

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Additional Estimates

26 February 2014

**Question: AET 1501-1505**

**Topic: Automotive Industry – (PC)**

**Written: 6 March 2014**

**Senator XENOPHON asked:**

1501. I refer to the Productivity Commission's position paper on Australia's Automotive Manufacturing Industry, which was released on 31 January 2014. On page 15 of the position paper, it is recommended that Australian, Victorian and South Australian government fleet purchasing policies that favour Australian-manufactured vehicles be removed. Can you please respond as to why you recommended that government fleets no longer favour vehicles which are manufactured in Australia by an Australian workforce?
1502. I now refer to pages 14-15 of the same position paper, and the sub-heading Should Toyota receive extra government assistance? It is the Commission's view that assistance with broader policy settings for Toyota and its supplier base would be more efficient than provision of additional industry-specific government assistance. Can you please expand on these recommended broader policy settings?
1503. Since the release of the most recent position paper, Toyota has announced that they would cease manufacturing motor vehicles in 2017. Given that the industry has had another massive change, can you indicate whether the Commission plans to continue the inquiry with particular focus on the automotive component manufacturers?
1504. I refer to the terms of reference of the inquiry, number two in particular, where the Commission states that they will examine international automotive industry assistance arrangements, including budgetary assistance provided by major and emerging automotive-producing countries. Whilst you have devoted 19 pages at Appendix B of the position paper to international assistance arrangements, can you advise why you have not addressed this in the main body of the position paper?
1505. On 4 November 2013, the Federal Chamber of Automotive Industries (FCAI) released their commissioned report by the Allen Consulting Group, which identified the impacts Australia will see if automotive manufacturing in Australia ceases. In particular, the report details spill-over effects which include to advanced manufacturing and R&D, and are recognised by chief executives of companies like Boeing, Rio Tinto and Coca-Cola Amatil. Can you advise if the Commission plans to seek evidence of the real benefits provided by the automotive industry to the broader economy in the form of spill-overs?

**Answer:**

1501. The benefits of government fleet purchasing policies to the Australian automotive manufacturing industry appear to be limited. Were there no government procurement policies in place, and assuming that all governments then purchased the same percentage of vehicles manufactured in Australia as those governments with no preferential policy, the reduction in sales of domestically produced vehicles would amount to around 4300 cars.

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Government purchasing requirements can impose costs on governments (and in turn, taxpayers) including:

- the administrative costs of running the policies
- the requirement for an agency to justify purchasing a vehicle not manufactured in Australia, where no suitable vehicle is manufactured in Australia
- the costs of restrictions on the choice of vehicles available to government departments including the forgone benefits of purchasing lower-cost, better-suited or better-quality imported vehicles.

1502. Broader policy settings include those affecting workplace arrangements, taxation, labour market mobility, infrastructure investment and efficiency, and education and training, as well as other policies that can impose regulatory impediments to adjustment.
1503. The inquiry will be focusing in its final report quite heavily on the issues facing the component manufacturers and on the workforces of both the assemblers and the component manufacturers.
1504. The impact and policy implications of assistance measures in other countries are discussed in pages 57–59 of the Position Paper. In the Commission’s assessment it is not in Australia’s interests to use industry-specific assistance measures to compete with other countries for globally mobile capital investment. The costs of such measures predominantly are borne by the Australian community. Ultimately only a sound business case will underpin long-term capital investment and reinvestment.
1505. Automotive manufacturing in Australia would produce some ‘spillover’ benefits such as skills and knowledge transfer, but there is no compelling evidence that these are significantly greater than spillovers generated by other industries (indeed many of the spillover benefits of domestic automotive manufacturing appear to be retained largely within the automotive manufacturing industry supply chain) or, moreover, would justify incurring the costs of industry-specific assistance.