

The Senate

Economics Legislation Committee

Provisions of the ACIS Administration
Amendment Bill 2003 and the Customs
Tariff Amendment (ACIS) Bill 2003

September 2003

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CHAPTER 1

INQUIRY INTO THE ACIS ADMINISTRATION AMENDMENT BILL 2003 AND THE CUSTOMS TARIFF AMENDMENT (ACIS) BILL 2003

Background

1.1 The ACIS Administration Amendment Bill 2003 and the Customs Tariff Amendment (ACIS) Bill 2003 were introduced into the House of Representatives on 25 June 2003 and are currently at the second reading adjourned stage.

Purpose of the Bills

1.2 The ACIS Administration Amendment Bill 2003 and the Customs Tariff Amendment (ACIS) Bill 2003 form one integrated package, making changes respectively to the *ACIS Administration Act 1999* and the tariff schedule.

1.3 If enacted, the Bills would extend the Automotive Competitiveness and Investment Scheme (ACIS) and reduce the rate of customs duty on passenger motor vehicles and certain parts for passenger motor vehicles. Amongst other changes, the Bills provide for:

- **The extension of ACIS** – The extension of the ACIS scheme from its current finishing date of 2005 to the end of 2015. The ACIS scheme grants incentives for eligible production and investment in plant and equipment, and research and development in the automotive industry. The incentives are paid in the form of duty credits. This scheme operates in the context of the planned cessation of all taxpayer funded, industry specific support on 31 December, 2015. The Bill establishes a research and development fund within the motor vehicle producers' pool of funding; and
- **Tariff reduction** – The current rate of customs duty imposed on passenger motor vehicles and certain parts is currently 15%, and currently will fall to 10% from 1 January 2005. The Bill would reduce the rate to 5% from 1 January 2010.

Reference of the Bills

1.4 On 13 August 2003, the Senate adopted the Selection of Bills Committee report No. 8 of 2003 and referred the Bills to the Senate Economics Legislation Committee for report by 15 September 2003 or as soon as practicable.

1.5 The reasons for the referral of the Bills to the Committee are to investigate the impact of the provisions of the bills on the automotive industry in Australia, and to ensure that the proposed changes to the ACIS assistance package will appropriately and effectively manage the industry's transition to a state of reduced tariff protection.

Submissions

1.6 The Committee advertised its inquiry on the internet, and also contacted a number of individuals and organisations alerting them to the inquiry and inviting them to make a submission. A list of the parties from whom submissions were received appears at Appendix 1.

Hearing and evidence

1.7 The Committee held one public hearing on this inquiry in Parliament House, Canberra on Monday, 18 August 2003. Witnesses who appeared before the Committee at that hearing are listed in Appendix 2.

1.8 Copies of the Hansard transcript are tabled for the information of the Senate. They are also available through the Internet at <http://aph.gov.au/hansard>.

Acknowledgment

1.9 The Committee is grateful to, and wishes to thank, all those who assisted with its inquiry.

CHAPTER 2

THE BILL

Introduction

2.1 The automotive sector receives a higher level of government assistance than most Australian industries. In 1999, the Government introduced the Automotive Competitiveness and Investment Scheme (ACIS) in order to facilitate the industry's transition from this high tariff environment. The objective of ACIS, stated in Section 3 of the *ACIS Administration Act 1999*, is:

to provide transitional assistance to encourage competitive investment and innovation in the Australian automotive industry in order to achieve sustainable growth, both in the Australian market and internationally, in the context of trade liberalisation.¹

2.2 ACIS will provide about \$2.8 billion in industry assistance over five years, from 2001-2005. The scheme was intended to prepare the industry for the fall of automotive tariffs to 10% in 2005, and provides assistance for production and investment (motor vehicle producers) and for research and development and investment (supply chain).²

2.3 The Government is committed, however, that the industry make a further transition from a tariff rate of 10% to 5%. Accordingly, it needed to address the issue of 'whether and how a further assistance package should be provided to facilitate this transition to a tariff level equal to that prevailing for industry generally'.³

2.4 On 21 December 2001, the Government referred to the Productivity Commission an inquiry into possible automotive assistance arrangements after 2005. At the same time, it commissioned the Automotive Council, comprising key industry participants, to report on industry issues and perspectives.⁴

Productivity Commission inquiry

2.5 While the Automotive Council recommended that tariffs remain at 10% and the extension of ACIS until at least 2010, the Productivity Commission recommended that the tariff drop to 5% by 2010. While the Commission conceded that the measurable efficiency gains from a further reduction in tariffs after 2005 were negligible, it argued that there was potential for 'dynamic gains' arising from

1 *ACIS Administration Amendment Bill 2003*, Explanatory Memorandum, p.4.

2 *ACIS Administration Amendment Bill 2003*, Explanatory Memorandum, p.4.

3 *ACIS Administration Amendment Bill 2003*, Explanatory Memorandum, p.6.

4 *ACIS Administration Amendment Bill 2003*, Explanatory Memorandum, p.4.

additional tariff cuts. The Productivity Commission also recommended, however, that the industry be ‘given a decade of policy certainty to 2015, at the end of which industry specific assistance would cease’.⁵

2.6 The Productivity Commission reported that its preferred means of achieving tariff reduction to 5% would be to reduce the tariff by 5% in 2010. It found that continuation of ACIS after 2005 would facilitate this reduction in the tariff rate, and it considered several options for extending and funding the scheme.⁶ The Productivity Commission said that its preferred option would be to continue the uncapped element of ACIS to 2015,⁷ and to continue the capped element at \$2 billion for five years (until 2010).⁸

2.7 The Government broadly accepted the recommendations of the Productivity Commission inquiry, with the quantum and duration of ACIS to be set at ‘the minimum that enables the industry to achieve successfully the transition to a lower tariff environment’.⁹

Provisions of the Bills

2.8 The ACIS Administration Amendment Bill 2003 (the Bill) makes a series of substantial amendments to the *ACIS Administration Act 1999*. The Customs Tariff Amendment (ACIS) Bill 2003 complements the Bill by amending the tariff schedule, and forms one integrated package with the Bill.

2.9 The Bill implements the Government’s post-2005 assistance package for the Australian automotive industry, and will provide an estimated \$4.2 billion to the industry via an extension to the ACIS scheme from its initial expiry date in 2005 to the end of 2015.¹⁰

2.10 Participants in ACIS earn incentives for eligible production and investment in plant and equipment, and research and development. Incentives are paid in the form of

5 *ACIS Administration Amendment Bill 2003*, Explanatory Memorandum, p.6.

6 See *ACIS Administration Amendment Bill 2003*, Explanatory Memorandum, pp.7-9.

7 Under the uncapped element of ACIS, motor vehicle producers are eligible to claim 15% of the value of vehicles produced for sale in Australia and New Zealand. *ACIS Administration Amendment Bill 2003*, Explanatory Memorandum, p.5.

8 Under the capped element of ACIS, motor vehicle producers are eligible to claim production credits of 10% of the value of production of vehicles produced for sale in Australia and New Zealand, and 25% of the value of vehicles and engines produced other than for sale in Australia and New Zealand. Vehicle producers may also claim 10% of the value of investments in plant and equipment, and 45% of the value of research and development that is not for the vehicle producers’ own use. The supply chain receives assistance of 25% of investments in plant and equipment, and 45% of the value of research and development. *ACIS Administration Amendment Bill 2003*, Explanatory Memorandum, p.5.

9 *ACIS Administration Amendment Bill 2003*, Explanatory Memorandum, p.14.

10 *ACIS Administration Amendment Bill 2003*, Explanatory Memorandum, p.1.

duty credits which can be used to offset customs duty liability on eligible automotive imports, or sold or transferred to another person or company.¹¹

2.11 In the Second Reading Speech, the Government drew attention to two features of the extended Automotive Competitiveness and Investment Scheme. First, at the request of industry, ACIS funding will be split into two separate funding pools in a ratio of 55:45 from the first quarter of 2003. Motor vehicle producers will be allocated 55% of the funds, with 45% allocated to the other ACIS participants.

2.12 Second, from 2005 the extended ACIS will establish a \$150 million research and development fund within the motor vehicle producers' pool of funding. The fund aims to encourage vehicle producers 'to invest in high-end research and development activities'.¹²

2.13 Other features of the legislative package are:

- the Bill provides for the Minister, from 2006 onwards, to disclose the identity of a participant in ACIS and the amount of ACIS assistance received by the participant;
- the Customs Tariff Amendment (ACIS) Bill 2003 provides for the tariff rate on passenger motor vehicles and certain parts for passenger motor vehicles to fall to 10% from 1 January 2005 and thence to 5% from 1 January 2010.

Financial impact statement

2.14 The post-2005 extension of ACIS is a ten year program of budgetary assistance. As noted earlier, an estimated \$4.2 billion will be provided to the Australian automotive industry, in the form of duty credits which can be used to offset import duty. The \$4.2 billion consists of:

- assistance capped at \$2 billion for the period 2006-10 inclusive;
- a further amount capped at \$1 billion for the period 2011-15 inclusive; and
- uncapped assistance estimated at \$1.2 billion.

2.15 The Department will incur additional running costs as a result of extending ACIS for a further ten years. These costs are estimated at \$0.1 million in 2002-03, increasing to \$2.4 million in 2015-16.

2.16 The cost of revenue forgone by cutting the tariff from 10 per cent to 5 per cent with effect from 1 January 2010 is \$290 million in 2009-2010, with a full year effect of \$640 million in 2010-11.¹³

11 *ACIS Administration Amendment Bill 2003*, Explanatory Memorandum, p.1.

12 *ACIS Administration Amendment Bill 2003*, Explanatory Memorandum, p.2.

13 *ACIS Administration Amendment Bill 2003*, Explanatory Memorandum, p.3.

CHAPTER 3

EVIDENCE TO THE INQUIRY

Introduction

3.1 The Selection of Bills Committee asked the Committee to investigate the impact of the provisions of the Bills on the automotive industry in Australia, and to ensure that the proposed changes to the ACIS assistance package will appropriately and effectively manage the industry's transition to a state of reduced tariff protection.¹

Industry view

3.2 The Committee received submissions and oral evidence from two organisations: the Federation of Automotive Products Manufacturers (FAPM), and the Federal Chamber of Automotive Industries (FCAI).²

3.3 Both organisations informed the Committee that they had been heavily involved in the Productivity Commission's inquiry and in consultation with Government during the review process.

3.4 Both organisations warmly endorsed the Government's response to the Productivity Commission's report and told the Committee that they strongly support the passage of the Bills currently under consideration. Mr Peter Sturrock, Chief Executive Officer, FCAI stated that:

It is important to note that there was strong and unified agreement from all sections of the industry in relation to the key policy issues addressed in last year's review. Significantly, it was the first such occasion that the FCAI has presented a single submission to government, representing the common views of both manufacturers and importers. Equally, there was consensus between the FCAI and our sister organisation, the Federation of Automotive Products Manufacturers, representing the views of component manufacturers.³

3.5 He noted that the measures in the proposed legislation 'represent a vital underpinning to ongoing and increased investment in the Australian car manufacturing industry' and said that:

1 Selection of Bills Committee, *Report No.8 of 2003*, 13 August 2003.

2 *Submissions 1 and 2 respectively; Transcript of Evidence*, 18 August 2003.

3 *Transcript of Evidence*, Sturrock, P. p.E1.

We believe that it provides industry with a much needed decade of policy certainty and we would urge this committee to support the legislation and to recommend its timely consideration and passage by the Australian Senate.⁴

3.6 The Committee invited specific comment from the FCAI and FAPM on the issues of research and development and the likely capacity of the industry to survive the transition to a low tariff regime.

Research and development

3.7 Mr Sturrock noted that the purpose of allocating \$150 million for research and development (R&D) to the four Australian vehicle manufacturers:

was to encourage very high-level and innovative R&D research in technology and development ... It was to encourage the very essence of high-level R&D innovation in automotive design and technology – again, essential elements to take us to the higher plateau to be world competitive and to be able to take our technology developments to other parts of the world through our products. That was the fundamental basis of the scheme and it was why we were pleased when the government announced that as part of the package and why we have welcomed its implementation.⁵

3.8 Mr Sturrock expressed the view that ‘that there has been a marked improvement in the quality of the build of the Australian vehicles and of the major components’, and he told the Committee of the industry’s success in building ‘product for niche markets to be sold in other parts of the world’. He attributed this success to the Government’s investment through ACIS in the manufacturing process, production facilities and the encouragement of innovation in technology in both individual components or systems and total vehicle production.⁶

3.9 Mr Peter Upton, Chief Executive Officer and Company Secretary, Federation of Automotive Products Manufacturers, likewise spoke of the success of ACIS in encouraging research and development. He said:

In the original discussions that led up to the ACIS scheme, it was recognised in the component sector that the future of being in the component business required you to be pretty nimble in getting on with R&D, because that is the way in which your products stay fresh and relevant and ultimately have some longevity in the eyes of your customers ... So, from our point of view, the ACIS scheme targeting R&D for the component sector was well targeted, and that is the reason we sought that the scheme should not be fundamentally changed in going forward ... It was working, and so let us keep doing it.⁷

4 *Transcript of Evidence*, Sturrock, P. p.E2; *Transcript of Evidence*, Upton, P. p.E6.

5 *Transcript of Evidence*, Sturrock, P. p.E3.

6 *Transcript of Evidence*, Sturrock, P. pp.E3-E4.

7 *Transcript of Evidence*, Upton, P. p.E6.

Low tariff regime

3.10 The Committee asked industry representatives to comment upon whether the industry would successfully make the transition to a lower tariff regime, without requiring further specific assistance after 2015.

3.11 Mr Sturrock told the Committee that the FCAI and its constituent companies⁸ were firmly of the view that the transition to a lower tariff regime is ‘in the long-term interests of Australian manufacturing industry because it [will] further enable us to move towards world competitiveness in terms of our export programs so essential to underpin the domestic car manufacturing base’.⁹

3.12 Mr Sturrock noted that under the existing ACIS arrangements, the motor vehicle industry in Australia has grown considerably.¹⁰ Although it is still a small market and a small manufacturing capacity, ‘we have done a remarkable job in being able to build product for niche markets to be sold in other parts of the world’. He said:

I do not think we could have achieved the sorts of quality improvements, the build and production processes and the technological developments without the investment and support that the government has provided to the industry over the past few years, and is committing to over the next few. It is part of a process. By 2015 it will have been a 15-year period of transition from the first ACIS scheme at the beginning of this decade. That is the way we have to view the total subject.¹¹

3.13 Mr Sturrock concluded that:

In our view it is likely that with the plan that has been announced by the government, with ACIS and the tariff arrangements, 2015 could basically be the sunset of major industry assistance for the manufacturing sector of the automotive industry ... We would see a situation occur by 2015 where the Australian manufacturing sector is more resilient and has reached the point of being internationally competitive in a quality and an efficiency sense, and where we have grown our export markets for vehicles as well as engines and components, so that we have a wider range of products available through Australian manufacturing.¹²

3.14 Mr Upton commented that the success of the component manufacturing sector is in part dependent upon the success of the vehicle companies. He said:

8 FCAI is the peak industry organisation representing the four Australian vehicle manufacturers and all major importers of passenger vehicles, four-wheel drive vehicles, light commercial vehicles and motor cycles. *Transcript of Evidence*, Sturrock, P. p.E1.

9 *Transcript of Evidence*, Sturrock, P. p.E2.

10 *Transcript of Evidence*, Sturrock, P. p.E3.

11 *Transcript of Evidence*, Sturrock, P. p.E4.

12 *Transcript of Evidence*, Sturrock, P. p.E5.

There is a recognition that if there are no car companies there is no component sector ... The efforts we have seen the local vehicle manufacturers making to broaden their base, to go into different market segments and to find different export niches, are laudable. We are more than interested bystanders in hoping that those efforts are successful.¹³

3.15 Mr Upton went on to say, however, that:

I would like to make the point that the United States and the European Union are the biggest export markets for Australian component producers. That is one of the reasons that we think we may be competitive in the business that we are in. The size of our export market in the United States is a reasonable indication that we must be doing something right.¹⁴

Conclusion

3.16 The Bills seek to extend the Automotive Competitiveness and Investment Scheme beyond its current expiry date in 2005 until the end of 2015. The post-2005 ACIS will be a transitional assistance scheme that will encourage the growth and investment required to ensure the automotive manufacturing industry's survival as tariffs are reduced to 5% in 2010 and government funded support is ended in 2015.

3.17 The Committee notes the wholehearted support of the automotive manufacturing industry for the extended ACIS scheme.

Recommendation

The Committee recommends that the Bill be passed.

SENATOR GEORGE BRANDIS
Chairman

13 *Transcript of Evidence*, Upton, P. p.E7.

14 *Transcript of Evidence*, Upton, P. p.E7.

Appendix 1

Submissions Received

**Submission
Number**

Submittor

- 1 Federation of Automotive Products Manufacturers
- 2 Federal Chamber of Automotive Industries

Appendix 2

Public Hearing and Witnesses

Monday, 18 August 2003 Canberra

JAMES, Mr Paul Anthony, Executive Officer, Federation of Automotive Products Manufacturers

McKELLAR, Mr Andrew John, Executive Officer, Federal Chamber of Automotive Industries

STURROCK, Mr Peter Macgregor, Chief Executive Officer, Federal Chamber of Automotive Industries

UPTON, Mr Peter John, Chief Executive Officer and Company Secretary, Federation of Automotive Products Manufacturers