AUTOMOTIVE INDUSTRY AUTHORITY AMENDMENT BILL 1985

Date Introduced: 17 April 1985
House: Senate
Presented by: Senator the Hon. D.J. Grimes, Minister for Community Services
Representing the Minister for Industry, Technology and Commerce

Short Digest of Bill

Purpose

To amend the Automotive Industry Authority Act 1984 (the Principal Act) to establish the administrative procedure for providing financial assistance to projects for the development of motor vehicles and components of Australian design.

Background

The motor vehicle industry in Australia has been significantly influenced by Government policies. The structure of the industry reflects a government policy towards it which has been not merely an instance of the general use of protection to promote manufacture but a detailed concern with promoting higher Australian content. The industry comprises five sectors: passenger vehicle manufacture and assembly, commercial vehicle manufacture and assembly, component manufacture, importing and retailing.

The situation in the manufacturing sectors of the motor vehicle industry reflects more than half a century of government policy. A very large manufacturing industry has been created which employs more than 6 per cent of all employees in the total manufacturing sector. About two thirds of this employment is in the motor vehicle manufacture and assembly sections of the industry, with the other third in the components section. Employment is geographically dispersed.

Long term assistance measures have created an industry which in the manufacturing sector, especially, is dominated by a five largely foreign owned firms, with large employment, some in politically awkward locations.

At the turn of the century, only motor vehicle bodies were produced in Australia. Tariffs introduced in
the 1920s caused two American companies, Ford Motor Company and General Motors Corporation, to begin local production of chassis. Similar factors led to the growth of a largely locally owned component manufacture industry at about the same time. Governments of both political persuasions wanted more than this: production of a complete car in Australia. During the 1940s General Motors-Holden (the product of a takeover of the leading local manufacturer of car bodies) accepted the invitation of the Chifley ALP government to produce a fully Australian car, while other American companies moved to increase their Australian content. Concessions granted to British firms, which controlled the bulk of the market, meant they had no incentive to manufacture locally until import licencing was introduced in 1950. So it was not until the 1950s that the British Motor Corporation undertook Australian manufacture. Through takeover, the American owned Chrysler Corporation did likewise about the same time. In the 1950s and 1960s number a of European and Japanese firms such as Volkswagen and Toyota, began to assemble their cars locally.

The removal of import restriction meant that from the early 1960s the percentage of imported components being used in local manufacture increased. This was the stimulus to the decision by the Government, announced in May 1964, to introduce a new form of assistance: local content plans for motor vehicles. The 3 plans provided for concessional entry of components by vehicle manufacturers in return for undertakings to increase the Australian content of their vehicles.

The local content plans achieved their aim of giving higher levels of protection to local component manufacturers. The share of Australian content returned to the peak of 77 per cent which it had reached during the import licencing of the 1950s. However, by giving an incentive through higher rates of protection to vehicles entered in the low volume plans, the plans encouraged proliferation of car models and encouraged small scale production to take advantage of the assistance arrangements. This occurred especially in the light car sector.

Tied to the question of the proliferation of models in the light vehicle range was the growth in imports of Japanese cars into Australia. The four domestic manufacturers operating under the existing plan were under great pressure from imported cars. The share of market achieved by local manufacturers had declined steadily from 84 per cent in 1966 to 68 per car in 1973. This had affected the profitability of the firms involved although the industry as a whole was still a profitable one relative to other manufacturing industries.
There were also a number of other potent, though less easily measured, pressures operating. This was a time of widespread criticism of the role of multinational companies in Australia. There was also public debate about the price and quality of Australian made motor vehicles, criticism of safety standards and concern about environmental pollution. Each of these concerns made the industry a likely subject for Government scrutiny.

In the early 1970s the Government was presented with a combination of pressing problems and unsettled policies. Action had to be taken by Government because of the developments of the previous decade. Pressure was building on the Government from the major motor vehicle manufacturers and from FAPM, representing most of the component manufacturers. The consequences of ten years of ad hoc government responses had created a situation which has been described as "something like an economist's nightmare".[1]

Furthermore, the consequences of more than 50 years of government policy had produced an industry whose size and location made possible political solutions to its problems difficult, perhaps even untenable, for a government.

Since 1974 the major forms of protection afforded to motor vehicle and component production have been quantitative restrictions limiting imports to 20 per cent of the domestic market and a requirement of 85 per cent local content. Since 1982 the possibility has existed for plans producers and component producers to reduce the local content requirements through export facilitation.

The main effects of the entire package of current assistance measures on the development of the automotive industry over the past decade has been to:

- entail considerable government involvement in and control of the conduct of the industry;
- accord automotive production increasingly high levels of assistance in comparison with industry generally;
- provide diverse levels of assistance to the various automotive production activities. The protective incidence of local content provisions varies according to the competitiveness of local component production activities and ranges from quite low levels to several hundred per cent at the margin of required local content. The protective
incidence of volume quotas varies according to the cost of motor vehicles. Because imports are restricted in number, importers are encouraged to bring in those vehicles on which they make the largest absolute profit per unit. This makes the impact of the measure highly regressive in that purchasers of cheaper category motor vehicles are less likely to be able to choose imported vehicles;

- provide open ended commitments to assistance to the passenger vehicle and component producing industry and no effective limit to the costs imposed on the community. If the competitiveness of local automotive production declines (as it did in the 1970s), then assistance from fixed market sharing and quotas and local content provisions automatically increases;

- encourage local production of most components and a wide range of passenger vehicle models with lesser regard for relative costs, rather than to encourage efficiency and competitiveness; and

- shelter the local industry to some degree from changes in competitiveness and consumer tastes by reducing pressure from imports. The impact of market signals is diminished and producers can be less responsive to pressures for changes in production methods and product lines.

Further, the package:

- was complex and the levels and distribution of assistance were not readily apparent; and

- involved high administrative costs to both government and industry.

In terms of Government objectives, the performance of the assistance package and the passenger motor vehicle and component industry have been a failure. Despite considerable community support and best intentions, the industry's competitiveness declined substantially. It is now one of Australia's least competitive industries. Achieved local content has declined; activity has not been maintained; disruption has not been avoided; and consumers have not been well served. The present fragmented industry structure is clearly unsatisfactory.
High assistance to automotive production has led to price and cost increases throughout the economy which have penalised consumers and inhibited employment and growth prospects in other industries.


The main features of the policy are:

1. The effective elimination of quotas by means of phased reductions of the penalty tariff on imports outside quota. This will also mean the phasing out, by 1992, of the market sharing policy whereby 80 per cent of the market is reserved for domestic producers.

2. The sale of an increasing proportion of quotas.

3. The retention of the Motor Vehicle Manufacturing Plan whereby plan producers are required to achieve 85 per cent local content.

4. Expansion of the export facilitation scheme from 7.5 to 15 per cent (subject to conditions where export facilitation exceeds 7.5 per cent).

5. The allocation of $150m over the next 5 years to assist the industry in upgrading design capacities and to establish an Automotive Industry Authority.

The government anticipates that the plan will lead to restructuring of the industry and that, in particular, a reduction in the number of models manufactured from the current level of 13 to 6 or less. To help ease hardships associated with possible labour reductions, redundant employees will be eligible for retraining under the Labour Adjustment Training Assistance Scheme.

The government signalled its intention to establish an Automotive Industry Authority to oversee the restructuring. It was intended that the Authority would promote efficiency by encouraging the industry to move towards a long term goal where there is:

- greater integration, including more Australian participation;
greater standardization of components;
engineering quality control standards; and
substantially fewer models.

In October 1984, the Automotive Industry Authority was established by the Principal Act. It is an independent body whose functions are to conduct investigations and monitor the performance and outlook for the Australian automotive industry. Furthermore, the Authority should encourage the development of the industry in line with Government policy so as to improve the industry's efficiency and reduce its dependence on Government assistance.

On 29 May 1984, the Government announced that the Motor Vehicles and Components Development Grants Scheme (which will be subject to a maximum appropriation of $150m for the 5 years 1984-89) would provide financial assistance for the development of Australian designed motor vehicles and automotive components. This Bill incorporates this development into the Principal Act.

Main Provisions

The types of research, development and design activities relating to eligible products of eligible companies which can be assisted under the Scheme are outlined in the proposed amendment to section 4 of the Principal Act (clause 5).

The provision of financial assistance to encourage the development of locally designed motor vehicles and components is included as one of the objects of the Automotive Industry Authority in the proposed amendment to section 6 (clause 6).

The administrative basis for the new Scheme is established by the proposed new Part IVA (clause 8).

It provides that the selection of projects for assistance under the Scheme, the amount of that assistance, and its duration are to be within the discretion of the Authority. However, such matters will be subject to the Act, any regulations, and any specific guideline directions from the Minister.

It restricts the total amount of grants payable or available during each year of the Scheme to a level determined by the Government.
It provides for grant agreements to limit grants to a maximum rate of 50 per cent of eligible expenditure and five years duration, unless otherwise approved by the Minister.

Grants are to be paid progressively over the life of the project as eligible expenditure is incurred, with provision for advance payments if the recipient offers suitable security.

False or misleading applications are to be liable to penalty and any grants paid as a result of such application maybe recovered.

The Minister may authorise the Authority to arrange for the carrying out of public interest projects on behalf of the Commonwealth (new section 27A inserted by clause 9).

Remarks

The development and application of new techniques and products is inherently risky yet, when successful, may engender wider benefits beyond those accruing to the innovating company.

This Scheme is similar to the more generally applicable Industrial Research and Development Incentives Scheme. Such schemes facilitate companies undertaking innovative activities rather than waiting and applying techniques successfully developed by others.

Control over the administration of the Scheme may enable the Authority to facilitate activity by manufacturers to correspond with the Government's stated intentions for the future development of the Australian motor vehicle and components industries.

For further information, if required, contact:

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References
