

Editorial Comment

• *Three-edged sword proposed for ACIS MkII extension*

Having done the unexpected and recommended the ACIS program run for a further term post-2005, closer examination of the Commission's proposals indicate that the deal is not as 'sweet' as one might first think.

Reflecting on the current ACIS - funded to a modulated cap of \$2.8 billion over five years to 2005 under a 15% tariff - the Commission calculates that under a 10% tariff rate ACIS Mark II funding could prospectively be brought down to \$2.5 billion.

Further, it considers "were the benefits available to component producers and other suppliers scaled back in proportion to the reduction in benefits for vehicles under a 10% tariff, total implied five year expenditure would be further reduced to around \$1.9 billion."

So there you have it. The Commission is proposing 'less money' than the current ACIS be delivered over 5 years post-2005, or alternatively, the same amount of 'less money' (described as 'an equivalent net present value') spread over 10 years. In practical terms, this means 'less money' for all concerned.

For those unsatisfied folk who would like to consider a third option on how they can receive 'less money', the Commission has proposed a 10-year ACIS successor (to 2015), split across two 5-year tranches, with funding for the second 5-year period set at half that for the first 5-year period.

To help those less familiar with the interpretation of Productivity Commission 'code', that means ACIS Mark II participants would get a little more of 'less money' through to 2010, and then substantially less of 'less money' from 2010 out to expiration of the program in 2015.

Now if the Commission was trying to summon-up industry enthusiasm to attend its public hearings to protest against these recommendations, the early warning thus provided that ACIS will deliver 'less money' after 2005 should just about do it.

Of course, the Commission also states "these options should not be construed as signalling (our) endorsement, at this stage, of any specific quantum or time profile for future ACIS funding. Well, don't you believe it. Unless industry turns up in strength to debate the PC's views, and puts up alternatives, that is exactly what will be recommended to the Government when the final report is completed at the end of August.

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The Australian Automotive Industry Advisor

Reprieve for ACIS in PC draft recommendations

The Productivity Commission (PC) in its recent 'Review of Automotive Assistance' is proposing to advise the Commonwealth Government that current global industry drivers warrant supporting the continuation of a specific Tariff and investment assistance regime for another decade after 2005.

The PC would preferably like to see the scheduled reduction of the motor vehicle tariff to 10% in 2005 frozen for four years, pending a further reduction to 5% in 2010. Similarly, the ACIS Scheme would remain pretty well as is. There would be no changes to eligibility criteria, whilst no new sectors would be brought into the Scheme.

Familiar ACIS features would remain, however. Retention of the funding cap means 'modulation' would stay as an enduring feature of any future Scheme. Projected expenditure of \$2.8 billion over the 5-year life of the current ACIS would become the upper bound of the successor Scheme, although is more likely be in the order of \$1.9 to \$2.5 billion. The PC considers such preferred recommendations to be 'generous'.

Having said that, the PC also indicates that if the Government accepted such recommendations, the Tariff and ACIS package would, in effect, become the totality of special Commonwealth support for the automotive industry over this period. In addition, the PC believes that following the extension of special assistance for ten years after 2005, there would be no more.

It says, this would be "the last period of preferment for the automotive industry. After that, it should not depend on the community for special support for its operations." The PC is now taking written submissions in regard to the range of recommendations outlined in its 'Review of Automotive Assistance', and has also scheduled Public Hearings, commencing in Adelaide from 26 July, and Melbourne, from 29 July.

Establishing two separate ACIS funding pools

Submissions from automotive producers to the Commission have also complained that the neat split of ACIS funding - 65% (or \$1.8b) for the vehicle production sector, and the remaining 35% (\$1b) shared between suppliers - component producers, toolers and service providers - is under threat of shifting too far to the suppliers. Rather than responding to 'cat fighting' within the industry, the PC has focused on the linkage to the tariff of vehicle producers' capped and uncapped production-related entitlements. When the tariff falls to 10% on 1 January 2005, it will have an immediate effect of redistributing the share of ACIS funding from vehicle producers to suppliers.

The PC sees no logic for this shift to be extended into ACIS Mk II, so has proposed the creation of two separate funding pools - one for vehicle producers, and one for their suppliers, with funding allocations based on a 65:35 split in favour of the vehicle producers. This means that each pool would then be subject to separate modulation factors, and both would be fully capped, compared to the present ACIS where nearly half of the vehicle producers' funding is uncapped.

In practical terms, and if this recommendation is accepted by Government, it means the vehicle producers' pool, even though tariff reductions would reduce the benefit accruing from their production based credits, would be 'compensated' by an increase in the modulation factor of their funding pool. Of course, for suppliers, the ability to leverage additional ACIS benefits from pushing into the vehicle producers' entitlements would be stopped, and reflective of continued surging investment in the supplier sector, the extent of modulation on a more narrowly defined funding pool, could be all the greater.

Would you like to know more about the Productivity Commission's recommendations for post-2005 automotive assistance? Are you satisfied that you are securing the maximum benefits from your current ACIS participation? If you have any concerns in regard to the ACIS Scheme, contact a member of our ACIS advisory team.

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