

Productivity Commission
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SHEET



Australian Government
Productivity Commission

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Review of Australia's Automotive
Manufacturing Industry
Productivity Commission
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13 February 2014

Australia's Automotive Manufacturing Industry
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**AUSTRALIA'S AUTOMOTIVE MANUFACTURING INDUSTRY
PRODUCTIVITY COMMISSION POSITION PAPER JANUARY 2014
AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION LIMITED (AADA)
ACN 167 598 085**

This submission from AADA is in response to the invitation by the Productivity Commission to provide written comments on its Position Paper dated January 2014. We appreciate this opportunity to comment on behalf of Australia's franchised new car dealers and direct our comments to the Commission's Draft Finding 3.2 and the related information request – "The policy rationale for prohibiting the large-scale importation of second-hand motor vehicles into Australia is weak." We note that such vehicles may be referred to as either used imports, or parallel or grey imports.

2 AADA

2.1 The Australian Automotive Dealer Association Limited ACN 167 598 085 was registered under the *Corporations Act 2001* in Queensland on 17 January 2014 to represent the interests of Australia's franchised new car dealers. There are over 1500 dealers in Australia that operate something in the order of 2600 new vehicle outlets. Dealerships range from family-owned small businesses in regional centres to larger businesses and public companies conducting operations in capital cities and across the States and Territories of the Commonwealth.

2.2 Dealers generally operate under non-secure franchise agreements with suppliers being manufacturers and importers. Some of the agreements have no fixed term and can terminate after 12 months. The retail market in which dealers operate is characterised by low-margins, intense competition, fragmentation (over 66 brands), demonstrated by a consumer preference for smaller cars and sports utility vehicles (SUVs). Many existing long term franchise agreements with major manufacturers are due to expire in the next few years and together with the impending cessation of manufacturing in Australia by Ford, Holden, and Toyota have crystallised dealer concerns about the long term sustainability of their businesses.

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3 AADA STATEMENT

AADA members would not support a recommendation by the Productivity Commission to the Government to adopt a policy liberalising the large-scale importation of second-hand vehicles into Australia. By global standards Australia's motor vehicle market is small, open, and highly competitive with annual sales of new vehicles at just over 1.1 million units. Consumers have had the benefit of this open market through lower vehicle prices, enhanced vehicle equipment and safety levels, fixed price servicing, and extended warranty periods. This policy has the potential for Australia to become a dumping ground for sub-standard vehicles and could result in a substantial loss of new vehicle sales and the closure of traditional dealership facilities.

4 EXECUTIVE SUMMARY

- 4.1 AADA members are not afraid of competition, operate in a highly contestable environment and ask for a level playing field in terms of regulatory, taxation and other statutory compliance requirements. The structural changes in the automotive value chain associated with the impending cessation of manufacturing in Australia by Ford, Holden and Toyota, and the adoption of a policy by the Government liberalising the importation of large volumes of second-hand vehicles may not necessarily result in a substantial net benefit to the community.
- 4.2 AADA supports the Treasury recommendation for the abolition of the luxury car tax (LCT) and submits that the Productivity Commission should, as part of this review, consider whether the LCT acts as a barrier to trade in a manner similar to the \$12000 special customs duty. While AADA would not support any recommendation to the Government for the adoption of a policy to liberalise the large-scale importation of second-hand vehicles these items should be considered as a package of measures for abolition in the event the policy was adopted.
- 4.3 AADA submits the *Motor Vehicle Standards Act 1989* (the *MVS Act*) and *Regulations* should be amended to apply non-discriminatory vehicle standards to both new and used vehicles when they begin to be first used in transport in Australia. As a minimum those standards should be the Australian Design Rules (ADRs) or appropriate international equivalent. Enforcement of those standards should preclude the need for additional consumer protection.

5 COMMISSION'S DRAFT FINDINGS

- 5.1 The Commission's Draft Finding 3.2 suggests the policy rationale for prohibiting the large-scale importation of second-hand vehicles into Australia is weak and is seeking further information on the benefits and costs of removing restrictions to allow entry of large volumes of such vehicles into the Australian market. The Commission noted that appropriate regulatory measures are required to ensure that consumer protection, community safety and environmental standards are maintained.

- 5.2 The draft finding and information request are reproduced below for your convenience.

Draft Finding 3.2

The policy rationale for prohibiting the large-scale importation of second-hand vehicles into Australia is weak. However, appropriate regulatory measures are required to ensure that consumer protection, community safety and environmental performance standards are maintained before the restrictions are removed. These concerns are best dealt with directly, through regulatory standards applicable to all vehicles sold in Australia.

Information Request 3.2

The Commission is seeking further information on the benefits and costs of removing restrictions on the on the large-scale importation of second-hand vehicles. In particular:

- *what would be the potential benefits of removing these restrictions?*
- *how could compliance with Australian safety and environmental standards be most efficiently ensured?*
- *if benefits are expected to exceed costs, how should those restrictions be removed and over what timeframe?*

6 CONTEXT

- 6.1 Australia's trade liberalisation policies have resulted in one of the most open and competitive markets in the world and has brought many benefits to the community. As most of these benefits have been enjoyed by the community it is doubtful there will be a further substantial net benefit if the Government adopts a further policy of liberalising the large-scale importation of second-hand vehicles into the country.
- 6.2 Australia's new car market is sub-optimal by global standards with sales of new vehicles just over 1.1 million units in 2013 or 1.4 per cent of the 82 million passenger and commercial vehicles sold globally that year. Passenger cars accounted for 49.5 per cent of the market and sports utility vehicles (SUVs) around 29.4 per cent. It is estimated that nearly 90% of new vehicles sold in Australia are imported. The average age of all vehicles registered in Australia is around 10 years and has remained constant since 2008.

7 CONSIDERATIONS

- 7.1 AADA recognises Australia's international trading obligations and notes its leadership focus for the G20 Presidency this year as stated by the Prime Minister in his address to the World Economic Forum at Davos on 23 January 2014. He said "At the very least, the G20 should renew its resolve to undo any protectionist measures put in place since the Crisis."
- 7.2 AADA members are not afraid of competition and operate in a highly contestable environment and ask for a level playing field in terms of regulatory, taxation and other statutory compliance

requirements. The adoption of a policy by the Government to liberalise the large-scale importation of second-hand vehicles would require a transition period to allow stakeholders in the automotive value chain to adjust and respond to the impact of any import surge. This situation should be monitored to see if some form of temporary protection is warranted because of unintended consequences.

7.3 *Second-hand vehicle import duty*

- 7.3.1 We understand the specific duty of \$12000 was introduced for a number of reasons including a response to concerns about the importation of used vehicles from Japan and the impact on local manufacturing. Vehicles cannot be imported into Australia without a Vehicle Import Approval and the special duty is now regarded by the Customs as essentially redundant.
- 7.3.2 AADA believes that the specific customs duty of \$12000 on imported vehicles and the LCT act in similar ways and should be regarded as barriers to trade and may be in breach of Australia's international obligations under the World Trade Organisation (WTO).
- 7.3.3 While AADA would not support any recommendation to the Government for the adoption of a policy to liberalise the large-scale importation of second-hand vehicles, AADA submits that the specific customs duty and the LCT should be considered by the Productivity Commission as a package of measures to be repealed simultaneously in the event the Commission recommends a policy change.

7.4 *Regulatory requirements for importing second-hand vehicles*

- 7.4.1 Regulatory requirements for importing vehicles into Australia are governed by the *Motor Vehicle Standards Act 1989* and associated *Regulations*.
- 7.4.2 The objects of the *MVS Act* are:
- to achieve uniform vehicle standards to apply to new vehicles when they begin to be first used in transport in Australia; and
 - to regulate the first supply to the market of used imported vehicles.
- 7.4.3 The *MVS Act* regulates the import of used vehicles by limiting the application of a used import plate to a single vehicle and in the case of registered automotive workshops to not more than 100 vehicles per year in any category. The Department of Infrastructure and Regional Development is carrying out a review of the *MVS Act*.
- 7.4.4 The importation of large volumes of second-hand vehicles sourced from various countries should not compromise existing consumer protection, safety, and environmental standards. For example, AADA members are aware of large-scale operations in a certain country that specialise in the fraudulent alteration of odometer readings prior to the export of vehicles. Consumer access to vehicle service and accident history in a foreign

country is almost impossible and any declaration by an importer at the “gate” has to be taken at face value.

- 7.4.5 AADA submits that the Productivity Commission consider a recommendation that the States and Territories adopt a uniform approach to the first time registration of a used imported vehicle in Australia, and the requirement for an annual vehicle safety inspection of all used and new vehicles.
- 7.4.6 Australia should not become a dumping ground for vehicles that do not comply with Australia’s safety and environmental standards. AADA submits that a used imported vehicle should comply with identical Australian Design Rules (ADRs) that apply to new vehicles. Enforcement of those standards should preclude the need for a “consumer information notice” to be attached to each vehicle. This notice is required to be attached to a vehicles imported under the Registered Automotive Workshop Scheme (RAWS) – compliance with ADRs, service and replacement parts may not be available from a franchised dealer, vehicle handbook in English.
- 7.4.7 AADA submits the *Motor Vehicle Standards Act 1989* and *Regulations* should be amended to apply non-discriminatory vehicle standards to both new and used vehicles when they begin to be first used in transport in Australia. Those standards should incorporate the ADRs or appropriate international equivalent. Enforcement of those standards should preclude the need for a consumer information notice.
- 7.4.8 The policy objectives of consumer protection, community safety and environmental protection would require the allocation by Government of additional resources for surveillance, compliance and auditing.

7.5 *Benefits and costs of removing restrictions*

- 7.5.1 The economic benefits and costs of adopting a policy to liberalise the importation of large volumes of second-hand vehicles are difficult to quantify. While there are claims this may lead to increased competition, greater choice and lower prices to the consumer Australians have already enjoyed the benefits of an open economy and any further benefit may be marginal.
- 7.5.2 The market in which dealers conduct their businesses is open and highly competitive where margins average in the order of 1.5 per cent. Return on investment for the level of risk assumed is considered by many advisors to be marginal. Consumers have been the beneficiaries of this intense competition through lowering of prices and the introduction of vehicles with additional safety and other features as well as extended warranty and fixed price servicing.
- 7.5.3 Consumers have also had the benefit of this highly competitive environment to a greater degree than in many other countries. Consumer choice is not lacking with around 66

brands on offer in a market of just over one million units in annual sales. In the US for example, there are 51 brands in a market of around 13 million units annually.

- 7.5.4 Consumers are at risk in thinking that a used import may have the backing of the manufacturer in terms of product recourse, warranty, spare parts and service backup. There is a further risk in a situation where a vehicle is “passed-off” by an import entity as having manufacturer and franchise dealer product support.
- 7.5.5 AADA believes adoption by the Government of a policy to liberalise the large-scale importation of second-hand vehicles will present dealers with additional challenges and may not allow them to transition their businesses to absorb the impact of any import surge.
- 7.5.6 Under existing franchise agreements many AADA members have made significant investments in promoting brands through marketing and advertising, and in showroom and workshop facilities. A new importer entering into the market can leverage off the goodwill generated by the franchised dealers and may initially lower prices in order to gain market share. This may result in a displacement effect where imported vehicles do not replace older less safe vehicles but rather new vehicles.
- 7.5.7 The average age of vehicles in Australia’s fleet is around 10 years compared to New Zealand - 12.7 years, Canada - 9 years and the United States - 11 years. The displacement effect on new vehicle sales has the potential to increase the age of Australia’s fleet over time.

7.6 *Aging of the vehicle fleet*

- 7.6.1 There were almost 17.2 million vehicles including motorcycles registered in Australia in 2013. Passenger vehicles accounted for 75.7 per cent of all vehicle registrations. The average age of all vehicles registered is 10 years and has remained constant since 2008. The vehicle fleet in New Zealand has an average age of 12.7 years and is one of the oldest in the developed world.
- 7.6.2 The liberalisation of trade of used imports (mainly Japanese) into New Zealand is a useful guide in determining any effect on fleet age. The import pattern was characterised by an initial import peak of vehicles in an “age band” in the early years. Those vehicles remain in the fleet and have not been scrapped or replaced with newer vehicles, and are partly responsible, together with increased vehicle ownership retention rates, for a lengthening of the age of the fleet. If this pattern was replicated, Australia could become a dumping ground for older vehicles and the fleet would not be rejuvenated with new vehicles incorporating the latest safety and environmental technologies.

7.7 *Luxury car tax (LCT)*

7.7.1 The case for the abolition of the LCT has been well established and accepted by the Treasury as one of the taxes that should, in time, “be abolished and their revenues replaced by taxes applying to the four robust and efficient tax bases”. Indeed, the former Secretary to the Treasury Ken Henry has referred to it as our ‘truly absurd luxury car tax.’ The Productivity Commission has indicated that because of the effect on Government revenue its removal be considered as part of a broader package of tax reform measures.

7.7.2 AADA submits that the Productivity Commission should as part of this review consider the LCT as a barrier to trade in the same manner as it views the \$12000 special customs duty and together they should form part of a package of trade liberalisation measures in any recommendation to the Government for the adoption of a policy to liberalise the large-scale importation of second-hand vehicles into the country.

8 CONCLUSION

AADA members would not support a recommendation by the Productivity Commission to the Government to liberalise the large-scale importation of second-hand vehicles into Australia. Consumers are already reaping the benefits of one of the most open and intensely competitive markets in the world through lower prices, additional vehicle safety and equipment levels, extended warranty periods, fixed price servicing, and a choice of 66 brands.

Any recommendation by the Productivity Commission to the Government to adopt such a policy should be accompanied by a package of measures to include non-discriminatory compliance with Australian Design Rules or appropriate international equivalent and the simultaneous abolition of the LCT and special customs duty.

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