

# Title: Budgetary Assistance to the Australian Automotive Sector

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## 1 Introduction

This report has been commissioned by the Federal Chamber of Automotive Industries (FCAI) to consider the veracity of observations made by the Organisation for Economic Co-operation and Development (OECD) (2010, pp. 67-68) in its most recent economic survey of Australia released in November 2010 on the level of budgetary industry assistance provided to the Australian automotive industry. The views and opinions expressed in this report are strictly those of the author and do not reflect the views of either the FCAI nor the Sapere Research Group.

## 2 OECD Economic Surveys: Australia, November 2010

On 14 November 2010 the OECD (2010) released the report entitled *OECD Economic Surveys: Australia, November 2010*. The following policy recommendation was made by the OECD (2010, p. 15) in the chapter entitled *Assessment and recommendations* of the report:

The quality of public interventions should be assessed, as there is considerable scope to rationalise assistance, especially to the automotive sector and for drought assistance. Rationalising such programmes, which would be beneficial in itself, would make the spending limit easier to obtain.

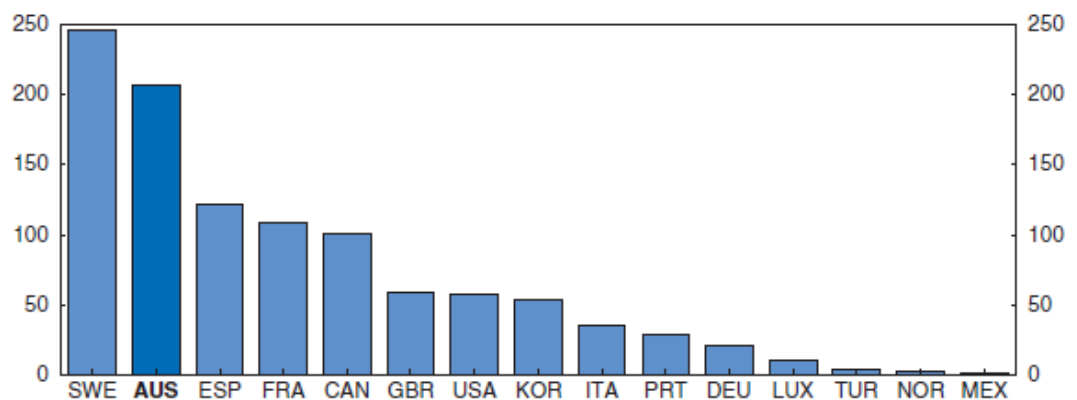
The following observations were made by the OECD (2010, pp. 67-68) in the chapter entitled *Enhancing the effectiveness of fiscal policy* of the report:

Further rationalisation of industry subsidies would also seem desirable... This applies, for example, to aid extended to the farm sector during droughts and also aid to the automotive industry (PC, 2009). Further assistance to the industry was provided in November 2008, making the total level of subsidies to the Australian automotive industry the second highest in the OECD on a per capita basis (Figure 2.2). This package for the automotive industry was released following a continuous period of transitional assistance, which was designed in the mid-1980s, to help the industry adjust to higher competition following the reduction in tariff levels. The transitional assistance did not prevent Mitsubishi in South Australia from leaving the Australian market in 2008. Justification for subsidies to distressed industries, like the need to offset the appreciation of the Australian dollar or to preserve the technological spillover benefits for other industries, has no solid empirical evidence. In contrast, such subsidies hinder structural adjustment and the re-allocation of resources in the economy

made necessary by the changes in relative prices (PC, 2008)<sup>1</sup>. These adverse effects could worsen over time as a result of the need for structural change due to the emerging mining boom.

Accompanying this text was Figure 2.2 (OECD, 2010, p. 67) which is reproduced below:

**Figure 2.2. International assistance to the automobile sector**  
US dollars per capita PPP, 2007



Shortly after the release of the report, the OECD (2010a) released a corrigendum which stated that the following footnote should accompany Figure 2.2:

The amount of subsidies to the automotive sector may not include all forms of government support and covers varying time frames across countries.

The OECD cites one of its own papers (Guellec & Wunsch-Vincent, 2009) as well as the Grattan Institute (Daley, 2009) as sources for Figure 2.2.

The original source material appears to come from an OECD report by Guellec and Wunsch-Vincent (2009, p. 34) that provides cost estimates of assistance packages by governments to their automotive sectors in their own local currency. According to Guellec and Wunsch-Vincent (2009, p. 34):

OECD governments ready to come to the rescue of their automobile sectors are making credits, tax breaks, special investment schemes, etc. available.

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<sup>1</sup> PC (Productivity Commission) (2009) *Annual Report 2008-09, Annual Report Series*, Melbourne.

However, in return many are demanding the production of more energy-efficient engines and cars or giving incentives for the purchase of new cars (see table below).

The table in the report by Guellec and Wunsch-Vincent (2009, p. 34) is reproduced below:

Country	Amount of package	Linked to clean technologies	Incentives for new car purchase
Australia	AUD 6.2 billion	●	
Canada	CAD 4 billion		
France	EUR 6 billion	●	●
Germany	EUR 1.5 billion	●	●
Italy	EUR 1.7 billion	●	●
Korea	KRW 2 trillion	●	
Luxembourg	EUR 4.5 million	●	●
Mexico	USD 1 billion	●	
Norway	NOK 100 million	●	
Portugal	EUR 200 million		
Spain	EUR 4 billion	●	●
Sweden	SEK 20 billion	●	
Turkey	TRY 210 million		●
United Kingdom	GBP 2.3 billion	●	●
United States	USD 17.4 billion		

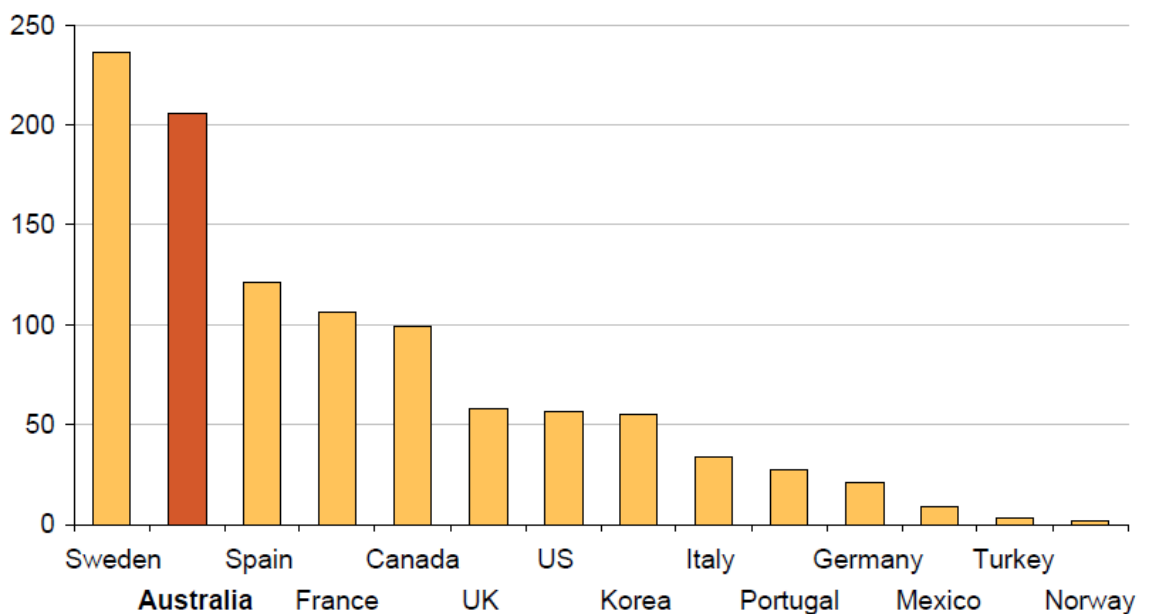
The \$6.2 billion quoted in the Guellec and Wunsch-Vincent (2009, p. 34) paper in regard to Australia relates entirely to the magnitude of assistance provided to Australian automotive industry through the *A New Car Plan for a Greener Future* policy statement announced in November 2008 by the Australian Government (2008). As part of the policy initiatives contained in the policy statement, the Australian Government announced that it would provide total assistance of \$6.2 billion to the Australian automotive industry between 2008-09 and 2020-21. The \$6.2 billion in assistance has since been reduced to \$6 billion due to a \$200 million cut announced in the 2010-11 budget (Australian Government, 2010, p. 281).

The magnitude of assistance packages cited by Guellec and Wunsch-Vincent (2009, p. 34) for Canada and the United Kingdom is consistent with publicly available material. In regard to France, Germany and Sweden, it appears that the level of assistance was more generous than acknowledged by Guellec and Wunsch-Vincent (2009, p.

34). However, the magnitude of the assistance provided for the US automotive industry cited by Guellec and Wunsch-Vincent (2009, p. 34) would appear to dramatically underestimate the level of budgetary assistance provided by the US Government. This matter is further discussed in section 3.

In an address by the Chief Executive Office of the Grattan Institute Dr John Daley (2009, p. 14), the Grattan Institute appear to have converted the level of budgetary assistance cited by Guellec and Wunsch-Vincent (2009, p. 34) into US dollars per capita using 2007 purchasing power parity values to arrive at the following bar chart that is reproduced below.

**Government stimulus for the car industry 2008-2010**  
USD / capita, 2007 PPP



The Grattan Institute (Daley, 2009, p. 14) cited the Guellec and Wunsch-Vincent (2009) study along with Grattan Institute analysis as the source material for its chart.

There would appear to be several flaws associated with the Grattan Institute material. First, the title on the Grattan Institute chart assumes the public spending initiatives contained in the *A New Car Plan for a Greener Future* policy statement initiatives were part of a government stimulus for the Australian automotive industry. There is no reference made in the *A New Car Plan for a Greener Future* policy statement to the policy initiatives being part of any stimulus measures in Australia (Australian Government, 2008). Indeed, *A New Car Plan for a Greener Future* policy statement states that \$3 billion of the \$6.2 billion in public spending to be provided to the Australian automotive industry between 2008-09 and 2020-21 was already committed (Australian Government, 2008, p. 6). Even if it could be construed that

the new public spending initiatives contained in the *A New Car Plan for a Greener Future* policy statement were part of a stimulus, then this amount would have only constituted \$3.2 billion, not the entire designated amount of \$6.2 billion.

The second flaw with the Grattan Institute analysis is that it assumes the \$6.2 billion of assistance provided to the Australian automotive industry through the *A New Car Plan for a Greener Future* policy statement is provided over the period 2008 to 2010, a period that could be made up of possibly either two financial years or three calendar years. This is an incorrect assumption as the *A New Car Plan for a Greener Future* policy statement states that the funding will be provided between 2008-09 and 2020-21, a period covering 13 financial years.

The third flaw is that the total assistance packages cited by the Guellec and Wunsch-Vincent (2009) paper are for different time periods in each of the countries concerned, for different purposes, and with different coverage in terms of the kinds of assistance provided. It is therefore not possible to compare them directly.

### **3 Budgetary Assistance to the Australian Automotive Industry and International Comparisons**

The most comprehensive data on Australian Government budgetary assistance to the Australian automotive industry is produced by the Productivity Commission (2010). According to the Productivity Commission (2010, p. 120), total budgetary assistance to the Australian automotive industry in 2008-09 was \$573.3 million. On a per capita basis, the level of assistance was \$26.11. Converted to \$US using purchasing power parity values in 2007 (consistent with the Grattan Institute approach) shows per capita budgetary assistance of \$US17.80 in 2008-09 which is substantially less than suggested by the Grattan Institute. This level of budgetary assistance does not include the temporary business investment allowance announced by the Australian Government (Swan, 2008) on 12 December 2008 nor the small business and general business tax break which expanded and extended the investment allowance.

The level of budgetary per capita assistance provided by the Australian Government in 2008-09 to the Australian automotive industry was then compared with the budgetary per capita assistance provided by governments in Canada, France, Germany, Sweden, the United Kingdom and the United States. It should be noted that a comprehensive comparison is not possible because unlike the case in Australia, the overall level and forms of assistance provided to the automotive industry in many overseas jurisdictions is opaque. It should also be noted that 2008-09 was an extraordinary year for the international automotive industry with the US



Government essentially providing funding to virtually recapitalise its automotive industry during the global financial crisis.

In regard to Canada, \$C4 billion was provided in loans to the Canadian automotive industry in 2008-09 (Industry Canada, 2009). For France, €6 billion was provided in loans to carmakers Peugeot-Citroen and Renault, €600 million was provided for automotive industry suppliers, and €2 billion was provided to the financial services arm of Renault and Peugeot-Citroen (Agence France Presse, 2009). The German Government provided a €1.5 billion bridging loan to car maker Opel in May 2009 (Reed & Schäfer, 2009) and increased funding to €5 billion in 2009 for its scrapping scheme for vehicles (IHS Global Insights, 2010).

In regard to Sweden, it provided 20 billion kronors in credit guarantees to automotive manufacturers, 3 billion kronors for the creation of a state-owned company to conduct research and development in the automotive industry, 5 billion kronors for companies in the automotive sector that found themselves in financial crisis, and an increase in research and development subsidies to the automotive industry to 450 million kronor (Agence France Presse, 2008). The United Kingdom provided £2.3 billion in loans from February 2009 until December 2010 under the Automotive Assistance Programme (AAP) (House of Commons Business and Enterprise Committee, 2009). As the AAP ran over a two year period, for the purposes of analysis it was decided that only half of the funding should be included for 2008-09.

In regard to the United States there were two significant programs that provided assistance to the US automotive industry. First, there was the Automotive Industry Financing Plan, part of the Troubled Asset Relief Program (TARP), that provided net assistance of \$73.8 billion in the form of loans and equity injections in 2008-09 (United States Department of the Treasury, 2010, p. 54). Second, there was Advanced Technology Vehicle Manufacturing (ATVM) Loan Program that provided funding of \$7.5 billion to support automotive industry loans of up \$25 billion in order to assist US automotive manufacturers meet higher fuel economy standards and reduce US dependence on imported crude oil (United States Department of Energy, 2008).

**Per Capita Assistance for the Automotive Industry, \$US 2007 (purchasing power parity), 2008-09**

Country	Estimated Assistance (Local Currency)	Population (million)	Per Capita Assistance (Local currency)	Currency Conversion (purchasing power parity)	Per Capita Assistance \$US
<b>Australia</b>	\$573.3 million	22.0	\$26.11	1.467	\$US17.80
<b>Canada</b>	\$C4 billion	32.5	\$C118.55	1.23	\$US96.39
<b>France</b>	€8.6	62.1	€137.36	0.932	\$US147.38
<b>Germany</b>	€6,5	81.7	€79.52	0.88	\$US90.37
<b>Sweden</b>	28.5 billion kronor	9.2	3085.81 kronor	9.234	\$US334.18
<b>United Kingdom</b>	£1.15 billion	61.8	£18.61	0.665	\$US27.99
<b>United States</b>	\$US81.3 billion	307.0	\$US264.81	1.0	\$US264.82

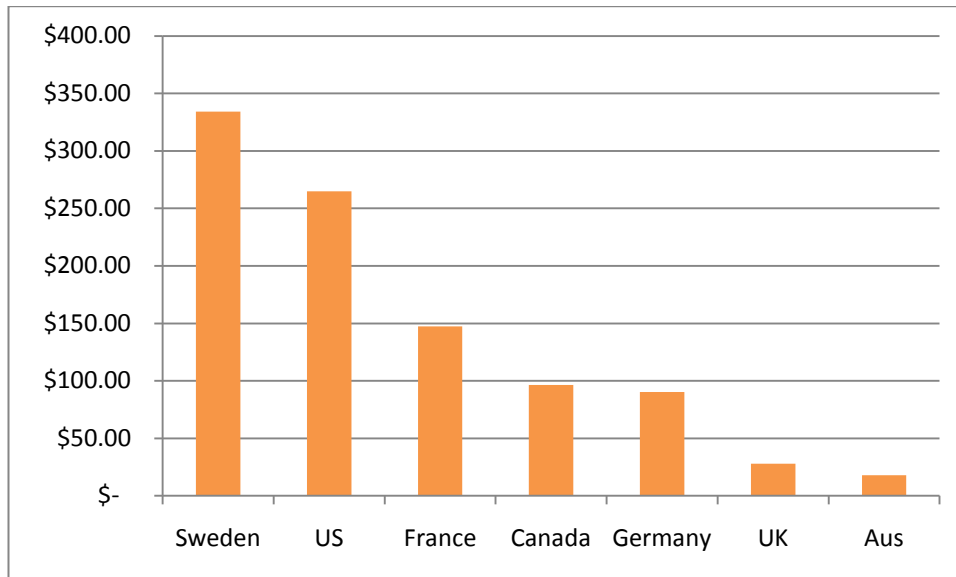
Data Sources: Agence France Presse (2008) (2009); Productivity Commission (2010); US Department of the Treasury (2010); Industry Canada (2009); United Nations (2010); US Department of Energy (2008); House of Commons Business and Enterprise Committee (2009); IHS Global Insights (2010); Reed & Schafer (2009); United Nations Statistics Division (for purchasing power parity data).<sup>2</sup>

A bar chart is provided below.

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<sup>2</sup> Note population estimates and fiscal years do not exactly align.

**Government Budgetary Assistance to the Automotive Industry, 2008-09 \$US / capita 2007 PPP**



Contrary to the impression created by the Grattan Institute (Daley, 2009), it would appear that the level of budgetary assistance provided to the Australian automotive industry in 2008-09 was relatively modest compared to these other countries. Claims made by the OECD (2010, p. 67) that Australia had the second highest level of budgetary assistance to the automotive industry within the OECD on a per capita basis would appear to be based on a misinterpretation of the data from secondary sources.

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