

22nd August 2002

Automotive Industry Enquiry
Productivity Commission
P.O. Box 180
BELCONNEN ACT 2616

Dear Sir,

**SUBMISSION TO THE PRODUCTIVITY COMMISSION REVIEW OF POST
2005 ASSISTANCE ARRANGEMENTS FOR THE AUSTRALIAN
AUTOMOTIVE INDUSTRY.
COMMENT OF REVIEW OF AUTOMOTIVE ASSISTANCE – POSITION
PAPER**

Intercast & Forge made its initial Submission to the Productivity Commission dated 7 May 2002. It also made comment for review of Automotive Assistance Position Paper dated 9th August 2002

**Intercast & Forge wishes to put further arguments to Support Increasing the 4 WD
Tariff Rate to the Passenger Vehicle Rate.**

- The Productivity Commission and its predecessor (the Industry Commission) have always argued in support of common industry tariff rates. A common tariff rate means that the allocation of productive resources employed in an industry is not distorted by different tariff rates across similar activities.
- A lower tariff rate for 4WDs relative to passenger vehicles means that potential production of 4WDs (one of the fastest growing segments of the Australian market) is being relatively disadvantaged.
- Given the relatively small size of the Australian automotive manufacturing industry and the present 100% importation of 4WDs, the potential production leakage from Australia caused by the differential tariff rate is substantial. This leakage means the production efficiency of both vehicles and components is less

than it might be because local economies of size are being constrained.

- There are currently around 110,000 4WDs being imported into Australia each year. There is no information available on the price elasticity of substitution between 4WDs and passenger motor vehicles. So the extent to which the present 10% tariff rate differential on 4WDs is taking production away from Australian passenger vehicle production is difficult to precisely estimate. However, even if 4WD demand were only 10% higher than it would be if there were a common tariff rate across all vehicles, that would mean an annual increase in demand of around 11,000 for passenger motor vehicles. If 50% of that additional demand for passenger vehicles were met by local production, that would amount to an estimated additional production value of local components in excess \$75 million annually. Obviously if local 4WD demand was 50% higher, i.e. 55,000 vehicles, the estimated additional production value of local components would be in excess of \$375million.
- The original intention of having a lower tariff rate on 4WDs was to ensure the full costs of the tariff were not passed on to farmers. But the relatively cheaper price of 4WDs due to the tariff rate differential has contributed to their proliferation across the broader Australian community. If that original intention remains valid, then the correct policy approach would be to subsidise farmers rather than continue with the persistent tariff-induced resource distortions in vehicle production with its consequential adverse impact on Australian component producers.
- Experience over recent years in the USA would indicate a market movement toward AWD/4WD/SUV vehicles. This is expected to accelerate as the next generation and future modern generations age and become the major vehicle purchasers. Leisure activities are driving this trend with city dwellers seeking off-road, out of city holiday experiences.
Multi seat vehicles are an added attraction for this style of vehicle for families.

- The 4WD Tariff Rate has been raised by two of the four local vehicle manufacturers in their supplementary submission and at the public hearings.

Ford say in their submission (No. 105, p. 25) that:

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 to all terrain wagons is inappropriate, and that these vehicles are passenger cars which should attract the same tariff rate as traditional passenger cars.

Similarly, in both of its submissions to the Commission, Holden maintain their support for a higher tariff (presumably the PMV tariff) for certain 4WD vehicles, but recognizes that special purpose off-road vehicles and LCVs used in activities such as agriculture, mining and transport of goods should not be burdened with the passenger car rate of tariff.

This issue is obviously a sensitive issue within the FCAI where their unity is threatened by the differing needs of the importers versus the local producers. Meanwhile, the local component producers are left out in the cold.

It is now the up to the Productivity Commission to recommend that Government correct this anomaly by ensuring that four wheel drive and all wheel drive vehicles used in place of passenger motor vehicles are subject to the appropriate passenger motor vehicle tariff rate.

Yours faithfully
INTERCAST & FORGE PTY LTD

Ray Petty
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