

Editorial Comment

• *Outside runner to make a call on car industry futures*

The Government's appointment of a former chemical company chief executive to serve as an Associate Commissioner on the Productivity Commission's team to undertake its post-2005 Automotive inquiry introduces an important discipline on the Commission in terms of the ease it will be able to make recommendations for further reductions in tariff assistance.

Australia's Chemicals and Plastics industries had their tariffs chopped to 'minimum rates' years ago, and as the former head of Orica, Philip Weickhardt will have a clear understanding of the difficulties local firms face in competing in global markets against the many impediments put in place by other nations to protect their own vehicle industries.

Weickhardt will also have a good understanding of what returns on investment are possible from efficiently organised and managed manufacturing infrastructure, and this will help to put a brake on the more outlandish claims from sections of the industry seeking to underpin inadequate returns with substantive government subsidies.

Although anticipating some heavy lobbying, Industry Minister Macfarlane is at least hopeful that any unnecessary 'kicks' can be taken out of the Commission's report before he has to get down to the serious business of marking out a collective way forward.

This explains why, although wary, most parties within the Automotive industry have welcomed release of the inquiry's Terms of Reference, the allocation of a parallel work program to the Automotive Council, and Weickhardt's appointment to the Commission.

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The Australian Automotive Industry Advisor

Terms of Reference map out future industry vision

The Commonwealth Government has given firm directions to the Productivity Commission for undertaking its inquiry into post-2005 assistance arrangements for Australia's automotive manufacturing sector. Amongst these directions is the provision of a base industry vision - which envisages an increasingly export-oriented Australian design and manufacturing capability taking a natural place within the global automotive industry.

The Commission's Terms of Reference provide a detailed map of the extant industry - currently four vehicle assemblers supported by a supply chain comprising some 200 component producers, service providers and toolers. Together the vehicle assemblers are said to produce some 350,000 vehicles a year (of which around 30% are exported). Such exports were valued in aggregate at \$4.65 billion in 2000-01.

The shift in focus to exports (which have increased 83% since 1997-98), is then contrasted with Australia's relatively mature domestic market, which has fluctuated between 750,000 and 800,000 vehicle sales per annum since 1998. Although the numbers seem large, by international standards the market small, and due to its maturity and diversity there are significant costs in servicing the many market niches. Such observations underpin the need of most firms to look overseas for growth and production scale economies to assure their long-term sustainability.

Given this eye to the impact of global factors on the post-2005 outcome, the Reference instructs the Commission to produce only an 'information report'. This is a significant variation to the more traditional 'preferred options' approach from which Government's have previously had to choose (and ultimately adopt), one of the Commission's views of the world. Because in the past these have principally centred around Tariff reductions, the Commission has been subsequently marginalised in the wider industry assistance decision-making processes.

The change in style of Productivity Report outcome for the new review, therefore, reflects a need within Government that it will want to frame its post-2005 assistance package across a much wider spectrum of policy initiatives, albeit all within the nominated vision that global integration, including exports, is paramount to the future of Australia's automotive sector.

The Terms of Reference also recognise the majority of firms in the sector are subsidiaries of overseas owned corporations, with investment decisions and the identification of potential export markets made on the basis of their global operations (rather than simply in the interest of maximising returns on their Australian operations).

Such recognition points to a certain inevitability that the post-2005 assistance outcome will be heavily influenced by negotiations between the Government and the major global automotive companies. This is why in parallel with the Commission's investigations, the Government is also sustaining further work through the Automotive Council to identify longer-term impediments to the viability of the car industry, and how these might be mediated in the years past 2005 under a joint action plan.

Do you need to know more about how the new inquiry into post-2005 Automotive industry assistance will be run? Would you like to receive a copy of the full Terms of Reference issued by the Treasurer, or be kept up to date with progress of the inquiry over the next six months? If you would like to prepare a submission to the inquiry, TCF Services is able to provide assistance with the preparation of any submission, as well as its presentation to the Commission. If you would like some assistance, please contact any member of the TCF Services team on the numbers below:

C O N T A C T S	Sydney:	Gerry Frittmann	(02) 9310 2900	gerry@tcfservices.com.au
		David Tonkin	(02) 9310 2900	david@tcfservices.com.au
		Paul Angel	(02) 9310 2900	paul@tcfservices.com.au
		Greg McKillop	(02) 9310 2900	gregm@tcfservices.com.au
	Melbourne:	Peter Choma	(03) 9379 8200	peter@tcfservices.com.au
		Kris Herd	(03) 9379 8200	kristine@tcfservices.com.au