

RESPONSE TO PRODUCTIVITY COMMISSION REPORT

PC Findings	Government Response
<p><u>Impact of Automotive Assistance</u></p> <ul style="list-style-type: none"> • Reductions in assistance to date have contributed to the rationalisation of the automotive industry, encouraged a stronger focus on export markets and provided incentives for higher productivity. Consumers and business users have benefited significantly. • The automotive industry continues to receive tariff protection above the average for manufacturing as a whole and significantly greater budgetary assistance than any other sector. This has benefited the industry, as well as some other related activities. But it also imposes costs on the wider community and, in particular, consumers and business users of vehicles. • The rationale for ACIS is to provide transitional support in the context of trade liberalisation rather than to inhibit rationalisation that may be in the long term interests of the industry. To date, it appears that ACIS, which is widely supported by the industry, has generated additional investment in plant and equipment and R&D in a manner consistent with its objectives. 	<p>Analysis noted.</p>
<p><u>Considerations Bearing on Future Assistance Arrangements</u></p> <ul style="list-style-type: none"> • Assistance to the industry is now much lower than in the past. As a consequence, the purely 'allocative' efficiency gains that would ensue from further assistance reductions are likely to be small and 'dynamic' and other considerations assume greater significance. Thus, the policy calculus is now more complicated. • While the automotive industry has special features, these are not such as to warrant indefinite preferential treatment. • Transitional costs are an important consideration in determining the path to a longer-term goal of removing special support. 	<p>Analysis noted.</p>
<p><u>Post 2005 Tariff and ACIS Options</u></p> <ul style="list-style-type: none"> • A settled path for future automotive assistance policy would serve to reduce one source of uncertainty impacting on investment and production decisions in the industry. To this end, specification of a clearly defined assistance regime for the industry for the decade after 2005 is appropriate. • The Commission has identified three options for reducing tariffs on passenger vehicles and components to the current general rate: <ol style="list-style-type: none"> 1. Reduce the tariff by 1 percentage point a year, commencing in 2006, so as to achieve a rate of 5 per cent in 2010, with no further reductions before 2015. 2. Leave the tariff at 10 per cent until 2010 and then reduce it in one step to 5 per cent, with no further reductions before 2015. 3. Leave the tariff at 10 per cent until 2010 and then reduce it by 1 percentage point a year so as to achieve the rate of 5 per cent in 2015. <p>Of these options, the Commission's preference is for option 2.</p>	<p>Tariffs are being reduced from 15 to 10 per cent in 2005. The Government will reduce PMV tariffs from 10 to 5 per cent in 2010.</p> <p>The Government will provide a ten year program of budgetary assistance of about \$4.2 billion comprising uncapped ACIS duty credits estimated at \$1.2 billion, along with capped ACIS assistance of \$2 billion to be spread evenly over the period 2006 to 2010, with phase-out arrangements for this capped assistance of \$1.0 billion over the period 2011-15.</p> <p>The Government will establish from the vehicle producers' portion of the ACIS budget a Research and Development fund of \$150 million</p>

<ul style="list-style-type: none"> The Commission sees a continuation of ACIS after 2005 as a means to facilitate a reduction in the tariff to 5 per cent. It has identified three ACIS options: <ul style="list-style-type: none"> A. Up to \$2 billion in funding allocated equally across two separate capped pools – one for vehicle producers and one for their suppliers – provided over five years, ceasing in 2010. B. Funding with an equivalent net present value to option A, allocated in the same way provided over 10 years at a uniform rate, ceasing in 2015. C. Funding with an equivalent net present value to option A, allocated in the same way, provided over 10 years ceasing in 2015, with funding for the second five-year period set at half that for the first five-year period. <p>All of these options would involve continuation of the vehicle producers' uncapped production credits until 2015, at which time an assessment could be made about whether such payments should be terminated and the industry afforded access to the Tariff Concession System (if still relevant). Also, the overall cap on funding to individual firms (5 per cent of sales) that applies under the current regime would be retained.</p> <p>Of these options, the Commission's preference is for option A funded at \$2 billion (excluding vehicle producers' uncapped production credits).</p> <ul style="list-style-type: none"> There are not sufficiently strong grounds to warrant modifying the design of ACIS with respect to its eligibility criteria or the basis for earning duty credits (including any linking of payments to the achievement of particular outcomes, such as environmental and industrial relations objectives). 	<p>over 2006-8 to support key technologies put forward by vehicle producers that warrant specific encouragement.</p> <p>The Productivity Commission will undertake a further inquiry in 2008 to determine whether changes are warranted to the legislated tariff reductions in view of conditions in the international trade environment.</p>
<p><u>Other Assistance Matters</u></p> <ul style="list-style-type: none"> Removal of the \$12 000 tariff on second hand vehicles, and government preferences for vehicles manufactured or sold by the local vehicle producers, would appear at this stage not to be warranted when weighed against the possibility that such action could destabilise the structured plan for reductions in automotive assistance. The 3 per cent revenue duty imposed under the Tariff Concession Scheme disadvantages Australian manufacturers – including automotive firms – and imposes unnecessary costs on their customers. The automotive industry will continue to have access to the services of Austrade and to general assistance programs designed to help exporters. In this light, the case for a successor to the industry-specific Automotive Market Access and Development Strategy is not strong. There is a need for more information to be made publicly available on ad hoc support provided to automotive (and other) firms. Greater transparency would help to assure the community that such support was appropriate. Moreover, there would be value in relevant jurisdictions developing protocols in this area to avoid costly interstate 'bidding wars'. 	<p>The Government will retain the \$12,000 tariff on second hand vehicles.</p> <p>The Government agrees in principle with the removal of the 3 per cent revenue duty imposed under the Tariff Concession System and will remove it as soon as appropriate, having regard to the fiscal strategy and competing priorities.</p> <p>The Government will not implement a successor to the Automotive Market Access and Development Strategy.</p> <p>Information on the Commonwealth Government's support for the automotive industry can be found on the website of the Department of Industry, Tourism and Resources at: www.industry.gov.au. The Commonwealth Government agrees that protocols to limit State Government 'bidding wars' would be desirable, noting that this is a matter for State Governments.</p>

<p><u>Adjustment Issues</u></p> <ul style="list-style-type: none"> • Continuing adjustment in the Australian automotive industry is both inevitable and necessary. Such adjustment should be facilitated by significant recent improvements in the skills of the industry's workforce and reduced regional dependence on the industry. • The Commission's preferred post 2005 assistance options have been designed with the intention of avoiding significant industry wide adjustment problems. • Irrespective of what assistance arrangements are put in place after 2005, the possibility of potentially disruptive adjustments affecting individual firms and their employees and particular regions cannot be ruled out. • The adjustment consequences of the exit of a vehicle producer would depend on a range of factors, including the exiting firm's export volumes and the degree of leakage of its domestic sales to imports. • Firm or region-specific adjustment assistance could be warranted if firm exits have the potential to cause major disruption. However, as well as facilitating necessary change, any such assistance should: <ul style="list-style-type: none"> • target individuals for whom adjustment pressures are most acute and who are unlikely to be able to cope without additional assistance; • be of limited duration so as to encourage transition; • be as simple as possible to administer; and • be compatible with general safety net arrangements. 	<p>Analysis noted.</p>
<p><u>Workplace Arrangements and Industrial Relations</u></p> <ul style="list-style-type: none"> • While productivity in Australian automotive workplaces has increased considerably over the last decade and a half, significant further improvement is required if the industry is to become internationally competitive and not have to rely on special government support. • There is agreement among firms, employees and their unions about the need for further workplace change and for a stable industrial relations environment to minimise production stoppages. Because the industry is heavily oriented to just-in-time production, such stoppages can impose significant costs on firms, their employees and the wider community. • Responsibility for achieving better workplace outcomes lies largely with managers and employees within individual enterprises. Better communication and greater co-operation between the parties will be crucial in this regard. • There is considerable scope for firms to improve their management and communication skills. Among other things, this would assist them to better convey to their employees and union representatives the relationship between workplace outcomes and the viability of the enterprise and the industry. Similarly, providing opportunities for those representing employees to improve their skills in assessing this sort of information would lead to more productive outcomes. • While a single industry-wide union, enterprise unions or greater reliance on direct negotiation between firms and their employees would all be likely to generate greater coincidence of interest than the current 	<p>Analysis noted.</p> <p>The Government agrees that there is scope to improve productivity through greater co-operation and implementation of more productive workplace relations arrangements in the automotive industry.</p> <p>The Government notes that the industry has committed to create an Industrial Relations committee that will provide managerial and mentoring support in conjunction with legal and financial assistance in the event of illegal industrial action.</p>

<p>multiplicity of largely occupation-based unions, it is ultimately up to employees to determine what representation arrangements best suit their needs.</p> <ul style="list-style-type: none"> • Workplace regulation has an important role in setting the framework for negotiations between firms and their employees and representatives, and in helping to provide for an appropriate balance in the bargaining power of the various parties. However, regulatory mechanisms cannot be a substitute for effective management of workplace issues. • The imperative for the automotive and other industries to improve their international competitiveness through lean manufacturing processes should be an important consideration in the assessment of proposals to modify relevant aspects of Australia's workplace regulation. However, the specific proposals put forward by the industry to constrain further the rights of employees to take industrial action raise some complex issues and would have ramifications in other industries, making it difficult to assess their merit in this inquiry. • Current discussions between representatives of automotive firms and some unions could be helpful in progressing the employee entitlements issue and other workplace problems on which there is agreement that industry level actions are required. • Continuing gradual and predictable reductions in government support for the industry would help to maintain the pressure on managers and employees to improve workplace and industrial relations performance to international best practice levels. 	
<p><u>Skilling and Training</u></p> <ul style="list-style-type: none"> • There are emerging skill shortages in a number of areas of the automotive industry. However, identifying what specific responses may be required goes beyond this inquiry. Moreover, responsibility for addressing some of the underlying causes of these emerging shortages seemingly lies with the industry rather than governments. • At a broader level, a key issue for the future is how to address limitations on the capacity of the education and training system to respond effectively and quickly to skilling issues confronting the industry. An external review of training advisory arrangements could be beneficial in helping to ensure that education and training arrangements continue to meet the needs of the industry efficiently. 	<p>In the VET sector, the Commonwealth is determined to ensure that Training Package content and development timeframes are consistent with Industry requirements. The Australian National Training Authority (ANTA), through its National Training Quality Council (NTQC), is regularly examining ways in which the development process can be accelerated, consistent with maintenance of quality standards and the need for adequate consultation. Proposals for the continuous improvement of Training Packages are being developed for consideration by the NTQC at its December 2002 meeting.</p> <p>The Australian National Training Authority (ANTA) is undertaking a comprehensive review of industry advisory arrangements for the VET sector. ANTA has employed the Allen Consulting Group to seek views of industry stakeholders and to develop options for future industry advisory arrangements. DEST is participating in this review.</p>

<p><u>Taxation</u></p> <ul style="list-style-type: none"> As a revenue-raising instrument, the luxury car tax has deficiencies. If it is retained, the threshold for the tax (and the associated depreciation limit) would need to be raised to reflect previous price movements in the luxury vehicle market. As revenue raising instruments, payroll tax and stamp duty on vehicle sales and transfers also have deficiencies. However, a thorough assessment of the impact on community welfare of abolishing these more widely applicable taxes, or changing their design, would require a broadly based review, including an assessment of the implications of options for replacement of any revenue shortfalls. 	<p>Not accepted. The Government considers the current luxury car tax threshold and indexation mechanism are appropriate.</p> <p>Payroll tax and stamp duty on vehicle sales and transfers are State taxes. Any changes to these taxes are a matter for the States.</p>
<p><u>The Supply of Infrastructure Services</u></p> <ul style="list-style-type: none"> Microeconomic reform in the transport sector has improved the efficiency and reliability of automotive supply chains. It has also facilitated the emergence of specialist transport suppliers which now play an important role in the just-in-time supply of components to vehicle producers and the distribution of finished vehicles. Continuing inefficiencies in electricity supply arrangements are adversely affecting some automotive producers. The current review of energy markets commissioned by the Council of Australian Governments provides a forum to canvass the concerns raised in this inquiry in a broad context, drawing on the experiences of a range of industries. 	<p>The Government, in consultation with the States and Territories, will respond to the recommendations of the COAG Energy Market Review in due course.</p>
<p><u>R&D Support Measures</u></p> <ul style="list-style-type: none"> It would be desirable to have an independent review of the performance of Australia's general support measures for R&D around 2005. Such a review should aim to ensure that there is appropriate general support available for R&D undertaken by Australian industries – including the automotive industry after the specific support provided through ACIS ceases. 	<p>A high level committee comprising the Prime Minister, the Minister for Industry, Tourism and Resources, the Minister for Communications, Information Technology and the Arts, the Minister for Education, Science and Training, and the Minister for Finance and Administration is overseeing the implementation of <i>Backing Australia's Ability</i>. An annual progress report is being provided in the Innovation Report.</p> <p>Regular review mechanisms are also in place for key programs such as the Australian Research Council, R&D Start, the Cooperative Research Centres program and the R&D tax concession.</p> <p>The Government will consider the need for a broader independent review once the programs in <i>Backing Australia's Ability</i> have been in place over a longer period.</p>

<p><u>Vehicle and Related Standards</u></p> <ul style="list-style-type: none"> • Australia's emission and fuel standards, as well as the availability and price of higher octane fuel, are matters of considerable relevance to the future development of the Australian automotive industry. In particular, they are likely to influence incentives to develop more fuel-efficient and environmentally friendly engine technologies. Hence, it is important that the industry is given appropriate opportunity to put its views to the forthcoming review of Australia's emission and fuel standards. • The consultative processes of the National Road Transport Commission could provide an avenue for ensuring that significant inconsistencies and differences in standards for new vehicles and vehicles in use do not emerge. • The introduction of specific standards for replacement components that are integral to vehicle safety or to a vehicle's environmental performance could benefit the community. However, the involvement of an independent body in the development of such standards would be important to ensure that they were not used to reduce appropriate competition from imports or from particular local suppliers. • The application of 'proof-of-safety' requirements for new industrial chemicals which have been certified as safe in other developed countries, would only be warranted if the regulator concerned can demonstrate both that a particular chemical is 'high risk' and that specific circumstances in Australia make re-testing essential. <p><u>Fuel Consumption Targets</u></p> <ul style="list-style-type: none"> • The formulation of future fuel consumption targets should involve extensive consultation with the automotive industry to determine what improvements in the fuel efficiency of local vehicles can be achieved without significantly impacting on the industry's competitiveness. 	<p>The Government will consult industry as part of any environmental policy processes materially affecting them.</p> <p>The Government does not consider it appropriate to respond on these important issues in the context of a response to the passenger motor vehicle inquiry. Policies relating to motor vehicles and the environment will be determined as part of broader environmental policy processes.</p> <p>In the context of its response to the recommendations of the Chemicals and Plastics Action Agenda, the Government has committed to continuing to work with industry to ensure the most efficient regulatory system is in place for industrial chemicals, that is, a system that does not inhibit the introduction of new and safer chemicals.</p>
<p><u>Market Access</u></p> <ul style="list-style-type: none"> • Some progress has been made in reducing trade barriers faced by Australia's automotive exporters. However, significant and widespread barriers remain. • The use of incentives to attract automotive investment may be increasing. Such incentives are also likely to inhibit trade in automotive products. • There are some significant non-government barriers to trade, including the global sourcing strategies of the major automotive producers and the 'understanding' that certain US vehicle producers have with the United Auto Workers to limit their importation of vehicles from overseas subsidiaries. • WTO and APEC processes are likely to improve Australian automotive exporters' access to overseas markets and should continue to be the principal focus for Australia's trade negotiation efforts. • While some potential bilateral free trade agreements that would yield net gains for Australia would also benefit the automotive industry, this will not always be the case. More generally, the bilateral approach has some risks and is not a panacea for Australia's market access problems. 	<p>The Government will continue to pursue reductions in market barriers for Australian businesses, including automotive manufacturers, utilising bilateral, WTO and APEC processes.</p>