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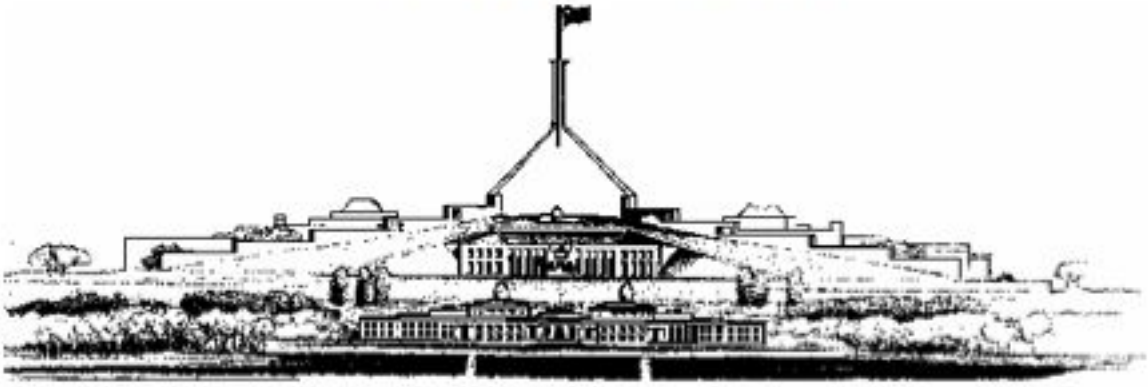

HOUSE OF REPRESENTATIVES

ACIS ADMINISTRATION AMENDMENT BILL 2000

Second Reading

SPEECH

Tuesday, 5 December 2000

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Tuesday, 5 December 2000	**Source**	House
Page	23401	**Proof**	No
Questioner		**Responder**	
Speaker	Cox, David, MP	**Question No.**	

Mr COX (Kingston) (8.21 pm)—The ACIS Administration Amendment Bill 2000 amends the Automotive Competitiveness and Investment Scheme to remove a number of legislative difficulties before it becomes effective on 1 January 2001. The scheme will replace assistance provided under the previous arrangements which were directed at promoting exports but which were found to be contrary to World Trade Organisation rules. ACIS is focused more widely 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 makers and one for component manufacturers. Car makers will be able to claim two types of duty credits. The first is a duty credit equal to 15 per cent uncapped and 10 per cent capped of the value of cars sold in Australia and New Zealand, multiplied by the relevant tariff rate—currently 15 per cent. 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 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. When 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. These arrangements had the full support of the Labor Party when they were given passage last year. I am particularly supportive of them because they will be worth between $40 million and $50 million a year to Mitsubishi.

The amendments in this bill are here today at least in part because of requests put by Mitsubishi to the government to make the original legislation more workable. The main points of the bill are to provide greater flexibility using regulations to determine what is allowable expenditure for the assessment of eligibility for duty credits. The bill also deals with the continuing eligibility of investment assets when they are transferred between entities. It broadens the definition of automotive machine tooling to automotive tooling. It allows for assistance in respect of investment in automotive services as well as tooling and allows for sales of services to be taken into consideration in calculating the cap for assistance at five per cent of sales. It provides for guidelines for registration and deregistration of eligible companies as a disallowable instrument rather than prescribing them in legislation.

Since the calculation of investment in plant and equipment is averaged over three years, the bill allows for the calculation of such investment from 1 January 1999. It tightens the requirements for the provision of business plans under the scheme to better facilitate the determination of the modulation rate to apply in the next period. It allows for the deregistration of a company set up artificially for the purposes of obtaining ACIS credits when it will not contribute to the sustainable growth of the Australian automotive industry. It also broadens to criminal convictions in another country the criteria for determining whether an applicant for assistance is not a fit and proper person under the act.

None of these amendments represents a policy change and Labor intends to support them. However, there is a significant difference between Labor and the government with regard to this bill. The fact that ACIS expires after five years—at the same time as the government's proposed tariff reduction—and the fact that the Minister for Industry, Science and Resources referred to ACIS as a `transitional assistance package' make it necessary to give the car industry a commitment to consider what assistance arrangements are appropriate for the future. The amendment Labor will move would insert a new part 14, `Review of Automotive Industry', into the legislation.

The amendment requires that, first, after 30 June 2002 and before 1 January 2003 the minister must issue terms of reference and establish an independent public inquiry into the automotive industry. Secondly, the independent public inquiry must examine the need for assistance to promote competitiveness and encourage investment in the automotive industry after the arrangements set out in the ACIS Administration Act 1999 expire and consider the appropriate level of import tariffs for vehicles and components. Thirdly, the independent public inquiry must call for submissions, hold public hearings and commission research to inform its deliberations. Fourthly, the independent public inquiry may take evidence in private on matters that are commercially sensitive. Fifthly, the independent public inquiry must deliver its report to the minister before 31 March 2004. Sixthly, the minister must cause a copy of the report to be laid before each house of the parliament as soon as practicable after receiving it.

The amendment follows a request in a resolution moved by me and carried by the state convention of the South Australian branch of the ALP asking the federal parliamentary Labor Party to seek this amendment to the bill. It followed extensive discussions I had at the convention with Paul McMahon of the AMWU. This is not the first time that Labor has sought a full review of the car industry before the scheduled reduction in tariffs and completion of the ACIS assistance arrangements in 2005. We did so when parliament dealt with the original ACIS bill last year. Since then, it has become a tenet of Labor's industry policy, which was carried by our national conference last September. That resolution was written by me and moved by the South Australian Labor leader, Mike Rann.

This amendment would be welcomed by a broad cross-section of the car industry and provide reassurance that there will be a timely evaluation of the state of that industry before the scheduled reduction in tariffs and the expiry of the ACIS arrangements. It must be remembered that there is a significant gap between when the scheduled one-step five per cent phase down in car tariffs was determined by the Howard government and when it will come into effect. It is clear that the Howard government had absolutely no idea at that time what conditions might prevail in 2005 in the Australian economy and in the car industry. It may turn out to be a very bad year to be having such a dramatic five per cent phase down; if we are lucky, it may turn out to be a good year. We simply do not know, and it seems entirely prudent to make an assessment much closer to the date when the decision will take effect.

Conditions can change in the car industry and, over the past 12 months, we have watched Mitsubishi fight for its survival. At the beginning of the year it was told by its parent company that it had to attain profitability by the end of this year if it was to continue to manufacture. It took some very serious action to restructure in order to achieve that objective. It reduced its work force—largely its salaried work force rather than its production line workers—by about 600 at the beginning of the year. On then prevailing production levels and exchange rates, that should have been sufficient for the company to break even. Increases in production after the GST buyers strike ended when the GST came into effect should have seen the company move into a profitable trading position.

However, the company has had to contend with a declining Australian dollar, particularly in relation to the yen. Every depreciation of the dollar by the equivalent of one yen over the course of a full year has cost Mitsubishi $13 million. We have seen that exchange rate problem cause the company to be in a situation where it will again record substantial losses this calendar year.

There has been substantial restructuring, there has been a model upgrade and there has been a considerable amount of work done at the operation. The new CEO has, with great relief, convinced the parent company to provide ¥10 billion as a capital injection. This is the first capital injection, I understand, that Mitsubishi Australia has received from the parent company since 1980, and it is a significant demonstration that Mitsubishi sees its Australian operation as having a long-term future. Finally, more than any other decision, it lays to rest any conjecture about Mitsubishi's imminent closure, no matter what other commentators in the industry might say or what its competitors might say. I must say that Mitsubishi's competitors in Australia have welcomed this decision because they rely on the economies of scale that are achieved by having four automotive manufacturers operating in this country. Providing them with enough throughput also helps justify research and development.

But in the long term we all know that the future of Australian car making will be dependent on exports, and we know that it will involve substantial further investment. The industry needs a government that is totally committed to an automotive industry with a long-term future. That means making timely assessments of what sort of assistance arrangements are necessary to be provided to the industry for its long-term future and growth. That is something that this Howard government has been remarkably reluctant to do.

We have been utterly amazed by the lack of activity of the Minister for Industry, Science and Resources, Senator Minchin, in relation to the car industry's future. With his total disregard of the need to give the industry a

continuing time horizon for assistance and for tariff protection and his wont of activity in that area, an opportunity has been missed; it has gone absolutely begging. It would have been of no real cost to the Commonwealth taxpayer for the government—unless it was contemplating a situation where there would not be any industry assistance for the car industry after 2005—to have given a clear indication that it would be making that timely evaluation and that it would be standing behind the industry in the long term.

I look forward over the next couple of years, with the help of this ¥10 billion, $172 million, to seeing a significant expansion in Mitsubishi's export operations. Tom Phillips, who is a marketer by occupation, is targeting two overseas markets: the Middle East and North America. He is looking at substantial expansions in Mitsubishi sales to those two markets. We also look forward to the conclusion of the parent company's evaluation of what it may best be able to do with the plant. There is some possibility of an additional model being put down that production line and more exclusive marketing arrangements for the Diamante in those North American and Middle East markets.

I was so pleased that Tom was able to make that announcement last week. There was absolute jubilation on the production line. The workers were bussed into Tonsley from the Lonsdale engine plant. They certainly received the message and understood it very clearly. It has been an absolutely dramatic turnaround for the local community. People who were extremely concerned because of recent media speculation about their futures are looking forward to a long-term future, and they are looking forward to working for a company where there is every potential for substantial growth—and I think that every South Australian would welcome that. This is something that the Labor Party has been praying for for some time.

I know that the government will oppose the amendment, as it did in the Senate. But I would call on the government, in the fullness of time, to reconsider its position. If it is not prepared to vote for our amendment, I would call on it to make a timely announcement about when it is going to do a full public inquiry into the car industry—which should be well in advance of the phase-down in tariffs. If the government does not do that, it will be one of the contributing factors to it losing government. It can be absolutely assured that we will not need legislation to force us to do it. It is a tenet of the Labor Party's industry policy. We will be establishing such an inquiry very soon after we are returned to the treasury bench.