Date Introduced: 4 April 1984
House: House of Representatives
Presented by: Hon. John J. Brown, M.P., Minister Assisting the Minister for Industry and Commerce

Short Digest of Bill

Purpose

To provide for the payment of bounty on the production in Australia of two-stroke, air-cooled, spark ignition engines.

Background

Over the last decade, despite a high level of assistance through duties on competitive imports, the engine manufacturing industry (excluding motor vehicle engines) has contracted. One of the main reasons for this outcome is the fact that the relatively small and fragmented nature of the Australian market precludes local manufacturers from the benefits of the more cost-effective large scale production of overseas manufacturers. The 1977 and 1979 inquiries by the Industries Assistance Commission highlighted a further important reason namely the inability of at least part of the industry to keep up with technological advances in engine design and construction. There have been at least five main engine manufacturers in the past and by 1977 only three of these were still operating. Victa now constitutes virtually the entire engine manufacturing industry producing a single engine model (two-stroke) for use mainly in its lawnmowers. Victa also produces, in small quantities, an industrial version of the engine.

In 1983 Victa commenced production of a new engine, the Series 80, to replace the present model in order to improve Victa's competitive position with imported four-stroke engines, to reduce its dependence on lawnmower production and its seasonality, and to improve its export sales. The new engine incorporates the latest available two-stroke technology, has a lower cost of production, and will be suited to both lawnmower and industrial applications. Full production of the new engine is expected to begin in August 1984.
Engine imports are subject to a General rate of duty of 35 per cent. In its report, "Lawnmowers, Certain Engines and Parts",[1] the Industries Assistance Commission considered that 35 per cent provided effective assistance in excess of that accorded to manufacturing industry generally. The IAC recommended that the 35 per cent duty be reduced to 25 per cent immediately and be further phased down to 15 per cent over two years. It concluded that a rate of duty of 15 per cent would provide Victa with a rate of return of the order achieved by the manufacturing industry generally and would also be sufficient to maintain local engine production. The IAC believes that Victa has a natural advantage by virtue of the fact that the Australian market for mowers is dominated by those fitted with two-stroke engines.

In a Press release, dated 12 January 1984, the Acting Minister for Industry and Commerce announced the Government's decision on the IAC recommendations. The Government considered that such a reduction in assistance could endanger production of small petrol engines. It decided, however, that the long-term duty rate should be reduced immediately from 35 per cent to 25 per cent, and that a bounty, roughly equivalent to a 10 per cent duty, should be paid to existing manufacturers over the next two years. The Government took into account the fact that Victa had made a considerable investment in developing the Series 80 and felt that bounty assistance would allow Victa to adjust to the lower level of assistance and to have an opportunity to develop new markets for the engine, to thoroughly test its commercial attractiveness, and to recoup some of the developmental costs.

Outline

This Bill provides only for bounty assistance. (See the digest for the Customs Tariff Amendment Bill 1984 for information regarding the reduction in the duty). A bounty of $6 per engine will be paid on two-stroke, air-cooled, spark ignition petrol engines up to 4.5 kilowatts, provided they are sold for use in Australia or used in Australia by the manufacturer and have an Australian content of not less than 55 per cent.

Main Provisions

Clause 3 defines a number of terms used in the Bill. A "bountiable engine" is defined as a two-stroke, internal combustion piston engine designed to use a mixture of petrol and oil as its fuel, to use a spark plug for its ignition, to be air-cooled, and has a maximum power output at the crankshaft not exceeding 4.5 kilowatts. The "bounty
period" commences on 12 January 1984 and ends on 11 January 1986.

Clause 4 allows the Comptroller-general of Customs to determine the amount of the factory cost and the Australian factory cost of a bountiable engine. Allowance will be made for factory overhead costs but not for costs associated with general administration, selling or servicing costs or taxation.

Clause 6 provides for bounty to be payable on the production in Australia of bountiable engines. Bounty will be payable to the manufacturer of the bountiable engine subject to the Comptroller-General being satisfied that:

a) the manufacture of the bountiable engine was completed by the manufacturer at registered premises during the bounty period;

b) the Australian factory cost of the bountiable engine is not less than 55 per cent of the factory cost of the engine;

c) during the bounty period, the bountiable engine was used by the manufacturer in Australia or sold, or otherwise disposed of, by the manufacturer for use by another person in Australia; and

d) the bountiable engine is of good and merchantable quality.

Sub-clause 6(5) enables certain bountiable engines which were completed before 12 January 1984 to be eligible for the bounty.

By clause 7, the amount of bounty payable in respect of a bountiable engine is $6. The total amount available for bounty assistance in a given year will be limited to $1.2 million (clause 8).

Under clause 10, a person who seeks bounty assistance may lodge a claim on an approved form with the Comptroller-General within 12 months after the completion of the manufacture of the bountiable engine. The Comptroller-General then will decide whether to accept or to refuse the claim and, accordingly, will notify the claimant of the decision.

The Bill also contains provisions that are generally standard to other Bounty Acts. These provisions relate to the registration of premises (clause 11), control
and inspection powers for the protection of revenue (clauses 12-20) and to the right to apply to the Administrative Appeals Tribunal for review of certain administrative decisions under the Act (clauses 21-22) as well as the standard appropriation provision (clause 23).

Remarks

The IAC considered the question of bounty assistance. It concluded that, while bounties would not raise the price of the product to the consumer, they could produce production distortions because the effective assistance on petrol mowers (the engine of which would also be assisted by bounty) is higher than that on its close substitute, electric mowers. The IAC stated that assistance to petrol engines should continue by way of tariffs. It believed that "a change in the form of assistance should only be made if an improvement in the efficiency of resource use can be clearly demonstrated. The evidence did not convince the Commission that a net benefit would result from a change in the form of assistance to bounties".[2]

For further information, if required, contact:

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References

2. ibid., p.25.