESSAGE:**

**Ford Australia submits that the tariff of 10% should be maintained beyond 2005. It does not support a pre-determined and fixed end point in the absence of significant external reforms. Furthermore, the company strongly supports a continuation of the ACIS Program with capped and uncapped elements, but seeks changes to some key design issues. A capped \$2 billion in the period 2006-2010 is appropriate.**

## **4.0 WORKPLACE RELATIONS**

- 4.1** Ford Australia understands the significant contribution necessary from effective workplace relations toward facilitating the continuous development of a competitive automotive manufacturing industry. It also appreciates the Productivity Commission's acknowledgement of the substantial improvement over recent years in the flexibility and productivity of automotive workplaces.
- 4.2** In recognising the improvement that has been achieved, the Productivity Commission alluded to a greater focus on the circumstances and needs of individual workplaces facilitated by enterprise bargaining, a greater acceptance of the need for continuous improvement and less restrictive work practices. It also pointed to greater flexibility in work shift patterns, less labour turnover and greater workplace communication.
- 4.3** Ford Australia believes it has been at the forefront of this substantial improvement, and has been an industry leader in actively seeking out the benefits that can be achieved through flexible agreements, a strong focus on training and education, a commitment to a safer workplace and higher levels of attendance, and a comprehensive employee communications program. As indicated in its earlier submission to the Productivity Commission, Ford Australia has been able to achieve considerable performance gains through the abovementioned suite of initiatives. Furthermore, it anticipates further productivity gains as its production volumes increase.
- 4.4** However, the Productivity Commission has also highlighted the industry's vulnerability to disruption due to its tight supply-line arrangements. It has also identified the industry's workplace relations as having the potential for significant improvement. Ford Australia accepts the challenge inherent in this observation, and is keen to identify innovative and practical approaches toward the delivery of positive and more competitive outcomes. The company also acknowledges its responsibility to ensure compliance with the Workplace Relations Act, and the pursuit of legal remedies where the Act has been breached.
- 4.5** The Productivity Commission has placed considerable emphasis on a linkage between firms and employees sharing an appreciation of their joint interests being best served by working together and significant progress in the achievement of workplace productivity outcomes. It has also focussed on a need

for a better industry/business understanding and potential changes in union coverage.

- 4.6** In discussing changes to union coverage, the Productivity Commission has suggested that an enterprise union system, or a single union system covering all workers in the industry, could provide much greater coincidence of interests than the present largely occupation-based structure of union coverage. It has suggested this could be a longer term goal. Ford Australia would like to pursue this issue, but on a shorter term than that suggested by the Productivity Commission.
- 4.7** Ford Australia acknowledges there may be different views as to the best option for better, more efficient and more focussed workplace coverage. This could largely reflect the many different constituent parts of the automotive manufacturing industry, incorporating companies ranging from large global vehicle manufacturers to medium component suppliers and smaller service providers. Following considerable thought, Ford Australia believes the preferable approach is for the early creation of a single industry union. This approach would enhance the flexibility for different industry participants to elect the workplace relations model best suited to individual enterprise circumstances.
- 4.8** Ford Australia believes a single industry union, where it is not anticipated there would not be largely autonomous divisions with coverage of different sectors of the industry, would provide significant benefits that can't necessarily be achieved from the present union coverage arrangements. Firstly, all industry employees would importantly and more directly be part of an exciting, dynamic and global automotive industry. Secondly, it would provide the focus and shared industry specific partnership necessary for the on-going development of a key Australian industry with unique and challenging requirements including supply chain integrity. Thirdly, it would provide for greater workplace operating flexibility by removing complexities and craft-based demarcations.
- 4.9** Ford Australia has an open mind as to the best way of delivering a single industry union for the automotive manufacturing industry. The company's preferred approach would be for a single industry union to emerge from a consultative working party approach by the parties directly involved. However, given the complexity of the issues involved, it would be appropriate for any working party to be chaired by an independent "eminent person" with the potential authority to

make final and binding decisions if agreement had not been reached within a given timeframe. It is also possible legislation may be required to facilitate the creation of an industry-wide single union.

**4.10** Ford Australia would also suggest that the Productivity Commission, given the views incorporated in its position paper, may also want to give some thought as to practical steps that could be taken to bring about single union coverage of the automotive manufacturing industry. Its suggestions would be welcome.

**4.11** In its earlier submission, Ford Australia indicated support for some legislative amendments, particularly related to the protected action provisions of existing workplace legislation. The company supports the Productivity Commission's acknowledgement that appropriate regulatory changes to constrain the scope for protected industrial action, and to provide the speedy effective dispute resolution, would be beneficial for the automotive industry.

**KEY MESSAGE:**

**Ford Australia believes a single industry union would provide significant benefits to the automotive manufacturing industry. It believes the issue must be addressed as a priority.**

## **5.0 TRADE**

- 5.1** Ford Australia acknowledges the increasing importance of improved overseas market access, particularly in regional markets, as an enabler in assisting the automotive industry to grow its domestic manufacturing volume base. It also believes selective free trade agreements can provide a valuable impetus to the broader objective of greater multi-sectoral trade liberalisation.
- 5.2** Ford Australia believes the Productivity Commission has correctly highlighted the fact that while some progress has been made in reducing trade barriers faced by automotive exporters, significant and widespread trade barriers remain. However, in strongly focussing on WTO and APEC processes, Ford Australia suggests the Productivity Commission may have under-estimated the contribution that can be made by selective free trade agreements.
- 5.3** In essence, Ford Australia believes the negotiation of selective free trade agreements does not represent an either/or approach toward greater trade liberalisation. Rather it is a complementary process which offers considerable potential to "energise" the broader WTO and APEC processes.
- 5.4** Ford Australia believes the Government's approach to trade liberalisation reflects this view. The company understands that the Government has acknowledged that its pursuit of greater trade liberalisation is an integrated one utilising multi-lateral (WTO), regional (APEC) and bilateral (FTA) approaches. While a focus on a multi-lateral approach, particularly the new WTO Doha round, is viewed as the highest priority, APEC is clearly a regional coalition with strong support of the multi-lateral trading system. Meanwhile, FTAs focus on shorter term gains.
- 5.5** Of course, the Productivity Commission is correct in stating a careful assessment approach is required toward the negotiation of bi-lateral free trade agreements. Ford Australia would submit the Government has clearly indicated its intention to take such an approach. Firstly, it has indicated it will only consider FTAs that can deliver substantial gains to Australia in a timeframe that cannot be achieved elsewhere. Secondly, any FTAs will be WTO consistent which means there must be substantial coverage of goods and services. Thirdly, in the case of Thailand and the United States, it has undertaken considerable early research, scoping and econometric modelling work.



**5.6** In its earlier submission to this policy review, Ford Australia indicated its support for the negotiation of free trade agreements with Thailand and the United States. In the case of Thailand, the company said an early free trade agreement would provide a basis to bring together two automotive industries that are of comparable size and also of complementary product focus.

**5.7** A joint scoping study between the Australian Department of Foreign Affairs and Trade and the Thai Ministry of Commerce found a free trade agreement would deliver significant economic benefits for the two countries. It also found there would be gains from a closer integration of the respective automotive industries leading to significant economies of scale. For both motor vehicles and components, there would be greater investment flows (in both directions), and increased investment from third countries.

**5.8** At present, automotive trade between the two countries is largely from Thailand to Australia. In 2001, it was more than 16:1 in Thailand's favour. It has also grown rapidly in recent years; to the extent that Australia is now Thailand's largest automotive export destination. Thailand has also become Australia's fifth largest source of automotive trade; headed only by Japan, USA, Germany and Korea. This trade has largely been built on the export of light pick-up trucks.

<b>AUTOMOTIVE TRADE AUSTRALIA - THAILAND</b>		
	<b><u>1998</u></b>	<b><u>2001</u></b>
<b>Exports</b>	<b>\$10m</b>	<b>\$41m</b>
<b>Imports</b>	<b>\$150m</b>	<b>\$679m</b>

**5.9** Automotive exports from Thailand to Australia currently incur tariffs ranging from 5% (light trucks) to 15% (cars and components). However, automotive exports from Australia to Thailand incur tariffs ranging up to 33% for CKD components to 80% for passenger cars.

**5.10** A comprehensive free trade agreement between Australia and Thailand could do more for the Australian automotive industry than just provide greater access to

one market. As previously stated, such tangible market access could also potentially expand to other regional growth markets and also facilitate greater global integration for the Australian automotive industry. It is also likely to be able to "link" two industries at an important relatively early phase in the development of the Thai industry.

- 5.11** Ford Australia believes a free trade agreement approach in the case of Thailand is capable of delivering earlier automotive industry benefits than is likely through the Doha WTO round, which could take some years, or the APEC liberalisation process and its focus on 2010/2020 trigger points for developed and developing economies. For an industry in transition, like the Australian automotive manufacturing industry, time is crucial.

**KEY MESSAGE:**

**Market access is a major issue for the Australian automotive industry. Ford Australia believes a free trade agreement between Australia and Thailand, is of considerable importance, is consistent with broader trade objectives and should be supported by the Productivity Commission as a priority.**

## **6.0 TAXATION**

- 6.1** Ford Australia believes further tax reform, particularly at State level, is necessary to improve the competitiveness of the automotive manufacturing industry. A key focus of this further reform must be payroll tax. Furthermore, there is a sound public policy case for eventual abolition of the luxury vehicle tax and motor vehicle stamp duty.
- 6.2** Ford Australia acknowledges the impetus given to new vehicle sales by the introduction of a comprehensive goods and services tax in place of a wholesale sales tax, which for many years had placed a considerable and discriminatory burden on key manufacturing sectors like automotive. In addition to lowering the level of taxation (10% GST versus 22% WST, which translated to an approximately 6% reduction in recommended retail prices), the new arrangements also recognised the importance of motor vehicles to the production costs of the wider business community by providing for the claiming of input credits.
- 6.3** Taxes levied by state governments, particularly payroll tax, remain a burden on the competitiveness of the automotive manufacturing industry. Ford Australia acknowledges that the Productivity Commission has noted in its position paper that state tax instruments like payroll tax and stamp duty have deficiencies. However, the company is disappointed the commission has not taken the opportunity to underpin its reform options by emphasising the need for further comprehensive tax reform, and by suggesting a "road-map" as to how it may be achieved.
- 6.4** Ford Australia is using the opportunity afforded by this submission to highlight the short-comings of the present payroll tax arrangements, particularly from the perspective of a relatively high labor content industry with a wide supply base that is exposed to significant global competition from both developed and developing countries.
- 6.5** Payroll tax is obviously an important tax, from a revenue perspective, for state governments. It is also a controversial tax in that it can be perceived as an anti-jobs tax. First introduced by the Commonwealth in 1941, payroll tax was handed to state governments in 1971 when it carried a rate of 2.5%, on the assumption it was a growth tax where revenue would grow as the economy grew. Its rate now

varies between 5 and 7%. It has also been complicated by a myriad of exemptions.

- 6.6** Payroll tax favours industries with a low labour content. It is also inequitable in that it taxes businesses irrespective of their competitive circumstance and ability to pay.
- 6.7** What payroll tax can potentially be - a modest tax largely across all payrolls - and what it actually is, are significantly different. This is largely because of a variety of thresholds, drawbacks and special exemptions.
- 6.8** The impacts of the thresholds and exemptions is significant. In most States, businesses with a payroll of less than \$500,000 to \$700,000 are exempt from the tax. Self-employed people are also generally exempt while a range of exemptions is sometimes offered to special groups like apprentices. A number of State Governments have also used payroll tax holidays etc as a means of attracting new investment and employment. In addition, payroll tax costs cascade through the cost chain as they are not rebateable in the same way as input credits for goods and services tax.
- 6.9** A 1998 Productivity Commission study "Directions for State Tax Reform" suggested the annual cost of the exemptions was more than \$3.2 billion representing just under half the annual payroll tax take of some \$7 billion. This indicates that a significant reduction in the payroll tax burden confronting medium to larger companies could be achieved via a comprehensive narrowing of existing exemption criteria.
- 6.10** The potential for addressing this issue was further outlined in the abovementioned paper. The paper suggested that payroll tax, in its present form, was one of the broadest, and appeared to be one of the most efficient taxes used by State governments, although it was paid by only a small number of private sector firms. However, from an efficiency perspective, it suggested the current tax-free thresholds could not be justified by avoided administrative and compliance costs. It said there was scope to improve efficiency by broadening the tax base, lowering the tax rate and streamlining compliance procedures.

**KEY MESSAGE:**

**Further comprehensive tax reform, particularly of key State taxes such as payroll tax, is necessary to significantly improve the industry's competitiveness.**

## **7.0 ENVIRONMENT AND SAFETY**

**7.1** Ford Australia believes the Productivity Commission's position paper has correctly highlighted a number of environmental and safety complexity related issues facing the Australian automotive manufacturing industry. This is particularly applicable to the establishment of future voluntary fuel consumption targets.

**7.2** Ford Australia has long acknowledged the responsibility of the automotive manufacturing industry to constructively address key environmental and safety issues. In more recent times, this responsibility has focussed on climate change/greenhouse and the global harmonisation of regulatory requirements for vehicle design and operation. The industry's engagement in these areas has required a careful balance of such key factors as consumer expectation, regulatory demand, engineering know-how and commercial viability. A further emerging factor has been the increasing inter-dependence of different industry sectors (ie. automotive and petroleum) in the delivery of objectives.

**7.3** Ford Australia has supported Australia's voluntary approach toward fuel consumption improvements, underpinned by industry-wide national average fuel consumption targets. The industry's track record in improved energy efficiency is impressive. National average fuel consumption (NAFC) has improved by 30% since 1978 (11.81/100 km to 8.34 1/100 km). This has been achieved through a combination of new technology and market down-sizing. Individual car lines have also posted impressive gains. For example, Falcon has improved by 25% since 1980 (12.81/100 km to 9.681/100 km under AS2877 conditions). In addition, Ford Australia has also launched the only dedicated-LPG vehicle which, versus its petrol equivalent, offers greenhouse advantages of some 10% at tailpipe and some 20% over full life cycle. This LPG Falcon represents an innovative and affordable approach to delivering significant and early environmental benefits utilising an existing fuel distribution network.

<b>FUEL CONSUMPTION</b>	
•	<b>Industry NAFC improves by 30%</b>
•	<b>Falcon improves by 25%</b>
•	<b>Falcon only dedicated LPG car</b>

- 7.4** Ford Australia has been working with the Federal Chamber of Automotive Industries to secure a new NAFC target. The industry has offered a co-operative target(s) of 6.8 l/100 km by 2010 and 6.3 l/100 km by 2015. This represents a considerable challenge for the industry, particularly given the domestic demand for medium to large passenger cars. To dimension the magnitude of the task, it should be noted that a NAFC of 6.3 l/100 km would not be achieved today even if all new cars sold were Laser/Corolla/Astra size vehicles.
- 7.5** The industry's ability to achieve the abovementioned target(s) will be dependent on a number of factors including model cycles, manufacturing volume base, global technology developments and the widespread and affordable availability of new higher-octane fuels. While global factors will influence target(s) outcomes, Ford Australia believes the Productivity Commission has quite correctly cautioned against setting target(s) based on comparisons with other countries saying comparisons of average fuel economy were of limited relevance. As Ford Australia has previously pointed out, many historical factors influence average fuel economy including population density, public transport availability, fuel pricing, travelling distances, vehicle-type preferences and taxation.
- 7.6** Ford Australia does submit, however, that there is broad validity in comparing the rates of average fuel consumption improvement, particularly given the influence of overseas sourced affordable technologies on the Australian industry's performance. An Australian co-operative target of 6.8 l/100 km by 2010 would represent an improvement of approx. 18% over 10 years or 1.8% per year. The European industry target represents 1.9% per year and Japan 1.5% per year.

<b><u>GLOBAL COMPARISONS</u></b>				
<b><u>Region/Country</u></b>	<b><u>Target</u></b>	<b><u>Time Line</u></b>	<b><u>% Improvement</u></b>	<b><u>Annual Improvement</u></b>
<b>Europe</b>	<b>186 g/km to 140 g/km</b>	<b>1995 base line point to 2008</b>	<b>25% (13 years)</b>	<b>1.9%</b>
<b>Japan</b>	<b>12.3 km/l to 15.0 km/l</b>	<b>1995 base line to 2010</b>	<b>23% (15 years)</b>	<b>1.5%</b>
<b>Australia</b>	<b>8.2 l/100 km to 6.8l/100 km</b>	<b>2000 base to 2010</b>	<b>18% (10 years)</b>	<b>1.8%</b>

- 7.7** Australia has committed to a process of harmonisation of its vehicle design rules but this has suffered successive delays. Ford Australia is anxious that this be addressed.
- 7.8** It is important that future vehicle safety improvements be driven by rigorous real-world safety research which provide an accurate analysis of causation and injury trends. Current mass data focuses on fatalities only and provides scant detail on causal factors. Ford Australia is a participant in the MUARC ANCIS (Australian National Crash In-depth Study) project which seeks to collect this data, however the collection of a statistically significant number of cases in all states is limited by funding (despite contributions from industry, jurisdictions and DoTaRS). Ford Australia is also involved in the Vic TAC and MUARC SafeCar intelligent transport systems research project which seeks to understand the potential benefits of intelligent safety technologies and their effects on driver behaviour. More attention is required in this area to enable informed data-driven improvements to road safety.
- 7.9** Government Research into future road safety regulations is also an area which is in need of greater attention. Currently DoTaRS is working on some key research areas under the umbrella of IHRA (International Harmonisation Research Activities). These include side impact and vehicle compatibility research to which Ford Australia has contributed.

**KEY POINT:**

**The Productivity Commission has correctly highlighted some key industry complexities impacting environmental and safety issues. Domestic industry viability is a critical factor in the establishment of challenging, but fair, targets.**



## **8.0 GENERAL ISSUES**

### **USED CARS**

- 8.1** The importation of used cars, particularly in full volume, is not a significant policy issue in context of this review of post 2005 automotive assistance arrangements. However, it has the potential to be a significant issue in the context of the industry's development. Ford Australia therefore believes it appropriate to briefly canvass the topic in this submission.
- 8.2** Ford Australia has long supported the \$12,000 specific tariff applicable to volume imports of used cars. The company has also supported recent amendments to the Motor Vehicle Standards Act, and the development of new procedures, covering specialist and enthusiast vehicles, to close an unintended loophole.
- 8.3** Ford Australia therefore welcomes the Productivity Commission's position that any removal of the specific tariff would have the potential to introduce a destabilising influence on a structural assistance plan for the automotive manufacturing industry. However, the company believes the Productivity Commission has erred in suggesting the implications for domestic automotive manufacture of removing the \$12,000 specific tariff were unclear.
- 8.4** Ford Australia believes removal of the tariff would have significant adverse implications for domestic automotive manufacture. Firstly, it would send a confused message to the global investors on whose decisions the development of the domestic industry is based. Secondly, the volume importation of used cars, particularly from Japan, would seriously erode the already challenged volume base of the domestic industry.
- 8.5** In recent years, there has been a significant increase in used vehicle imports, particularly from Japan, via the low volume import scheme. The recent legislative amendments were designed to address this issue. Used vehicle imports in 2000 totalled 16,825. The table below illustrates how rapid the growth in used vehicles has been.

<b><u>USED VEHICLE IMPORTS</u></b>						
<b>Year</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
<b>Volume</b>	<b>1705</b>	<b>2873</b>	<b>5049</b>	<b>7708</b>	<b>14500</b>	<b>16825</b>
<b>886% increase</b>						

- 8.6 Some key points made by the Automotive Industry Authority - a then independent Government statutory organisation - to a Senate Committee considering the imposition of the \$12,000 specific tariff in 1992 remain valid today.
- 8.7 The Authority determined there were significant volumes of cheap right-hand drive used passenger cars in Japan that were readily available for export. These vehicles were of brands and models generally well known to the Australian consumer.
- 8.8 The Authority also determined that no country that had a significant car manufacturing industry accepted used cars as volume imports, and believed the future development of the Australian car industry would be at risk if Australia allowed them to enter freely.
- 8.9 The Authority believed the new and used car markets in Australia were not separate entities. There was a series of inter-locking sub-markets at different price levels. A major change in any one of those sub-markets could be expected to impact on other sub-markets.
- 8.10 The Authority told the Senate Committee it believed volume imports of used vehicles would threaten the moves toward an efficient industry in Australia by disrupting the volume base and discouraging the on-going investment that was vital to its continued improvement.
- 8.11 Ford Australia also submits that the \$12,000 specific tariff does not represent a clear case of industry protection from vigorous and fair competition. It must more appropriately be viewed as a contemporary recognition of the harm that could be done by the unfettered volume imports of what are essentially dumped products. Unique domestic policy arrangements in Japan make the application of traditional dumping actions here impracticable.

## **GOVERNMENT PURCHASING**

- 8.12** Ford Australia acknowledges the Productivity Commission's recognition that policy changes to government fleet purchasing preferences would create industry uncertainty at a time of transition, without sufficient offsetting community benefits.
- 8.13** Ford Australia believes the present government fleet purchasing preferences are a legitimate and fair policy tool. They make a significant contribution to the domestic manufacturing industry's volume base, and hence its ability to support new product developments and investments in new manufacturing processes and technologies. The intense competitiveness among the four domestic manufacturers also means the use of a fleet purchasing preference does not preclude governments from being able to choose from a wide product offering in a highly competitive market.
- 8.14** Ford Australia believes there are no grounds for changing the present arrangements

## **FOUR-WHEEL-DRIVE TARIFF**

- 8.15** Ford Australia accepts the present light commercial vehicle tariff of 5%. However, the company has for many years held the view that the extension of this lower tariff rate to all terrain wagons is inappropriate, and that these vehicles are passenger cars which should attract the same tariff rate as traditional passenger cars.
- 8.16** It is regrettable that the debate concerning this issue has become polarised over the years, and become centred on an urban/rural focus. Ford Australia has no interest whatsoever in placing a possible additional burden on rural and tourism industries. However, the significant growth in all-terrain-wagon sales in recent years has almost been entirely focussed on private ownership in larger urban centres. Furthermore, the design trend of the vehicles in question has been toward passenger car application.
- 8.17** Ford Australia is practical solution to this issue could be achieved by a straight-forward amendment to the Customs Tariff Act. By deleting the "off road" category in "chapter note five" of Chapter 87 of the Act, vehicles would then be classified for tariff purposes in line with their primary purpose of design. For

example, a four-wheel-drive all-terrain wagon, such as a Ford Escape, would attract a passenger car tariff in that it was primarily designed for the carriage of people. A four-wheel-drive cab/chassis light truck, such as a Toyota Landcruiser, would attract the same rate as commercial vehicles in that it was primarily designed for the carriage of goods.

## **POLICY TRANSPARENCY**

**8.18** The Productivity Commission has suggested there should be greater public transparency in the case of specific ad-hoc government assistance initiatives. Ford Australia does not have any fundamental difficulty with this concept, and would support it provided it was supported and applied consistently by all governments State and Federal.

### **KEY POINT:**

**Ford Australia welcomes the Productivity Commission's observations concerning the specific tariff for used cars and government purchasing policies, particularly the acknowledgement of the disruptive effect which could result from their removal. In the case of four-wheel-drive tariffs, Ford Australia has long argued for equity of treatment based on the design intent of the vehicle in question**