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ACIS Administration Amendment Bill 2002

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ACIS Administration Amendment Bill 2002

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ACIS Administration Amendment Bill 2002

Date Introduced: 22 August 2002

House: House of Representatives

Portfolio: Industry, Tourism and Resources

Commencement: The substantive provisions operate retrospectively commencing on 1 January 2001.

Purpose

To amend the *ACIS Administration Act 1999* to include utilities, panel vans and pick-ups in the definition of *passenger motor vehicles*.

Background

The Automotive Competitiveness and Investment Scheme (ACIS) is the single, largest assistance package for any Australian industry. The legislation implementing the assistance package is the *ACIS Administration Act 1999*.[1]

ACIS is the keystone of the Government's post-2000 assistance arrangements for the Australian automotive industry, which includes:

- a tariff pause on imported passenger motor vehicles. The current tariff is 15 per cent and will remain at this level until 1 January 2005, when it will fall to 10 per cent
- 5 per cent tariffs on four-wheel-drives and light commercial vehicles, and
- retention of the additional specific tariff of $12 000 for imported, second hand used cars.

ACIS commenced on 1 January 2001 and will conclude on 31 December 2005. Specifically, the Scheme provides tradeable import duty credits for the automotive industry in two separate packages for motor vehicle producers and automotive component manufacturers, toolmakers, and design and engineering firms. The duty credits are based on investment and R&D levels.

Summary of ACIS

Motor Vehicle Producers (MVPs) are able to claim import duty credit equal to:

- 25 per cent of the value of production of motor vehicles, engine and engine components, multiplied by the relevant tariff rate; and
- 10 per cent of the value of new investment in plant and equipment.

Automotive component producers, machine tool and tooling producers, and automotive service providers can claim:

- duty credit equal to 25 per cent of the value of the new investment in plant and equipment; and
- duty credit equal to 45 per cent of the value of R&D investment.

(Where MVPs produce automotive components, tooling or services for a third party, they are also entitled to claim the same benefits.)

Options for post-2005 assistance to the automotive industry

On 21 March 2002 the Treasurer referred the Government's post-2000 assistance arrangements to the Productivity Commission for inquiry. The Commission received submissions from all sectors of the industry, business groups and labour associations, state and local governments, and Commonwealth agencies. The Commission also held several public hearings and on 27 June 2002, released a position paper, *Review of Automotive Assistance*, setting out its preliminary views on options for assistance to the industry beyond 2005.[2]

While the Commission acknowledged the industry had special features, these were not such as to justify indefinite preferential treatment. Of the tariff options, the Commission's view was that there would be significant advantages in providing a pause at 10 per cent from 2005, before reducing to 5 per cent in 2010, and keeping this rate until 2015. There would also be advantages in extending ACIS beyond 2005 and retaining its present structure. Funding should not exceed current levels and under options being considered by the Commission the Scheme could end in either 2010 or 2015.

Effectiveness of ACIS

The purpose of ACIS as set out in the *ACIS Administration Act 1999* is "to promote competitiveness, and encourage investment, in the automotive industry".

One measure of the automotive industry's competitiveness is its export performance. In 2000–01, Australian automotive exports increased by 35 per cent to $3.1 billion. The major markets for exports were Saudia Arabia ($1.4 billion), the USA ($569 million) and

New Zealand ($364 million).[3] This suggests that Australia is capturing an increasing share of the world market.

However, an accurate assessment of the impact of the Scheme is difficult for a number of reasons. Firstly, the Scheme is only half way through its second year and the evidence of its impact is largely unproven. The Commission's position paper noted anecdotal evidence of the Scheme's benefits but did not conduct its own study of the effects of the Scheme.[4]

Secondly, it is difficult to differentiate the effects of ACIS from a whole range of other factors affecting the industry's performance, such as exchange rates, technological change, skill levels and general economic conditions.

Performance monitoring

ACIS provides around $2.8 billion over five years. This amount is drawn from two 'pools'. One is capped at $2 billion for the life of the Scheme and an uncapped pool, which is estimated to cost $840 million.

In the 2000–01 financial year, assistance to the automotive industry under ACIS and its predecessor scheme was $599 million in foregone revenue.[5] In its submission to the Commission's review, the Federation of Automotive Products Manufacturers (FAPM) stated:

> Currently there is no information available on the efficacy of ACIS other than information relating to claims made. ACIS is effectively an untied cash subsidy that can be used in a myriad of ways to improve a company's competitive position. Performance monitoring would seem to be a basic pre-requisite to improved policy administration. Any ACIS monitoring should be designed in close consultation with the industry.[6]

Main Provisions

Subsection 42 of the *ACIS Administration Act 1999* establishes the methodology for calculating incentives to motor vehicle producers under the capped and uncapped elements of ACIS for the production of motor vehicles.

The uncapped element is equivalent to the Duty Free Allowance (DFA) under the previous scheme and is equal to 15 per cent of the value of production of *passenger motor vehicles* sold in Australia and New Zealand, multiplied by the current tariff rate on imported cars.

The Explanatory Memorandum states that the current ACIS definition of *passenger motor vehicles* excludes utilities, panel vans and pick-ups. This exclusion is inconsistent with the Government's 1997 policy to continue the DFA, which applied to the production of utilities, panel vans and pick-ups.

Item 1 of Schedule 1 of the Bill inserts the definition of *specified load-carrying vehicles*, which covers utilities, panel vans and pick-ups.

Item 3 of Schedule 1 clarifies that a *passenger motor vehicle* or a *specified load-carrying vehicle* is a motor vehicle for the purposes of ACIS.

Concluding Comments

The Bill corrects an oversight in the original legislation establishing ACIS – a scheme that is widely supported by the automotive industry. Accordingly, the amendment operates retrospectively from the commencement of the Scheme.

Endnotes

1 See ACIS Administration Bill 1999 Bills Digest No. 208, 1998–99 http://www.aph.gov.au/library/pubs/bd/1998-99/99bd208.htm for a general discussion of the policy objectives of the Bill. In 2000, changes were made to the administration of the Act to ensure the cap on the cost of the Scheme was achieved. See ACIS Administration Amendment Bill 2000 Bills Digest No. 46, 2000–01. http://www.aph.gov.au/library/pubs/bd/2000-01/01BD046.htm

2 See Review of Automotive Assistance, Position Paper, Productivity Commission, June 2002. http://www.pc.gov.au/inquiry/auto/positionpaper/index.html

3 See *Composition of Trade, Australia, 2001*, Department of Foreign Affairs and Trade, June 2002.

4 *Review of Automotive Assistance, Position Paper*, Productivity Commission, June 2002, pp. 100–102.

5 ibid., p. 97. The amount reflects 6 months of ACIS and the previous scheme.

6 FAPM Submission to the Productivity Commission Inquiry into Post-2005 Arrangements for the Automotive Industry, May 2002, p. 78.