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ACIS Administration Amendment Bill 2009

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ACIS Administration Amendment Bill 2009

Date introduced: 24 June 2009

House: House of Representatives

Portfolio: Innovation, Industry, Science and Research

Commencement: Sections 1 to 3: the day the Act receives Royal Assent.

Schedule 1: At the same time as section 3 of the *Automotive Transformation Scheme Act 2009* commences.

Links: The *relevant links* to the Bill, Explanatory Memorandum and second reading speech can be accessed via BillsNet, which is at http://www.aph.gov.au/bills/. When Bills have been passed they can be found at ComLaw, which is at http://www.comlaw.gov.au/.

Purpose

The Bill amends the *ACIS Administration Act 1999* to implement changes to the Automotive Competitiveness and Investment Scheme (ACIS) that were announced in the Government's *A New Car Plan for a Greener Future* by repealing ACIS Stage 3 which was scheduled to run to 31 December 2015.

Background

Together with the Automotive Transformation Scheme Bill 2009 the Bill implements the $3.4 billion Automotive Transformation Scheme which will replace ACIS as the major support program for the Australian automotive industry.

Automotive Competitiveness and Investment Scheme (ACIS)

ACIS 2001–2005

The ACIS scheme commenced on 1 January 2001 and was initially scheduled to end on 31 December 2005. The scheme replaced the duty free entitlement and longstanding Export Facilitation Scheme (EFS).[1] ACIS was intended to provide transitional assistance and encourage competitive investment in the context of trade liberalisation. As stated in the Explanatory Memorandum to the ACIS Administration Bill 1999:

[1] The EFS was introduced in 1982. It allowed motor vehicle and component producers to earn export credits in return for automotive exports and to use these credits to offset the customs duty on their imports.

> The purpose of ACIS 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.

Although ACIS was intended as a transitional program to assist the industry during the tariff pause (2000-2005)[2] it was structured in a way to deliver the same level of assistance as the scheme it replaced. As an industry support program, the EFS was vulnerable to challenge under the WTO rules because it provided a production subsidy for automotive exports. In its annual national trade estimate reports on foreign trade barriers, the Office of US Trade Representative identified the EFS as an export subsidy.[3]

ACIS provided tradeable import duty credits for the automotive industry in two separate packages for motor vehicle manufacturers (Ford, GMH, Toyota and Mitsubishi Motors) and automotive component manufacturers, toolmakers, design and engineering firms. The import duty credits were based on three categories of activities: production, investment and R&D.

ACIS provided around $2.8 billion in assistance over five years. This amount was drawn from two 'pools'. One was capped at $2 billion and an uncapped pool, which was estimated to cost $840 million. Much of the assistance to the industry was drawn from the capped pool and necessitated 'modulation' (or rationing) each year with average payout rates being about three-quarters of the maximum rate.

It should be noted that the level of assistance under ACIS exceeded that of any assistance program provided to an Australian industry – the corresponding Strategic Investment Program, the transitional program available to textiles, clothing and footwear industry was capped at $700 million over five years.

There are no figures publicly available as to the quantum of assistance received by the four motor vehicle producers, although estimates range from $80 million to $120 million per annum for each of the motor vehicle producers. It was estimated that Mitsubishi received more than $200 million over the five-year life of the ACIS scheme.[4]

ACIS 2005–2015

On 13 December 2002, the Minister for Industry, Tourism and Resources announced that ACIS would be extended for a further ten years until 2015. During the 2006-2010 period, ACIS capped incentives were limited to $2 billion. From the period 2011 to 2015, ACIS capped payments were limited to $1 billion subject to phasing arrangements to

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[2] Tariffs were held at 15 per cent from 2000 to the end 2004. This was followed by a reduction to 10 per cent from 1 January 2005.

[3] The WTO consistency of the ACIS scheme was also questioned. See, *National Trade Estimate Report on Foreign Trade Barriers*, Office of the US Trade Representative, 2003.

[4] 'Pressure on PM to save Mitsubishi', *The Age*, 26 July 2001.

progressively reduce assistance over this period.[5] Uncapped assistance was estimated at $1.2 billion over ten years.

Under the extended ACIS scheme, tariffs were set to fall to 10 per cent on 1 January 2005 and remain at 10 per cent until 1 January 2010, when they would be reduced to 5 per cent and remain at that level until 2015. In announcing an extension of the ACIS scheme, the Minister stated:

> The new look package goes far beyond what was recommended by the Productivity Commission Review, adding an extra 50% of $1.4 billion over the 10 year continuation of the scheme. The package is also aimed squarely at innovation, it has a greater emphasis on R&D, rather than production subsidies.
>
> Similar to its predecessor, the post-2005 Automotive Competitiveness and Investment Scheme will be a transitional scheme that will encourage competitive investments by firms in the automotive industry in order to achieve sustainable growth.[6]

The Government also announced that it would establish, from the motor vehicle producer's portion of ACIS, a $150 million R&D fund to operate over the period 2006-08 to support key automotive technologies.

The table on the following page, which is reproduced from the Productivity Commission's *Trade & Assistance Review 2007-08*, shows the quantum of assistance to the industry under the extended ACIS scheme.

The Bracks Review

Following the 2007 Federal Election the Minister for Innovation, Industry, Science and Research announced a review of the automotive industry headed by the former Victorian Premier, the Hon Steve Bracks. The terms of reference of the review included an evaluation of the ACIS scheme.[7]

The review concluded that ACIS had been effective in encouraging additional production, investment and R&D than would otherwise have occurred.[8] However, there was no quantitative assessment of the effects of ACIS funded assistance on production, R&D and plant and equipment by motor vehicle producers and component manufacturers. In an

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[5] See 'A Decade of Certainty for the Automotive Industry', Media release, Minister for Industry, Tourism and Resources, 13 December 2002.

[6] Ibid.

[7] See 'Government announces review of automotive industry', Media release, Minister for Innovation, Industry, Science and Research, 14 February 2008.

[8] Department of Innovation, Industry, Science and Research, *Review of Australia's Automotive Industry*, Final Report, 22 July 2008, viewed 10 August 2009, http://www.innovation.gov.au/automotivereview/Documents/aug08%20final%20report_secure.pdf

earlier review of the automotive industry, the Productivity Commission noted that some 'additionality' effects due to ACIS were expected given the large rate of subsidy.[9]

The review recommended further extension of the transitional assistance through to 2020 and proposed replacing ACIS with a new program – the Global Automotive Transition Scheme (GATS) which would commence in 2010 rather than proceed with ACIS through to 2015. The review recommended funding be increased to $1.5 billion from $1.0 billion under ACIS over the period 2010 to 2015 and that a further $1.0 billion be provided over the period 2016 to 2020.

Under GATS, automotive production would continue to earn assistance similar to that under ACIS but the review did not recommend a rate of subsidy.

Table: Australian Government budgetary assistance to the automotive industry, 2001-02 to 2007-08 ($ million)

[9] Productivity Commission, *Review of Automotive Assistance*, Report no. 25, 2002, viewed 10 August 2009, http://www.pc.gov.au/__data/assets/pdf_file/0003/25284/auto.pdf

	01-02	02-03	03-04	04-05	05-06	06-07	07-08
Motor vehicles and parts							
Industry-specific measures							
ACL Bearings*	-	-	-	-	-	-	2.0
Automotive competitiveness and investment scheme – Stage 1	594.9	571.5	584.3	568.8	479.8	-	-
Automotive competitiveness and investment scheme – Stage 2	-	-	0.5	0.9	-	537.0	506.9
Automotive incentives – Ford	-	-	-	-	32.5	-	-
Automotive market access and development	4.9	-	-	-	-	-	-
Investment incentive for Holden	8.5	4.0	-	-	-	2.0	2.0
General export measures							
Export Market Development Grants Scheme	2.1	1.5	1.8	1.4	1.5	1.2	1.0
TRADEX	96.3	71.6	74.3	60.5	38.3	46.9	46.8
General investment measures							
Development allowance	8.8	4.6	2.4	1.6	1.0	0.4	<0.1
General R&D measures							
Commercial Ready Program	-	-	-	-	1.3	2.2	0.8
COMET Program	0.3	0.2	0.2	0.1	<0.1	0.1	0.4
Cooperative Research Centres	-	-	-	-	4.6	5.1	6.5
Premium R&D tax concession	1.5	3.8	6.5	4.2	5.4	8.2	13.0
Preseed fund	-	0.8	-	-	0.3	-	<0.1
R&D Start	2.9	1.4	0.6	0.4	<0.1	-	-
R&D Start Loans	-	-	-	-	<0.1	-	-
R&D tax concession	29.7	21.4	24.4	13.1	14.7	17.1	20.2
R&D tax offset for small companies	-	1.3	2.1	2.3	2.7	2.5	3.4
Other measures							
Industry Cooperative Innovation Program	-	-	-	-	-	<0.1	<0.1
Small business capital gains tax exemption	<0.1	-	-	-	-	-	-
Wide Bay Burnett Structural Adjustment	<0.1	<0.1	-	-	-	-	-
Total	*750.0*	*682.1*	*697.1*	*653.4*	*582.3*	*622.6*	*603.1*

Source: Productivity Commission, *Trade & Assistance Review 2007-08*, Table A.6, p.164.

Green Car Innovation Fund (GCIF)

Prior to the Bracks Review the Government announced the introduction of a $500 million Green Car Innovation Fund (GCIF) which would commence in 2011. In June 2008, the Government announced a $35 million grant from the GCIF to Toyota to assist the manufacture of a hybrid petrol-electric Toyota Camry in Australia. The GCIF was later doubled under the Government's *A New Car Plan for a Greener Future*.

A New Car Plan for a Greener Future

In November 2008, the Government announced a $6.2 billion assistance package for the motor vehicle industry over the period 2009 to 2021: *A New Car Plan for a Greener Future*.[10] The announcement made new commitments of $3.4 billion over and above the $3 billion earmarked for the remaining stages of ACIS. The package included additional funding of $80 million to assist the transition from ACIS to the Automotive Transformation Scheme.

Financial implications

According to the Explanatory Memorandum to the Bill, the estimated savings of the early termination of the ACIS scheme is $1.135 billion. The estimated cost of additional ACIS assistance in 2010 is $79.6 million.

Main provisions

The Main Provisions reflect the repeal of ACIS Stage 3 which was to run from 1 January 2011 to 31 December 2015 and changes to the formula for calculating unmodulated capped and uncapped production credits which will provide increased assistance to motor vehicle manufacturers in 2010 to coincide with the scheduled tariff cut from 10 per cent to 5 per cent on 1 January 2010. The formula has been amended to correct an anomaly where there were different levels of assistance for vehicles sold in Australia versus vehicles sold for export.

Schedule 1

ACIS Administration Act 1999

Item 6, subsection 4(2A) omits "ACIS Stages 2 and 3" and substitutes "ACIS Stage 2".

Item 8 and 9, subsection 6(1) (definition of *ACIS year*) omit "1 January 2016" and substitutes "1 January 2011" by repealing ACIS Stage 3 which was scheduled to run to 31 December 2015.

Item 12, subsection 42(1) (formula) repeals the formula for working out unmodulated uncapped production credits under ACIS and substitutes the formula

$$\left(A \times B \times 15\%\right) + \left(C \times B \times 15\%\right)$$

[10] See Department of Innovation, Industry, Science and Research, *A New Car Plan for a Greener Future*, 2008, viewed 10 August 2009, http://www.innovation.gov.au/Industry/Automotive/Documents/NEWCARPLANGREENERFUTURE.pdf

Item 13, subsection 42(1) (definition of *B*) repeals the definition and substitutes: *B* is 7.5%. The increased rate of subsidy under the unmodulated uncapped production credits is achieved by the addition of second component of the formula (C x B x 15%) and increase in the tariff rate to 7.5% from the applicable tariff rate of 5%.

Item 14, subsection 42(1) inserts the following:

> ***C*** is the production value of MVP production by that MVP in the quarter concerned (other than passenger motor vehicles, and specified load-carrying vehicles, that are sold in the Australian or New Zealand markets).

Item 15, subsection 42(2) (formula) repeals the formula for working out unmodulated capped production credits and substitutes:

$$\left[\left(A \times B \times 10\%\right) + \left(C \times B \times 10\%\right)\right] - CA$$

Concluding comments

The automotive industry faces acute market pressures in Australia as new vehicle sales decline. While sales data for the month of June 2009 showed a 36 per cent rise in new vehicles sold over the previous month, the volume of sales remains well below long-term trends. The rise in sales was due in large part to the Government's fiscal stimulus package and temporary 150 per cent tax break for small business.[11] These support measures helped drive business demand for new vehicles which rose by 40 per cent in June. Further assistance to motor vehicle producers is provided for under changes to the formula for calculating production credits in 2010 at a cost of $79.6 million.

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[11] See, '[Business sales boost car market in June]', Media release, Federal Chamber of Automotive Industries, 3 July 2009.

Members, Senators and Parliamentary staff can obtain further information from the Parliamentary Library on (02) 6277 .

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.