

27 November 2013

Mike Woods
Presiding Commissioner
Australia's Automotive Manufacturing Industry
Productivity Commission
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Dear Commissioner Woods

ACCI Submission to Productivity Commission Inquiry into Australia's Automotive Manufacturing Industry

Thank you for the recent opportunity to discuss in person ACCI's views on the inquiry into public support for Australia's automotive manufacturing industry and to provide further written comments to the inquiry.

The Australian automotive manufacturing industry received combined budgetary and tariff assistance totaling \$1.1 billion in 2011-12, of which \$620.8 million was in direct budgetary assistance. For the automotive manufacturing industry, the estimated effective rate of assistance, i.e. the value of tariff and budgetary assistance as a proportion of (unassisted) value added, was 9.4 per cent in 2011-12, compared to just 4.1 per cent for the average manufacturing industry and it received the highest effective government assistance compared to any other industry grouping.

ACCI acknowledges the case, from time to time, for targeted industry support that adds substantial and objectively verifiable value to the economy and which is predicated on budget affordability, and more importantly, the relevant industry sector being self-sustaining beyond the cycle of government assistance. The touchstone principle for any industry support is that it should add net economic value.

When government raises revenue, either in the form of taxes, levies or fines, to fund specific government industry assistance, it imposes economic costs beyond those directly involved in raising the revenue and negatively affects other non-assisted industries. ACCI believes the government needs to take these costs and impacts into account when considering the policy case for government assistance to a specific industry. In addition, all government assistance and incentives need to be transparent with predictable funding and should have key review indicators and milestones to gauge whether these programs achieve their intended objectives.

According to the World Economic Forum's *Global Competitiveness Report*, Australia's regulatory and tax burden, as well as labor market efficiency, rated poorly compared to other countries. Table 1 shows that Australia's competitiveness indicators in these areas have deteriorated significantly over the past five years, especially in indicators relating to labour market efficiency. For example, the ranking in *Cooperation in labour – employer relations* has crashed from 37th position in 2008-09 to 103rd position in 2013-14; and *Burden of Government Regulation* has slumped from 85 to 128 in the last five years.



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Table 1: Australia's global competitiveness indicators (ranking)

Competitiveness Indicators	2008-09	2013-14
Burden of Government Regulation	85	128
Total tax rate, % profits	88	109
Cooperation in labour-employer relations	37	103
Flexibility of wage determination	75	135
Hiring and firing practices	46	137
Redundancy costs, weeks of salary	7	49
Pay and productivity	26	113

Note: Australia was ranked out of 134 countries in 2008-09, and 148 in 2013-14.

Source: World Economic Forum, *Global Competitiveness Report*, various issues.

If Australia's manufacturing sector is to compete internationally, it is vital that our tax regime does not disadvantage domestic manufacturers and remains globally competitive. Company tax rates have been falling around the world in recent years, while Australia has faltered in its recent attempts to reform company tax. In 2001, when Australia reduced its statutory company income tax rate to 30 per cent, we had the ninth lowest rate in the OECD countries. Now we have one of the highest corporate tax rates relative to other small to medium-sized OECD countries, and at 30 per cent it is well above the average rate of 25 per cent for small to medium-sized OECD countries.

According to the US Bureau of Labor Statistics, at US\$37.04 per hour Australia ranked among the countries with the highest hourly compensation costs for the manufacturing sector in 2011. Table 2 shows that hourly direct pay in the Australian manufacturing sector has increased by 60.3 per cent from 2006 to 2011, compared to just 13.8 per cent in the US and 15.2 per cent in Korea, which is partly contributed to by the appreciation of the Australian dollar and associated re-structuring within manufacturing domestically.

Table 2: Hourly direct pay in manufacturing (in US dollar)

	2006	2011	Percentage change
Australia	23.10	37.04	60.3%
US	23.62	26.87	13.8%
Germany	30.34	37.13	37.1%
Japan	19.73	29.25	29.3%
Korea	14.29	15.21	15.2%

Note: including wages and directly paid benefits, i.e. pay for leave time and bonuses.

Source: US Bureau of Labor Statistics 2011, *International Comparisons of Hourly Compensation Costs in Manufacturing*.

Table 3 clearly highlights that hourly labour costs for Australian manufacturing, which includes wages, pay for leave time and bonuses, social insurance expenditures and labour-related taxes at US\$46.29, was much higher than in the US, Japan and Korea and has experienced the fastest growth of all these countries over the past five years.

Table 3: Hourly compensation cost in manufacturing (in US dollar)

	2006	2011	Percentage change
Australia	29.17	46.29	58.7%
US	30.48	35.53	16.5%
Germany	39.37	47.38	20.3%
Japan	24.03	25.71	48.6%
Korea	17.37	18.91	8.90%

Note: including wages, directly paid benefits, i.e. pay for leave time and bonuses, social insurance expenditures and labour-related taxes.

Source: US Bureau of Labor Statistics 2011, *International Comparisons of Hourly Compensation Costs in Manufacturing*.

ACCI believes that to improve Australian business competitiveness, the government should reduce the cost of doing business domestically by improving the efficiency of the tax system, ensuring flexibility in the workplace and reducing the cost of onerous regulation on industry. Reforms across all these areas will benefit the entire economy as well as enhancing the automotive manufacturing industry's long-term domestic viability.

Attached for your further reference is a copy of ACCI's 2007 position paper entitled *The Future of Australia's Manufacturing Sector: A Blueprint for Success*, which outlined the Chamber's policy advocacy for the manufacturing industry in greater detail.

ACCI also looks forward to making a more detailed submission at the later stages of the inquiry.

Yours sincerely,

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