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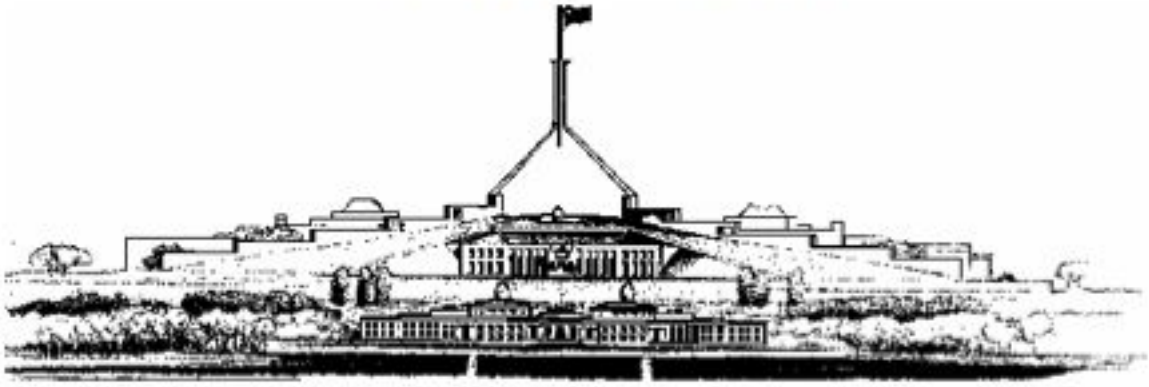

HOUSE OF REPRESENTATIVES

ACIS ADMINISTRATION BILL 1999

ACIS (UNEARNED CREDIT LIABILITY) BILL 1999

CUSTOMS TARIFF AMENDMENT (ACIS IMPLEMENTATION) BILL 1999

Second Reading

SPEECH

Wednesday, 23 June 1999

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Wednesday, 23 June 1999	**Source**	House
Page	7243	**Proof**	No
Questioner		**Responder**	
Speaker	Cox, David, MP	**Question No.**	

Mr COX (Kingston) (6.55 pm)—I rise to second Labor's amendment to provide for no further reduction in car tariffs beyond the year 2000 without a full review of the automotive industry. It was one of the most irresponsible acts of the Howard Liberal government to take a decision more than seven years in advance that there would then be a five per cent reduction in one step to 10 per cent. That reduction would come after a long period of gradual reductions in the car tariff to 15 per cent by the year 2000 and a tariff pause to 2004. When the Howard government made that decision, it had no idea what conditions would prevail in Australia's automotive industry at the time of the reduction, nor any idea what the condition of the world car market would be in 2005.

The Industry Commission submitted its report on the automotive industry to the Treasurer on 26 May 1997. It contained two sets of recommendations. The majority report by Presiding Commissioner Scales and Commissioner Rae said:

The Commission recommends that from 1 January 2001 tariffs on passenger motor vehicles and components (including aftermarket components) be reduced at the rate of 2.5 percentage points per annum until 2004, when the tariff will be at 5 per cent, the rate currently applying to most Australian manufacturing industries. A 2.5 percentage points per annum reduction for components should apply even if a slower rate of reductions is set for passenger motor vehicles.

In this recommendation, the Industry Commission recognised that, when tariff reductions are applied, a reasonable rate of phasing is required to avoid dislocation of the affected industry. This is consistent with the industry practice of requiring continuous improvement, and it gives some benefit to consumers. It also explicitly recognised that 2.5 per cent was probably a faster rate of phasing than would likely be achieved for passenger motor vehicles. The minority report by Associate Commissioner Webber recommended:

Tariffs on passenger motor vehicles, original equipment and replacement components be maintained at 15 per cent until 2005, with a review to be held in say, 2003 to consider post-2005 assistance arrangements for the industry.

And:

The export facilitation scheme be maintained unless and until it is ruled to violate Australia's obligations under the General Agreement on Tariffs and Trade. If untenable, the scheme should be replaced by arrangements with similar assistance effects.

The Howard government, under considerable pressure from the Labor Party, accepted the minority report recommendation for a tariff pause at 15 per cent from 2000 to 2004, but it did not provide for any review of the industry before a further reduction to 10 per cent on 1 January 1995.

Labor's amendment is intended to ensure that there is a full review of the car industry before any further reduction in tariffs after 1 January 2000. From my discussions with the industry, this review will be welcomed, and the need for it would, I expect, have been raised again by them as 2005 drew nearer. The other decision announced by the Howard government in mid-1997 was the replacement of the Export Facilitation Scheme with a new assistance arrangement. As the Howe leather case has demonstrated, the Export Facilitation Scheme was vulnerable to challenge under World Trade Organisation rules. Australia has its sovereignty but, if we do not abide by the relevant multilateral trade agreements, we will increasingly find that other countries have their sovereignty as well and some Australian exporters will find themselves excluded from valuable markets.

On 22 April 1998, the government announced that the new assistance arrangement would be the Automotive Competitiveness and Investment Scheme. Bills for the scheme were introduced into the parliament in 1998, but they had been prepared with far too little consultation with the industry and needed at least extensive amendment and probably complete redrafting. The election intervened and they were not proceeded with. That consultation

which was so necessary has now been completed, and the industry believes that the bills we are debating today are workable.

While the industry may not be satisfied with all aspects of the new arrangements, it is recognised that the Export Facilitation Scheme is due to finish on 31 December 2000 and without ACIS they would get no assistance at all. The Labor Party is supporting the Automotive Competitiveness and Investment Scheme and hopes that it will provide the basis for a stronger automotive industry post 2000. Labor recognises the challenges that lie ahead with massive overcapacity by many car makers around the world and intense competition, including from emerging countries. The fact that Australia will be embarking on a new set of automotive industry assistance arrangements makes it imperative to conduct a review of the car industry to ensure that the arrangements are working.

ACIS has four key objectives: first, encouraging the development of a sustainable, prosperous and internationally competitive automotive manufacturing industry in Australia; second, improving the overall economic performance of the Australian automotive industry; third, providing good quality, competitively priced vehicles to the Australian consumer; and, fourth, meeting Australia's international obligations and commitments. Many people will see the last of these objectives as a constraint, and I think that the explanatory memorandum referred to it in those terms. But, given the global nature of the car industry and that Australian manufacturers need to compete for export markets, meeting those international obligations is a prerequisite for success.

The big car markets for Australian made cars have lower tariff barriers on passenger motor vehicles than Australia does: the USA, 2.5 per cent; the European Union, 10 per cent; and Japan, zero per cent. It is difficult to sell foreign cars in Japan because of their unique dealer arrangements which are designed to maintain a high degree of brand loyalty. However, this is a problem which Mitsubishi does not have. We sell far fewer cars to emerging economies. There are two reasons for this. The first is that, with low average incomes, they have lower effective demand for cars. The second is that they have much higher trade barriers against vehicle imports than Australia has—Brunei, 40 to 200 per cent; China, 100 to 120 per cent; Saudi Arabia, 25 per cent; South Africa, 61 per cent; India, 110 per cent; Thailand, 80 per cent; Taiwan, 30 to 42 per cent and a quota of 2,000; Malaysia, 140 to 300 per cent; Indonesia, 200 per cent; and Korea, eight per cent—but informal barriers reducing import penetration to marginal levels.

It is infuriating for local car workers to face competition from imports from countries that put up prohibitive tariff and non-tariff barriers to Australian exports. This protection by our competitors has to be a priority for trade negotiations. How much progress other APEC countries will make towards reducing protection is a question Australia's car workers want answered. Progress in reducing those barriers is an issue which needs to be considered in a post-2000 review of the car industry to determine what the real effect of those barriers is on the Australian car industry.

Large volume exports of passenger motor vehicles from Australia are a relatively recent phenomenon. In 1985 the amount of assistance the industry received peaked with tariffs, quotas, duty concessions and export facilitation. Local component manufacturers were assisted by an 85 per cent local content scheme. The Button car plan was introduced in 1985. It followed reports by both the Industry Assistance Commission and the Car Industry Council. The Labor government wanted to move away from the short-term crisis containment that had characterised car industry policy since the 1960s. The Button plan had four objectives: (1) to give the industry more time to restructure and modernise; (2) to make it more efficient; (3) to hold down the price of cars; and (4) to reduce job losses in the short term and provide job stability. It implemented a number of changes. The 20 per cent quota on vehicle imports was replaced by tariff quotas set to phase out in 1992, the local content scheme was retained with amendments, access to the Export Facilitation Scheme was increased, labour adjustment training arrangements were put in place and an automotive industry authority was established to oversee the new arrangements. In 1986 penalties for low volume production were introduced and in 1987 export facilitation provisions were introduced for importers.

A mid-term review of the Button car plan was precipitated in 1988 by a substantial reduction in the Australian dollar that reduced the adjustment pressure on the industry. Possible exchange rate changes are another good reason for a post-2000 review of the car industry. As a result of that review, and consistent with a general policy introduced at the same time of phasing down tariffs for other manufactured goods, tariffs on passenger motor vehicles were reduced from 57.5 per cent to 45 per cent, phasing down to 35 per cent by 1992. What did the Button car plan hope to achieve? The answer to that, according to the Industry Commission report, was the view that the industry should be gradually exposed to international competition and treated more like other Australian industries and the greater realisation that economies of scale would improve industry efficiency.

The government expressed a desire to see an industry structure by 1992 of no more than three manufacturing entities producing six models at most. Fortunately, Australia still has four car makers. Governments' grand designs for industries do not always come to pass, nor do industries develop the way they predict. That applies in countries other than Australia. Believers in the need for central guidance and a high level of intervention in industry policy cite the Japanese Ministry for International Trade and Industry, MITI, as the most desirable model. They should remember that MITI can get it spectacularly wrong. They once told Honda not to manufacture cars.

Rather than achieving success by increasing economies of scale, the Button car plan and exposure to international competition forced Australian manufacturers to become much more efficient and for the first time exports became a large part of their business. That is something that Australian car makers had never seriously contemplated. It was a considerable achievement that the industry and car workers can be proud of.

Japanese lean production techniques have, I hope, rendered the Button plan objective of consolidating to three car makers an obsolete concept. Smaller production runs, more flexible response to changes in what the market wants, an emphasis on efficiency and quality in production produce superior results. Lean production techniques challenge all the old assumptions about what is necessary for efficient mass production.

In May 1990 the Industry Commission was again asked to report on the car industry. The result was that both scheduled tariff reductions and access to the 15 per cent duty-free entitlement were continued. Penalties for low volume production were continued but set to expire in December 1996 and a new labour market adjustment package was implemented. Export facilitation arrangements were extended and made more flexible and market oriented. Export value base-year hurdles, upper limits on earning export credits and restrictions on the sale and transfer of export credits were all abolished. Export credits were to be earned on value added in local content instead of full local content value, and the definitions of eligible imports and exports were broadened. The Button car plan, even with these modifications, has provided the certainty and stability that the industry has needed to restructure and invest.

The new ACIS arrangements are not specifically focused on exports. They are focused on sales, investment, and research and development. ACIS provides duty credits which may be used to pay customs duty on eligible imports or transferred. The scheme has two parts—one for car manufacturers and one for producers of components. Motor vehicle producers will be able to claim three types of duty credits. The first is a duty credit equal to 15 per cent, uncapped, plus 10 per cent, capped, of the value of production of cars sold in Australia and New Zealand, multiplied by the relevant tariff rate. The second is a duty credit equal to 25 per cent of the value of production of motor vehicles other than those sold in Australia and New Zealand, engines and engine components, multiplied by the relevant tariff rate. The third is a duty credit equal to 10 per cent of the value of their investment in plant and equipment averaged over the preceding three years.

Automotive component producers, automotive machine tool and tooling producers, and automotive service providers can claim two types of export credits. The first is a duty credit equal to 25 per cent of the value of their investment in plant and equipment, averaged over the preceding three years. The second is a duty credit equal to 45 per cent of the value of their investment in research and development, averaged over the preceding three years. Where motor vehicle producers provide components, tooling or services for a third party—as Mitsubishi does—they can access credits from the component, tooling and services section of the scheme. A fiscal cap of $2 billion will apply to all benefits paid over the five years of the ACIS arrangement. The fact that ACIS expires after five years—at the same time as the government's proposed tariff reduction—and is described in the explanatory memorandum by the Minister for Industry, Science and Resources, Senator Minchin, as a `transitional assistance package' makes a further review of the industry a necessity.

The 15 per cent credit for cars sold in Australia and New Zealand will be uncapped. This assistance has an equivalent value to the existing duty-free allowance. Under World Trade Organisation rules, there is a five per cent cap on subsidy to sales for each company registered under ACIS. Eligibility tests will apply for registration under ACIS, requiring minimum levels of production and sales. These eligibility requirements are intended to encourage long-term strategic investments.

The modern automotive industry has long and complex supply chains, requiring a long-term commitment to the industry. The real question is how these new arrangements are going to affect car and component manufacturers. As I understand it from one of the companies involved in the negotiations, the number of firms eligible will expand, from about 60 under the Export Facilitation Scheme to about 200 under ACIS. That suggests there are likely to be significant changes in the level of benefit which individual companies receive. Mitsubishi have

assured me they are not being disadvantaged relative to the assistance they were receiving under the Export Facilitation Scheme. They had to lobby hard on that point. As Mitsubishi move toward the critical decision point this year for commitment to a new model Magna, with the Adelaide operation as the upper-medium vehicle producer for Mitsubishi worldwide, I wish they had been able to tell me they had done better.

Britax Rainsfords, which has a world-class factory making mirrors at Lonsdale in Adelaide's south, have faired worse under the new arrangements. Britax makes all the mirrors for Australia's vehicle manufacturers. That is only 30 per cent of its production. The other 70 per cent of its production is exports of truck mirrors to the United States and components such as mirror actuators to other manufacturers, including other members of the Britax group. Because of the high proportion of their production which is exported, Britax are an example of a company that was better off under the Export Facilitation Scheme. They support ACIS but they know they will only get 40 to 50 per cent of the benefit they received from export facilitation. They are an example of a company that is doing everything Australia needs its manufacturers to be doing, and they are doing it well: supplying the domestic market at a steadily declining cost, achieving an exceptional level of exports into the most competitive car markets in the world, investing continuously in additional, more efficient and more flexible manufacturing capacity, and running a substantial research and development operation to ensure they develop new products and maintain their position of market leadership. It seems unjust that they will be worse off under ACIS.

On the other hand, the component manufacturers who have been supplying parts to the local manufacturers but not themselves exporting stand to gain substantially from ACIS. The World Trade Organisation rule capping subsidies at five per cent of sales is not expected to be a constraint on the level of assistance Britax will receive at their current level of operation. However, it could have implications either if they make a big R&D effort or if there is a drop in sales. The $2 billion cap on benefits under ACIS, apart from the 15 per cent uncapped customs duty credit for vehicles sold in Australia and New Zealand, means that the more successful the industry is, if the cap is exceeded, the less assistance will be available to individual firms. The World Trade Organisation rules limit that assistance to five per cent of the value of sales, so any reduction in assistance will by definition be in the nought to five per cent range. If the cap becomes a factor, the problem for the manufacturers will be predicting how much their customs duty credits will be reduced by. For the component manufacturers, this will be important because the vehicle assemblers, knowing that some of their existing suppliers are going to be getting a new benefit, will be seeking to obtain at least part of it in price negotiations.

In summary, there are several reasons for this amendment to require a review of the car industry before the 2005 tariff cut. They are to determine whether, in the prevailing circumstances, it is appropriate to cut the tariff by five per cent in one year, given conditions prevailing in both the Australian and world car markets at that time; to evaluate the effectiveness of the ACIS arrangements; and to consider the amount of progress which is being made by our trading partners in reducing their tariff barriers to the levels agreed by APEC and to consider what policy response is appropriate on that issue. My personal preference would be for that review to be undertaken slightly earlier than 2003, which was the date recommended by Ian Webber in his minority Industry Commission report in 1997. That would allow an early assessment of the ACIS arrangements and more time to adjust the current car policy if the report reveals that that is desirable. I commend the amendment to the House.