

# Review of the Australian Automotive Industry

## Submission

### *Introduction:*

I wish to make the following submission to the Review.

I am an economist by qualification, and have extensive experience in policy development and analysis. I also have post graduate qualifications in International Law (ANU). I have worked in relevant policy areas such as Industrial Relations.

This is a brief submission setting down my principal concerns and arguments. I can expand on these matters if required.

### *Background issues:*

The automotive industry was deliberately established in Australia by Government in the post World War 2 environment to provide an industrial capacity as a strategic requirement for Australia's security and defence. The experience of war had shown the dangers of being over-reliant on other nations in what can be termed 'strategic industries'.

It is my contention that strategic considerations in industry policy remain as relevant today as when the automotive industry was established. Perhaps more so. I will not elaborate here, but am willing to do so if required.

In this context, and in terms of the overall development and growth of the Australian economy, the wide range of skills required, developed and maintained in the automotive industry are essential to the nation's continued growth and prosperity. These range from engineering, research, trade skills through to market analysis, wholesaling and retailing. The reach of the automotive industry, and its flow-on effects to other sectors, is very broad.

### *Contemporary issues:*

Of central concern is the volatility and unpredictability of the global financial, economic and trading environment. In this context, it is best to hasten slowly in terms of major restructuring of the domestic economy. Industries that have been built up with considerable investment of finance, skill and enterprise need to be given room to weather short term exigencies arising from this volatility, including high exchange rates.

This is not an argument for protection of inefficient industries. It is an argument for a prudent approach. In terms of efficiencies, the Australian industry appears to compare well. Higher environmental and safety standards here need to be allowed for in making comparisons of relative efficiency.

### *The way forward:*

I am not enamoured of subsidies. They are necessary now, but they are not a good solution in the medium to longer term. The arguments against subsidies are well known. My main concern is that because they are not across the board, or at least right across the sector, they can lead to inefficiencies. And they are costly.

I think in the current circumstances a continuation of subsidies will be required. We simply cannot allow the automotive industry to disappear and expect to be considered a serious player on the world economic stage.

However, the better approach is tariffs. Much maligned of late, but tariffs, used judiciously, provide a much more efficient and equitable tool.

They are particularly suited to the automotive industry.

The advantage is that, at least at a sector level, they are impartial. They do not favour one firm against another. From a Budget perspective, they are a source of revenue rather than an expenditure.

Tariffs need to be carefully calibrated to provide an adequate degree of protection without removing the force of competition from outside the economy. This is a fine balancing line, but I am sure it can be achieved. The tariffs can be targeted towards those parts of the industry that have the most strategic importance.

There are other tools for maintaining the industry, and seeing it grow. These would include more aggressive export strategies, better research, an industry responsive to changing consumer tastes etc. I am sure these will be canvassed in other submissions.

My particular concern here is to draw attention to an undervalued industry policy tool, that is the application of tariffs.

*Summary:*

The automotive industry is too important to Australia to allow it to disappear.

Short term measures, in particular subsidies, will be required.

However, these should be replaced by other measures that are more efficient. In particular modest tariff increases, carefully calibrated against industry policy objectives, should be implemented as part of a strategy for long term survival and growth of the Australian automotive industry.

Greg Marks

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