



Senate to give vehicle fund nod

Car dealers

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The coalition has eased car industry fears that it will try to block the creation of the \$850 million OzCar scheme after the furore in parliament this week over alleged cronyism in the financing of car dealerships.

Coalition senators last night backed government legislation establishing the special purpose vehicle fund, despite having concerns that it "may in fact result in an as yet unquantified cost to the budget".

Senators Alan Eggleston, Eric Abetz and Barnaby Joyce said the size of the fund had been revised down twice since it was announced as a \$2 billion fund last year — in the budget it dropped to \$850 million and evidence to a Senate committee had suggested it might be just \$450 million.

"Any more downsizing of the fund and it will, according to the evidence provided to the committee, mean a cost is borne by the taxpayer," they wrote in additional comments to the report from the Senate economics committee. "Further, the special purpose vehicle will terminate on 30 June 2010. Given the bill's passage this month, it will only operate for 11 months at most, further prejudicing the taxpayer."

But the main committee report, signed by its chair, Labor senator

Annette Hurley, argued it was unsurprising the scheme had evolved, given the speed of events and very uncertain economic climate.

The report is focused on the legislation despite the fact the committee's public hearing last Friday was dominated by the coalition's efforts to quiz Treasury official Godwin Grech over whether Prime Minister Kevin Rudd had sought special treatment for a friend who is a car dealer.

However, the Australian Greens plan to vote against the OzCar bill; its leader Bob Brown argued the car industry had already benefited from considerable taxpayer assistance.

The OzCar funding vehicle was designed to provide finance to car dealers after US financiers GE and GMAC announced their intention of withdrawing from the Australian wholesale automotive credit market because of the global financial crisis.

Treasurer Wayne Swan introduced the legislation after agreeing to allow Ford Credit to access up to \$550 million from the fund to throw a lifeline to about 230 Ford dealers and thousands of their employees.

Ford Credit Australia's managing director, Greg Cohen, told a Senate inquiry last week he had stopped offering retail auto credit in Australia last year but with OzCar "on the horizon" had continued offering wholesale finance funded through inter-company loans with its

US parent. These inter-company loans amounted to about \$1.6 billion in 2007, according to documents lodged with the Australian Securities and Investments Commission.

Mr Cohen said 147 Ford dealers were located in regional and rural Australia "where little financing is available . . . If the dealer cannot fund that stock, it quickly reflects back on the manufacturer and a build-up of stock occurs", he said. "If that is not resolved, the factory has to shut down because they cannot keep forwarding."

The problem for the government is that while it has said the fund will run for only 12 months, it will be under pressure not to dump car dealers after that date, meaning OzCar would continue for some time beyond that.

The government needs to make an appropriation to support a guarantee that will apply to some securities issued by OzCar. It will guarantee all non-AAA rated securities issued by OzCar to encourage the purchase of its securities by the Big Four banks — Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corp.

The guarantee would result in a call being made on the government if the assets underlying the guaranteed securities failed to generate enough income for it to cover its outlays and any losses from failed car dealerships.