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Productivity Commission

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Australia's Automotive Industry – Structural Adjustment

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Outline

- Global context
- Automotive policy history in Australia
- Future assistance options
- The adjustment story

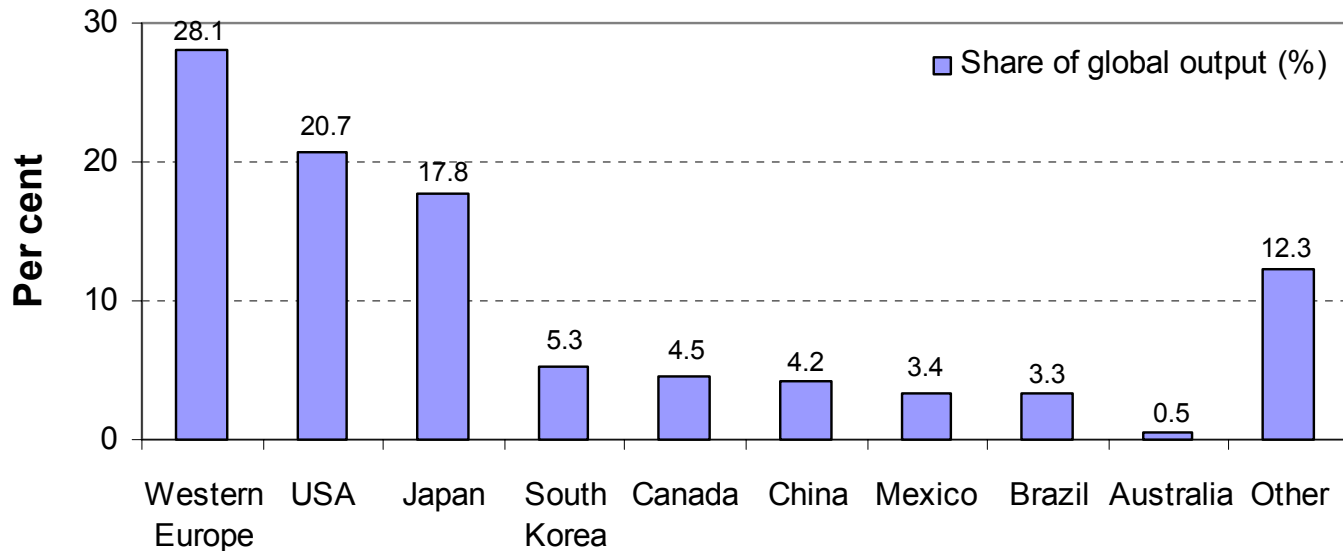
Global change

Pressures for change in the global automotive industry

- Global excess capacity
- Consolidation
- Producers increasingly final assemblers
- Investment in emerging markets
- Technological developments



Global vehicle production (2001)

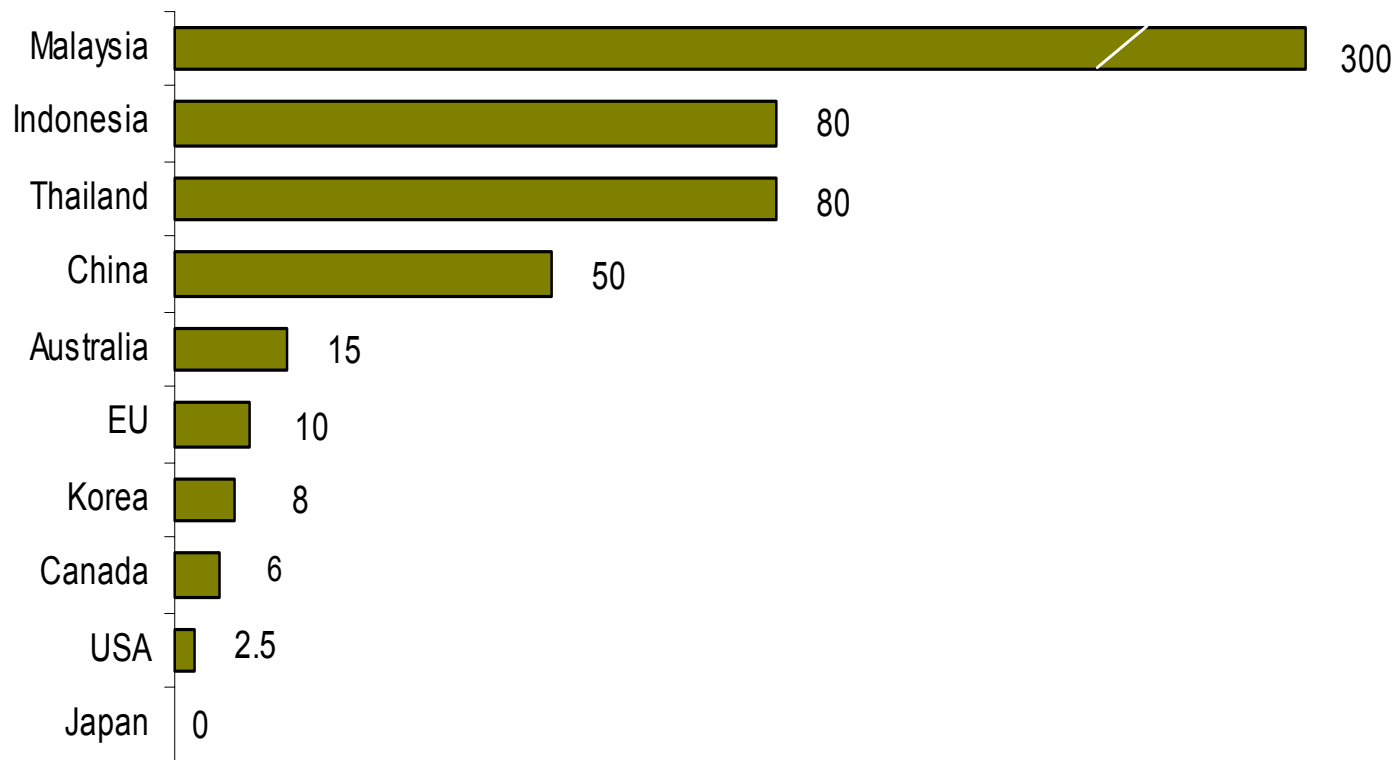


Sources: OICA (2002), USBTS (2001)

Selected combined tariff rates (2001)



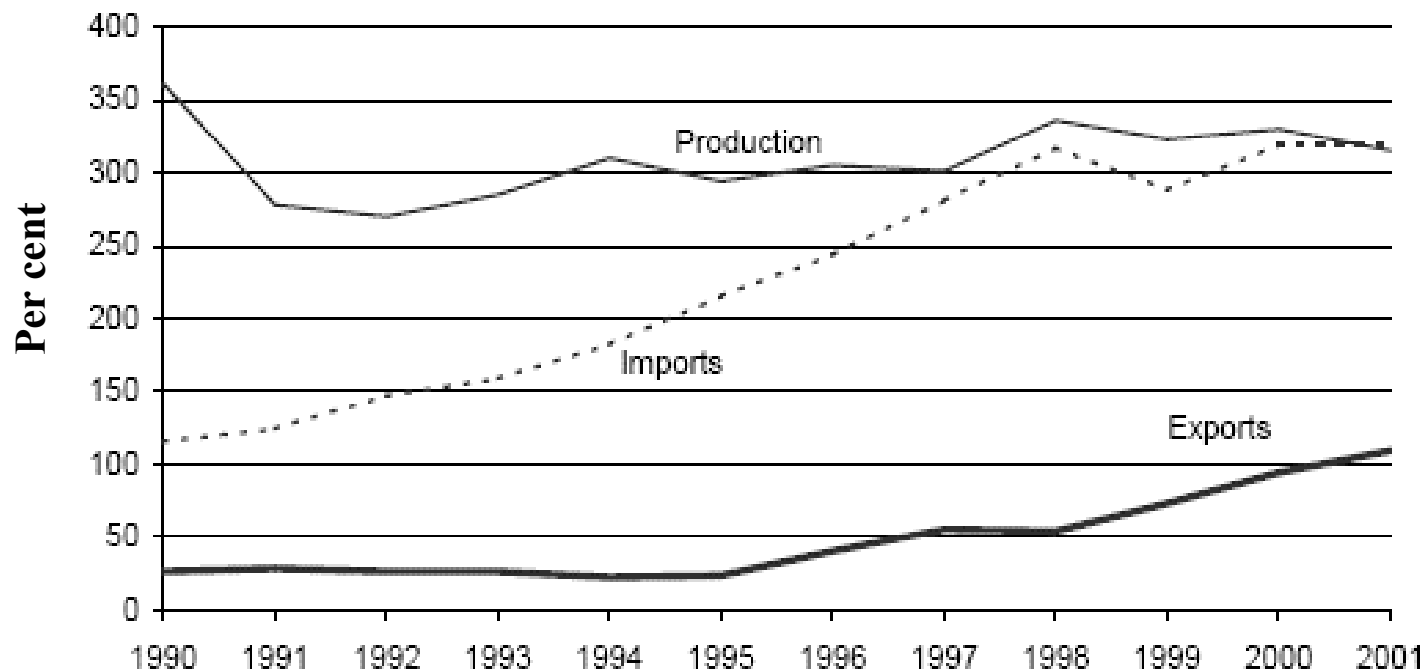
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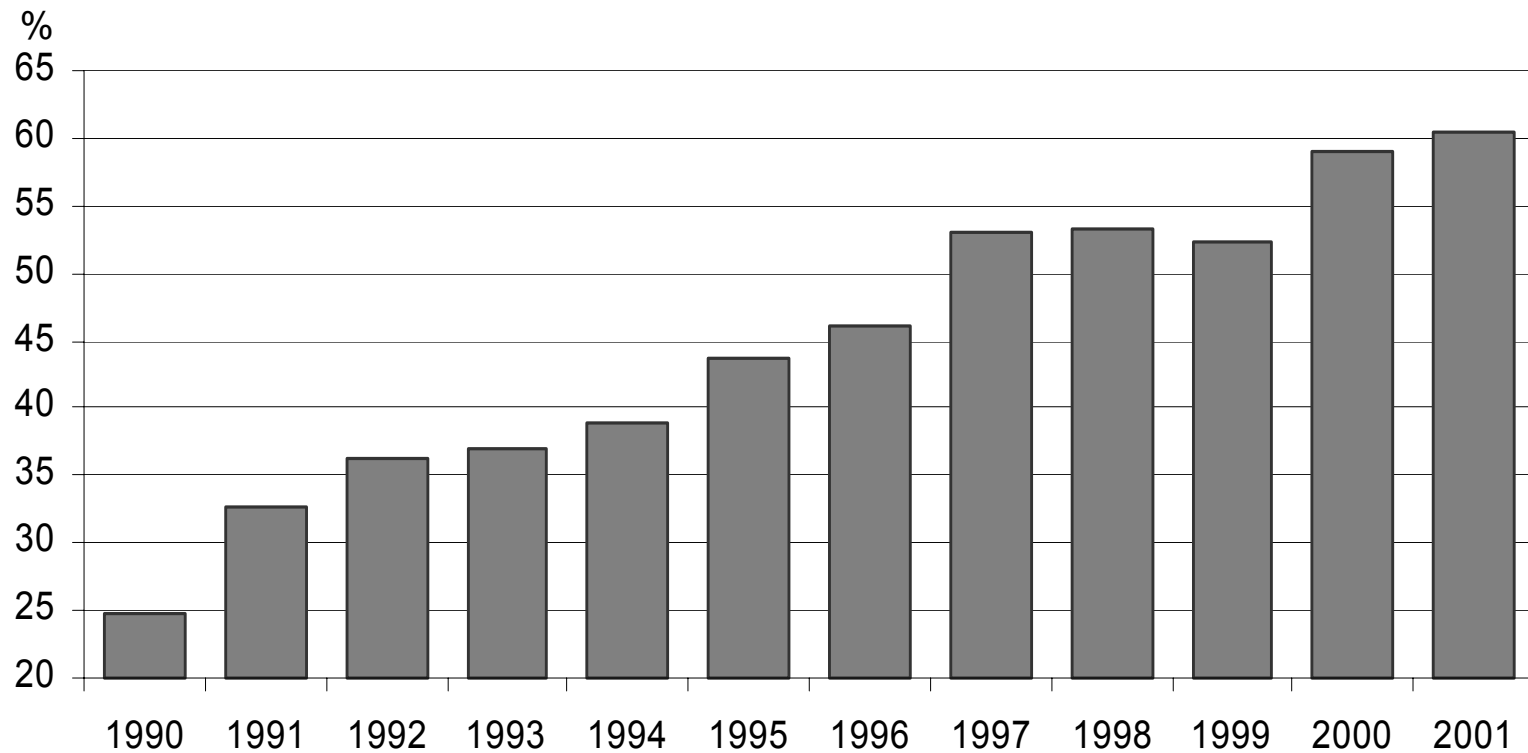
Automotive inquiry findings

Production, imports and exports of passenger motor vehicles
'000 units





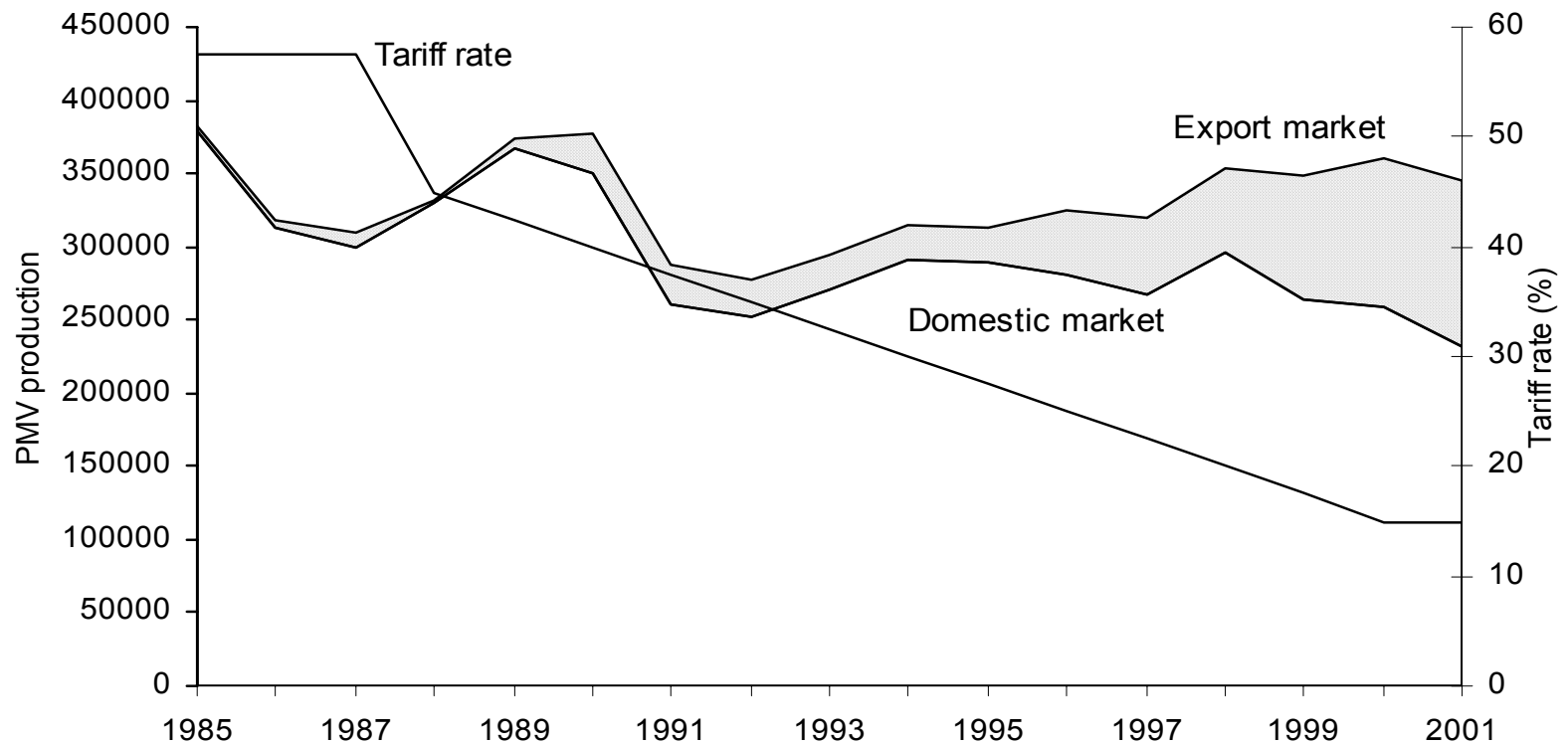
Import share – PMV market



Data source: AAI (2002)



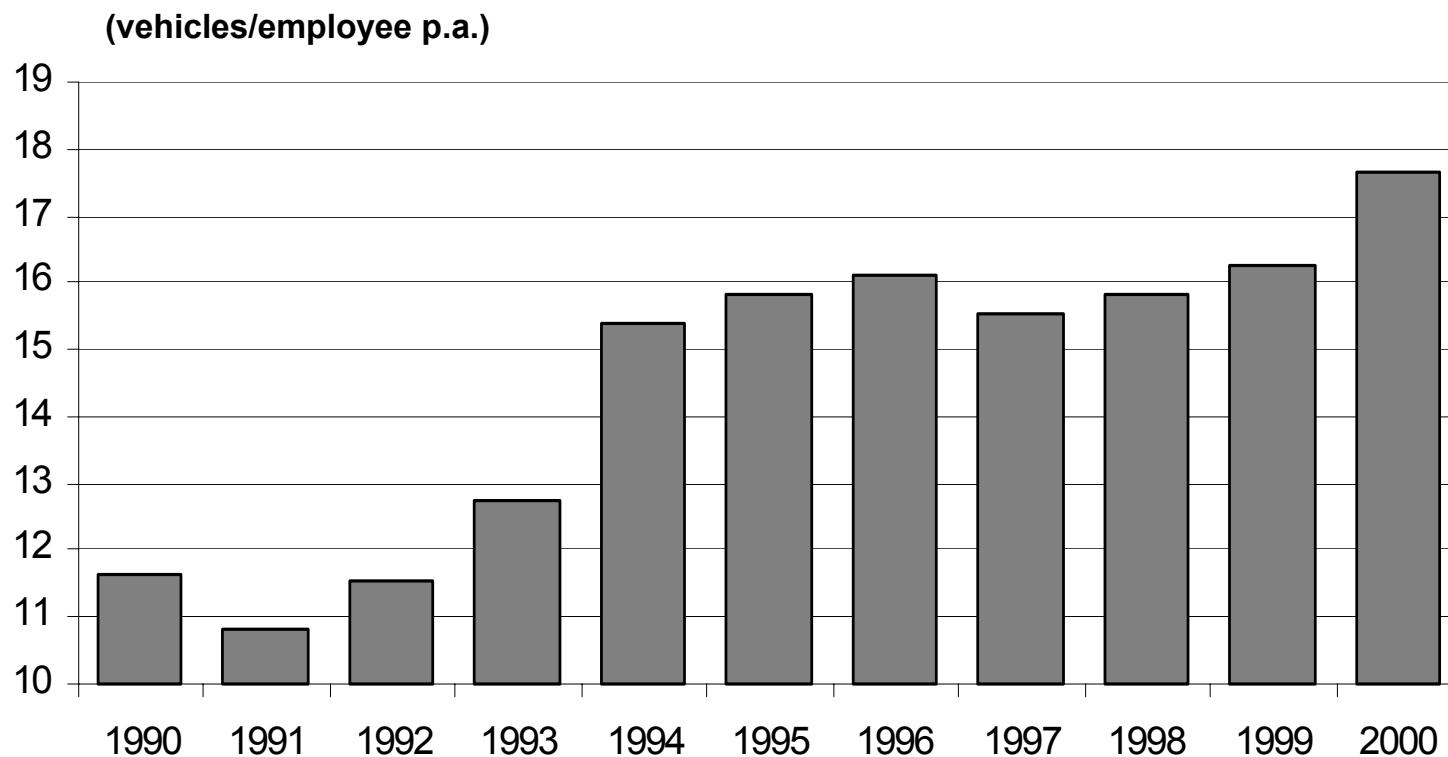
Tariffs and Production



Data sources: DIST (1998), DITR (2001, unpublished)



Labour productivity



Data sources: DISR (1999), DOTR (2001)

Implications for future assistance policy (i)



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- Further assistance reductions benefit consumers, reduce business costs
- ‘Dynamic’ benefits
- Spillovers don’t justify industry specific support
- Status quo - undesirable signal

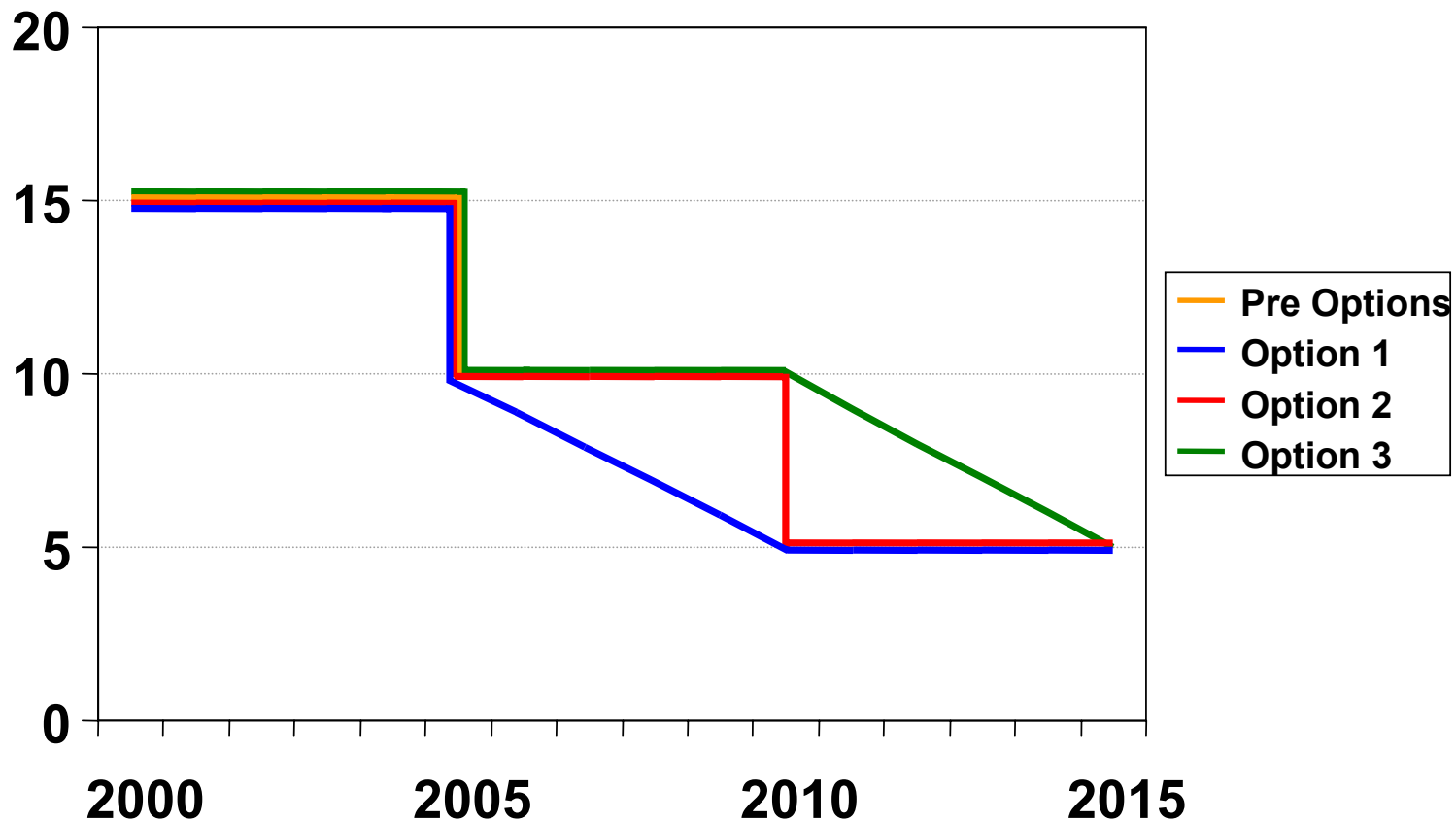


Implications for future assistance policy (ii)

- Transitional issues are critically important
- Assistance should be transparent
- Predictable
- And aim to minimise compliance costs
- Demonstration effects are also a consideration



Tariff Options



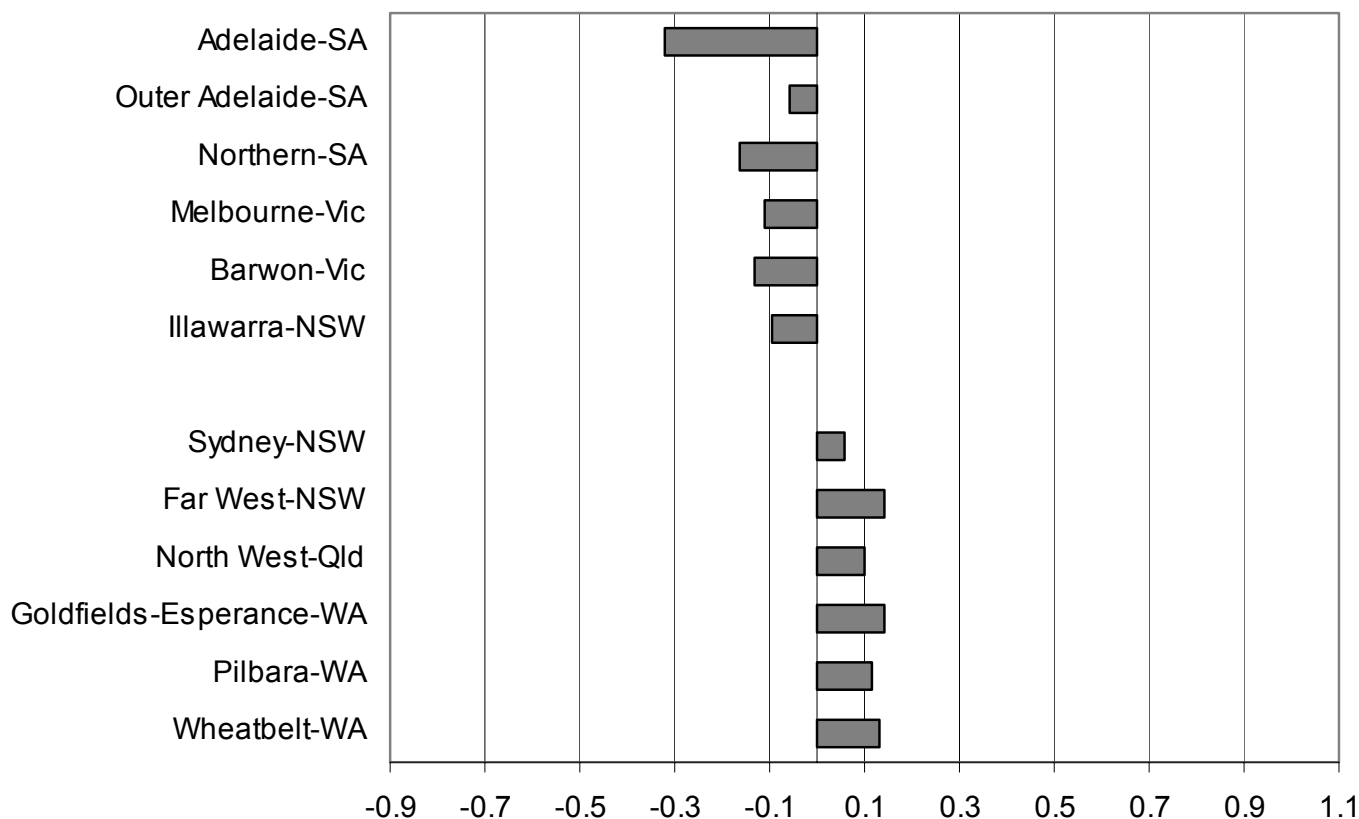


Adjustment capacity at firm and regional level

- Past adjustment experiences are encouraging
- Significant improvements in the skills of the workforce
- Regional dependence on the industry has diminished
- But other factors will limit firm and regional adjustment capacity
- Quantitative modelling sheds light on the regional adjustment burden



Effects on regional employment



Data source: MONASH model projections for selected regions : deviations in 2016

Firm & regional-specific adjustment assistance (i)



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- Some general principles
 - *social security system*
 - *generally available programs*
 - *job placement*
 - *business and regional assistance programs*
 - *targeted adjustment assistance*
 - *clear and sizeable burden*
 - *unanticipated*

Firm & regional-specific adjustment assistance (ii)



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- Future specific adjustment support should:
 - *facilitate, not hinder necessary change*
 - *target individuals*
 - *limited duration*
 - *simple to administer*
 - *compatible with general ‘safety net’ arrangements*



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