

Editorial Comment

• *Shifting ground for automotive and ACIS continuation agendas*

One of the risks of industry accepting Government financial assistance - and regular reviews of such assistance - is the likelihood a 'wild card' will emerge to take the spotlight off the more substantive issues needing to be addressed.

Ostensibly raised to assess the long-term assistance needs of automotive producers and component suppliers in a world of slow moving automotive trade liberalisation, consideration of the Productivity Commission's (PC) draft report has now seen debate hi-jacked by a wider Industrial Relations (IR) agenda.

Taking the high ground, Industry Minister Macfarlane now says that in addition to the imposition of technology refresh and export growth targets, the next assistance package might also be supported by IR benchmarks, drafted in a manner akin to 'Dollar Sweets' reform thinking.

Talk of a 'dual' agenda now threatens to undermine consensus on all sides of the industry - firstly, between larger and smaller employers, and secondly between all employers and the trade unions. Generally, big employers have more capacity to deal with organised labour, often calculating that medium-term industrial stability (and its attendant costs), has a higher value than hard line union negotiations seeking marginal savings. To be blunt, both sides end up agreeing to split the spoils of Government largesse.

For smaller employers - and in particular, the 200-odd component suppliers - the situation is entirely different. They view every revenue dollar as being won via blood, sweat and tears, and have little enthusiasm to take on higher costs resulting from the application of 'pattern bargaining' techniques, which larger firms appear to so freely accede to.

Confident of his prospects of leading the Coalition parties to yet a fourth term of Government (ie: beyond 2004), Prime Minister Howard has quickly recognised a post-2005 automotive program of only five years will not provide enough time to impose a 'sea change' in IR culture across the auto sector - especially one that will stick. Unwittingly, the PC's floating of a 10-year program has fallen into his hands, and the game in Canberra is now 'in play'.

Macfarlane's recent comments that the next auto plan will be funded with "a substantial sum of money" - rumoured to be in the order of \$3.5 billion over ten years - will provide the mettle to help smaller firms push for major IR reforms over the near term. Even assuming Labor regained power post-2007, the die would have been essentially cast.

A Government decision in November to cement into place a 10-year automotive strategy driven by the 'dual' performance agenda will radically change Australia's IR outlook, for all players. For Treasurer (and perhaps, Prime Minister) Costello - the initial 'Dollar Sweets' architect - it would be game, set and match on the IR front.

The Australian Automotive Industry Advisor

Opposition lines-up on ACIS continuation

With the Productivity Commission (PC) having delivered its final report to the Commonwealth Government on post-2005 Assistance Arrangements for the Automotive Manufacturing Sector, Opposition Industry Spokesperson, Craig Emerson, has confirmed Labor supports "ongoing assistance for the automotive industry beyond 2005, including a revamp of the Automotive Competitiveness and Investment Scheme (ACIS), to give greater emphasis to R&D, training and investment."

Emerson saw an ACIS with 'greater support for R&D, training and investment' by car makers and component producers as being "consistent with Labor's emphasis on innovation in its approach to industry policy," and linked any decisions on future tariff rates as being "contingent on the continuation of ACIS." Whatever views Labor might take in the light of the PC's final post-2005 assistance report, Emerson pledged, "Labor will not be changing its position on the continuation of ACIS."

Indicating Labor would 'hold-the-line' on tariff reductions, Emerson drew on PC economic modelling work which suggested national gains from reducing automotive tariffs below 10% "would be negligible or even negative." Assuming a 5-year post-2005 program, and with an eye to the electoral cycle, he also promised Labor would "initiate a further review of post-2010 assistance," with the review to be conducted in 2006/07.

Opposing the linking of future assistance arrangements to automotive firms having to pursue what he termed 'the Government's industrial relations agenda,' Emerson said Labor would alternatively support "the convening of round-table discussions involving the automotive industry and unions to achieve cooperative solutions to future workplace issues, including the forthcoming series of enterprise bargains."

Macfarlane changes tack on auto package

After initially suggesting upon his appointment as Industry Minister that automotive tariffs might not need to fall drastically after 2005, Ian Macfarlane has now picked up the Howard Government agenda. In a recent newspaper interview, he not only linked reduced tariffs on cars with the provision of further Government assistance, but also commented, "I think we need to dispel this myth that any tariff reduction is a blow to the industry - in fact, it is quite the contrary. Most companies, if not all, accept that the goal is international competitiveness, (and) that they have to be able to sell cars into the export market to survive here." He also floated the concept of linking the provision of Government assistance with industrial relations benchmarks designed to achieve union cooperation on cost-reduction measures and the elimination of 'wild cat' strikes.

ACIS modulation rate sinking with the dollar

Don't be surprised should the third quarter modulation rate, due for announcement by AusIndustry later this year, drop further - and possibly to 0.65 or below. The introduction of new models by each of the principal manufacturers has driven throughout the auto supply chain, substantive investments in capital equipment and R&D expenditures which - given industry time-lags - have now been at substantial levels for the past 18 months. The financial model used by AusIndustry to calculate the call on Government funds allocated to ACIS, and subsequently the apportionment of such funds through application of the modulation rate, will again be working overtime given participants are required to lodge revised business plans with the third quarter return.

Would you like to know more about the Productivity Commission's recommendations for post-2005 automotive assistance? If you have any concerns in regard to the ACIS Scheme, contact a member of our ACIS advisory team.

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