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Editorial Comment

- *Automotive fortune teller to report by June 2002*

The Government's desire to push ahead with a quick review of post-2005 Automotive assistance arrangements brings into play the prospect of a decision on the future of the industry around March 2003 - conveniently well in advance of the next Federal election - set for no later than 20 April 2005.

Resting on the Government's collective minds will be continuing commercial pressures within the industry, a desire to minimise economic dislocation in South Australia, as well as the broader failure of world trade institutions to wind back subsidies in America and Europe affecting wider Australian interests (ie: agriculture).

These considerations, along with current concerns over potential for the re-imposition international trade restrictions - such as US quotas on Australian steel exports - is hardening a view in Canberra regarding any rush to grant further unilateral trade concessions - in any industry sector.

While the Productivity Commission may take a hard line on tariff reductions to 5%, no Government has ever accepted - as originally presented - the recommendations of the Commission (or its predecessors) regarding automotive assistance. So there is room to anticipate some extension of current positive assistance, including the ACIS program.

The new Industry Minister is also sounding more pragmatic with recent comments suggesting emphasis will be put on how Australia is being disadvantaged in current markets as a result of delays by many nations in implementing trade barrier reductions agreed in previous WTO rounds. Negotiating windows for the next MTN Round - after the WTO-Doha meeting - have also been substantially extended.

With the Government now committing serious resources to the renewed push to conclude a Free Trade Agreement with the United States, further moves forward on significant automotive tariff reductions are more likely to be reserved for trade-offs relating to this initiative, rather than any other of the Government's actual/perceived international trade commitments.

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Automotive's future off to the Productivity Commission

As an early counter to the obvious political risks of having questions over the future of Australia's automotive industries raised in this coming weekend's South Australian election, a reference is shortly to be sent to the Productivity Commission, "to inform government decision-making on policy arrangements to apply after 2005."

The snap, six-month inquiry, will put post-2005 assistance recommendations for the Automotive industry on the desk of Industry Minister, Ian Macfarlane, by the end of June 2002, raising the prospect of Cabinet consideration before Xmas, and announcement of any Government decision on the report over Feb-March 2003. Such a timetable ensures expenditure implications from new initiatives can be built into the May 2003 Federal Budget - to be based on a five-year (ie: 2003/04 to 2008/09) funding outlook.

Now just getting around to drafting the inquiry's 'Terms of Reference', Treasurer Costello has nevertheless indicated the Government appreciates the 'long lead times' surrounding investment decisions, and the need for "certainty about future arrangements." He re-affirmed the commitment to 'lowering automotive tariffs in 2005', adding the reference would "refer to Australia's APEC commitments, and obligations under the WTO." Similar to previous sectoral inquiries, an extra Associate Commissioner - with previous automotive/business experience - is to be appointed for the inquiry's duration.

Parallel with the Productivity Commission's review, a new Automotive Council is to be formed out of the old 'restructured' and 'expanded focus' Automotive Trade Council. The revamped Council will function as a private 'chat club' between major automotive industry participants and the senior Industry/Trade Ministers (ie: the Council's Co-Chairs), in order to deliberate on the real 'issues' facing the industry.

Feature Article: First shots fired at PMV assistance regime

In its 2000/01 Review of Australian industry assistance programs, the Productivity Commission (PC) says the Passenger Motor Vehicle (PMV) sector remains "one of Australia's most highly assisted industries", although assistance has declined significantly since the mid-1980s as a result of tariff phase-down arrangements (ie: nominal PMV tariffs fell to 35% in 1992, and bottomed at 15% in January 2000).

In 1997, the Government announced the PMV tariff would remain at 15% through to January 2005, when it is scheduled to fall to 10%. At this time, the Commission projects that the effective rate of assistance for PMV will then (and also) be around 10%, which it comments, "is still well over double the manufacturing average" (ie: the estimate for manufacturing industry as a whole, is 4.3%).

Turning to estimates of Budgetary Assistance - defined as government spending and tax concessions that selectively benefit industries or firms - the PC calculates that of the \$3.665m of assistance provided in 2000/01, 'motor vehicles and parts' accounted for \$640m, or 18% of the total. Other transport equipment received a further \$52m.

Looking to provide an indication of the real effect of these expenditures, the Commission says the industry incidence of budgetary assistance "becomes more concentrated when it is measured as a percentage of industry gross value added (GVA)." Using this measure, the Commission concludes, "of all industry groupings, motor vehicles & parts is by far the most assisted (at) 16.5%." Interestingly, the next closest candidate (at 3.4%) on the GVA index was Primary Production, regardless of it receiving more budgetary assistance (\$690m) than PMV.

Do you need to know more about the new inquiry into post-2005 Automotive industry assistance? Would you like to receive a copy of the inquiry Terms of Reference, and be kept up to date with progress of the inquiry? Would you like us to assist in the preparation of a submission for presentation at the inquiry? If so, please contact any member of the TCF Services team on the numbers below:

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