



PRODUCTIVITY COMMISSION

**INQUIRY INTO AUSTRALIA'S AUTOMOTIVE MANUFACTURING
INDUSTRY**

MR M. WOODS, Deputy Chairman
MR P. WEICKHARDT, Commissioner

TRANSCRIPT OF PROCEEDINGS

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MR WOODS: Ladies and gentlemen, welcome to the Adelaide public hearings for the Productivity Commission inquiry into the Australian automotive manufacturing industry. I'm Mike Woods, I'm the presiding commissioner on this inquiry and I'm assisted by colleague, Commissioner Philip Weickhardt.

The Commission has been requested to undertake an inquiry into public support for Australia's automotive manufacturing industry, including passenger motor vehicle and automotive component production. So far the commission has released a preliminary findings report on 20 December last year and a position paper with draft findings on 31 January this year. Public hearings were held in Melbourne yesterday. The commission is also undertaking economic modelling for the final report that will consider the economy-wide and regional effects of adjustment in the automotive manufacturing industry. The commission will submit its final report to the Australian government.

The stakeholders to this inquiry and the commission are all acutely aware of the very short deadlines given to the commission for this inquiry and the limitations that this imposes on the ability to engage stakeholders and the general community on a debate about the future of automotive manufacturing in Australia. Given the time frame, I would like to express our thanks and those of the staff for the promptness in being able to meet with us and make submissions. I would also like to acknowledge the courtesy extended to us in our visits and deliberations so far and for the thoughtful contributions so many have made already in the course of this inquiry.

I would like to conduct these hearings in a reasonably informal manner but remind all participants that a full transcript will be taken and made available to the general public. At the end of the scheduled hearings today any persons present may make an unscheduled presentation should they wish to do so and I will extend an invitation at that time.

In compliance with the Commonwealth Occupational Health and Safety Legislation, you are advised that in the unlikely event of an emergency requiring evacuation, please follow the green exit signs to the nearest stairwell. Lifts should not be used. Please follow instructions of floor wardens.

I would like to welcome to the hearing our first participant, Senator Nick Xenophon. Senator Xenophon, welcome. Could you please give your name and your position.

SENATOR XENOPHON: Nick Xenophon, independent senator for South Australia.

MR WOODS: Thank you very much. Do you have an opening statement you wish to make?

SENATOR XENOPHON: Yes, I do and I'm very happy to take your questions and to engage with you in relation to this. Effectively this is an unprecedented time for Australian manufacturing. What we are seeing with the departure of all original equipment manufacturers with the departure of Ford, then Holden and Toyota will have an unprecedented impact on our economy in terms of the de-industrialisation of our economy, it will have a profound effect on South Australia and it's quite different from the closure of Mitsubishi in 2008 for this reason: back then there were at least three vehicle manufacturers still in place. There was still a robust supply chain. That supply chain will now effectively collapse and the fear amongst the 40,000 jobs, the businesses that sustained 40,000 jobs is that there will be a tsunami effect in terms of job losses the like.

I won't engage in an ideological debate with you about issues of assistance. The decisions have already been made and it won't be productive to do that. But there are some points I want to raise with you as a matter of priority and urgency because if we don't get the transition right, then there will literally be tens of thousands of direct jobs lost with a very profound impact on the Australian economy and it's a matter of how you manage that transition and I would urge the commission to consider that in terms of how we deal with this.

The first is that there must be, given Toyota's decision - because a lot has happened since you were last here in Adelaide and it's been all bad - there needs to be a delineation between those component manufacturers who will not stay in Australia given the departure of Holden and Toyota and those particularly local businesses that want to stay, that want to diversify because that's where all their massive capital equipment, their intellectual resources in terms of their intellectual property. So it is still staggering that in a country of close to 24 million people we can't sustain at least one manufacturer. I will talk about the old manufacturing model and the new manufacturing model.

Yesterday you heard from the president of FAPM, the Federation of Automotive Product Manufacturers, Jim Griffin, in Melbourne who I've enormous regard for and I spoke to him again this morning. There needs to be an urgent profiling of the component sector to work out which industry is - which of those component manufacturers are likely to stay, which of them can build and diversify. Unless you have that profiling you won't be able to structure assistance packages adequately. There is a problem in bringing all the information together because at the moment there is a reluctance to share all the information because of ACCC concerns. I think they can be dealt with if an appropriate exemption can be obtained by the ACCC. It happens in other industries and it needs to be done.

There are also other industries that aren't involved in auto manufacturing and Redarc, if I can be so bold to mention that, is one that's been mentioned to me by a

number of manufacturers. They're involved in the campervan business and other industries. They've grown, they've got an ability to grow and expand their markets, so that's where jobs can be transferred to them. So for those jobs that we lost with Holden it's important that we transition and give those workers opportunities for retraining.

There is also a concern that's been expressed to me privately - and these component manufacturers are reluctant to say so publicly and I'm saying it on their behalf - they're worried that consultants will swoop in and there will be disproportionate funds being directed to expensive consultant fees. That is something that needs to be avoided and that's why there is scope to provide an independent expert advisory service to advise and transition, a lot like the advice that's given independently on dumping issues via the AIG funded by the Commonwealth government which has been a terrific service which I will refer to later. So they could be given advice at a much lower cost. I don't want this to be an accountant and lawyers and consultants smorgasbord. This need to be about getting results.

Thirdly, there's a real lack of clarity and certainty with respect to any policy framework for transitioning and assistance to industry in the components sector. These people deserve an uncomplicated, clear and expedited access path to assistance. They feel they are in limbo and that is a real concern. This morning I've had recent discussions with both the state industry minister, Tom Kenyon, and the shadow minister, Martin Hamilton-Smith. I think that if there was ever a need for bipartisanship at a state level this needs to be it and also at a federal level with both Industry Minister Macfarlane and the shadow minister.

The Automotive New Markets Program, the ANMP, which effectively is there to allow those component manufacturers to diversify, I've had quite scathing criticism put to me by component manufacturers privately. Some of them say it needs turbo charging, there needs to be a greater focus on identifying new market opportunities and for that assistance to be broadened because now that the manufacturers will be going, the regional equipment manufacturers are going, we need to do something else.

There needs to be a well-resourced trade remedies advisory service; the service that exists out of Victoria under the umbrella of the Australian Industry Group funded by the federal government is grossly under resourced. There must be, as a matter of urgency, an office opened in Adelaide. When one small manufacturer - not in the automotive industry - told me that in their dumping case to do with solar panels they were quoted by a law firm a million dollars to run that case, that is ridiculous. The service headed by (indistinct) in Melbourne provides a tremendous resource, expert advice of high quality but they just don't have the resources. That needs to be funded post 30 June 2014 and it needs adequate resources because right

now when it comes to free trade and dumping issues, there's a joke in international forums that Australia is referred to as - we are referred to as the free-trade Taliban because we take such a fundamentalist approach to free trade. I'm not talking about rewriting the WTO rules, I'm just saying that those rules ought to be enforced appropriately with adequate resources.

The closure of Mitsubishi's plant in 2008, very different in terms of the assistance packages. We need to look at the mistakes that were made there but also to understand that the challenges faced now are much more profound and deep than the challenges faced by the closure of Mitsubishi by virtue of the whole auto component supply chain will collapse. FAPM in their supplementary submission to the commission talked about an emerging new manufacturing model for the global automotive industry rather than the old model. We can't think of bringing back a manufacturer here based on high volume, low cost vehicles, it's got to be a niche market.

I note that Tesla, with a very small production base, I think about 600 vehicles per week has a market capitalisation in the United States of \$20 billion compared to General Motors which has something like seven and a half million vehicles a year it makes and has a \$50 billion capitalisation. Now, it's still a bit of a start-up, Tesla, but that's the sort of thing we should be looking at, those new manufacturing models, low volume, niche premium markets where Brand Australia still carries a lot of weight in the region.

That goes for another issue. One of the problems that has been put to me by those in the industry is that - and it's not a criticism - given that the headquarters of Toyota is in Nagoya, Japan, and Holden is in Detroit in the United States, that there has been a feeling that because it's a globalised business that some opportunities for Australian manufacturers were lost, that the Holden ute is a great example of a stripped down version of that that could have found a great niche market in Indonesia and in other parts of the region. But because of the supply chain issues and marketing decisions made by General Motors in Detroit they never had a chance to do that, so that is a real issue.

Finally, and most importantly, I think it's imperative that the ATS be refocused with its current funding intact to 2020 for component manufacturers. This would involve inevitably a crossover with the ANMP. For instance, the 5 per cent rule which caps assistance to the level of domestic sales, that needs to be reviewed given what's occurred. Further, we've seen in the MYEFO statement that a \$500 million reduction in the ATS for 2016 to 2018 that needs to be rephrased. The money is needed now in order to allow a transition because if we don't get this right, we will see a massive and unprecedented de-industrialisation of the Australian economy with tens of thousands of jobs lost in the component manufacturing sector.

I'm very happy to take your questions but the thrust of what I'm saying is that if we don't get it right now we will be leaving deep, deep scars on the national economy, particularly in South Australia and Victoria.

MR WOODS: Thank you, Senator Xenophon. We will proceed with questions in a moment. Thank you for that opening statement and for providing us with some guidance on the matters you are going to raise. Perhaps if we do just take some of those in the order in which you've presented them. At the front end you were talking about the need to focus on the retraining and support for workers. On the training side and clearly it's absolutely essential, but do you have views on whether the current training system that the VET sector is appropriately geared up to be able to provide the relevant and appropriate training? We, in various inquiries, have come across instances where registered training organisations may not have been operating necessarily at the optimal level and providing the appropriate courses and support and whether the administrative regulatory arrangements are sufficient to ensure that those registered training organisations are operating in the best interests of their clients.

SENATOR XENOPHON: We know there have been problems. With any system there are issues with compliance, there are issues with quality. I know that the ABC 7.30 Report ran a number of stories in the last couple of years in relation to that about some sectors of the industry that were quite scandalous. That shouldn't besmirch the reputation of the vast majority of trainers that are trying to get it right. But what we need to do now is we need to have a more nuanced and sophisticated approach given what is occurring to the industry. That training would have been geared up with an assumption that we would still have motor vehicle producers in this country. That isn't going to be the case. They will need to be much more nuanced and sophisticated in giving assistance to those smaller, medium-sized businesses. So there is scope for an overhaul. There needs to be a robust analysis of how it's working and how it needed to change given the challenges that it now faces.

MR WOODS: Yes, because there's going to be an awful lot of weight placed on the need for retraining of the workforce and, of course, that's at all levels. For those who are seeking a new cert III in a different industry through to the professional engineers and the like who have had an auto focus for a long time and need to move into other sectors.

SENATOR XENOPHON: Yes. But, commissioner, this is something - I should have said this and I should acknowledge, and it's remiss of me not to, that Robert DeBelle who has been working with me and provided advice on this and has worked in his field. I will embarrass him by saying it's probably the worst job he's ever had in his life working in my office. But we've discussed this at length and one of the issues is we shouldn't give up on the fact that we do have this enormous infrastructure and intellectual capital.

MR WOODS: Yes.

SENATOR XENOPHON: I mean, some of the guys, SMR, for instance (indistinct) what they've done with some of those lightweight rearview mirrors has been nothing short of terrific, light-weight, more fuel-efficient cars, cutting-edge technologies in conjunction with our universities here in Australia. That's the future of the industry. Let's not throw that away because if we can find - don't take this as a criticism of the commission but I understand the focus has been on the manufacturers but the sort of new manufacturing model that the Federation of Australian Automotive Product Manufacturers is talking about, I think deserves some closer consideration because there could just be a market there for those niche car makers where we can not throw away all that expertise and skill and intellectual policy.

MR WOODS: Please be assured that the commission, given the evolution of events that have occurred in a very short space of time while this inquiry is being undertaken, that we are very focused on looking at the component manufacturers and the workforces. Of course, the needs of the workforces who will become redundant from the assemblers, can in some characteristics be different from those who are working for small component manufacturers who may get less notice, less redundancy support and other matters. So we understand those important aspects.

SENATOR XENOPHON: Without digressing too far, I should have made this point and I think it was referred to by Mr Combet given his role in the South Australian government at the moment: that it's very important that there be either an oversight role either within industry, with the assistance of government and I don't necessarily mean financial assistance but to actually make sure that there is a framework there that the radars of our state and federal industry ministers are finely tuned. The fear that some have expressed to me is that if any part of the component supply chain collapses that may put more pressure on our automotive manufacturers to exit Australia earlier which would be an unequivocal disaster. The challenges are big enough as they are. So that's why it's very important that this delicate eco system keeps going as long as possible until hopefully the third quarter, the end of 2017.

MR WOODS: Yes, it is very interdependent. Perhaps one more from me before I hand over to my colleague. You refer to the new manufacturing model and, yes, clearly our own analysis pointed out trying to have a high volume, low margin business in producing motor vehicles is not appropriate in the Australian context. People have pointed out a number of assemblers who operate in niche markets under contract to some of the majors. I guess the question that we're grappling with is what's the role of government in that space versus what's the role of firms themselves looking for innovative solutions and opportunities. We would want the taxpayer funds to be directed to worthwhile ends. Where is the need for government to operate in helping that without the danger of picking winners which is not something

that governments have ever been particularly good at.

SENATOR XENOPHON: I think that even though this is an area that is fraught with controversy in terms of industrial relations, I have had many dealings with John Camillo from the AMWU, who I regard as sensible, moderate, pragmatic and absolutely passionate about his workers in the industry and I don't think - he has been a champion of the industry in South Australia and highly respected by manufacturers here in the state. I think that there was a mistake made by the AMWU in Victoria in terms of Toyota. For Toyota to want to go to the workers direct to get some flexibility seemed to be not unreasonable to allow the workers to have on a vote on it, being thwarted by the AMWU in that case I think was counterproductive.

Balancing on the other side - let's bear in mind that I think the labour costs of a vehicle are about - up to 16 per cent, I think the various figures that were given were 13 to 16 per cent, so it's not a huge component but we are talking about some workplace flexibility on the one hand. If I can be so bold as to be critical on the other side of the ledger, I think the statements made by Treasurer Joe Hockey and Acting Prime Minister Truss basically saying to General Motors, "Are you going to stay or are you going to go," were unnecessarily provocative and reckless. So I think we need to understand the globalised nature of the market.

I think there needs to be a look at greater productivity and for that we're talking about flexibility rather than reducing entitlements. We're talking about reducing the costs of manufacturing in this country. I don't support the carbon tax because it was such a clumsy and inefficient model. You may be familiar with the work that Frontier Economics did before both me and Malcolm Turnbull when he was opposition leader which found an alternative and more efficient emissions trading scheme. We also need to look at national electricity market rules which the Productivity Commission has done tremendous work on. We have gold-plated network infrastructure here which means we're paying far too much for power, far in excess of the impact of the carbon tax. They're the sorts of things where I think if the commission is going to consider this you need to look at holistically about the impact of the cost of doing business and we also need to look at - again, I will never take the Productivity Commission to task in the way that my colleague Doug Cameron does. I think I'm much more constructive. That smile is a nervous one given the way that the Senator Cameron - - -

MR WOODS: Senate estimates are coming up next week.

SENATOR XENOPHON: That's right. I'm sure Senator Cameron will be primed for you, but I understand the position he is coming from. I have spoken to people about the issue of dumping. There is now debate emerging in the United States in Congress amongst policy think tanks that they need to look at the way that the Chinese currency is artificially devalued or the artificial valuation of the Chinese

renminbi; it distorts the markets and it is not a level playing field. One of the reasons why Australian manufacturing has had it so tough is because our major trading partners have artificially devalued their currencies. We've seen it with the massive quantities in Japan, trillions of yen spent there or similarly the United States. The American dollar would not be where it was but for massive intervention by the Federal Reserve.

We are mugs if we don't take that into account because this is not a level playing field. We need to look at our free trade agreements with Thailand where a Ford Territory sells for \$57,000, where one of their models sells for over \$100,000 in Thailand. I spoke to one of my senate colleagues who says that we were basically mugs when we signed that agreement because it didn't protect - we didn't allow for a level playing field with the automotive sector. Also with the Korean free trade agreement you will see a drop in the price of Holden Cruze or the equivalent of the Cruze being produced in Korea. What pressure will that put on Holden here?

So all I urge you to do is to be aware of the emerging debate in the United States in particular amongst policymakers about the value of currencies and how that itself is a form of reverse protectionism, if you like, that leads to an unlevel playing field.

MR WOODS: I understand your latter points in relation to trade agreements and currencies. But could I characterise your initial set of comments there as, "Get the fundamentals of the economy right," that whether it's industrial relations, whether it's government regulation et cetera that one of the best things that can be done by governments is to get the underlying economy as efficient as possible.

SENATOR XENOPHON: That is right. I think I know that Paul Howes of the AWU was derided for talking about a compact, that the accord worked in the 1980s in terms of inclusive productivity. I think we are facing real challenges and I think we unless we get it right we are looking at Australia as an economy being a manufacturing centre being fundamentally in decline and not enough on the horizon to make up for it. But that also involves demographic issues. We have an ageing population. South Australia is one of the states affected most deeply by it.

I have long advocated for and hopefully meeting with Immigration Minister Scott Morrison soon about South Australia and regional states with a lower than national average population growth encouraging business migrants here with money to invest with their skills to bring into this country that actually creates jobs and new industries. We have half the national average in South Australia. That is one way of turbo charging the economy if it's done right but that involves a lot of work at a federal and state level to bring in line that investment.

MR WEICKHARDT: Senator, you refer to the Australian New Market Program

and said you've heard scathing criticism of that from some in the component area and we were speaking to FAPM about that yesterday in fact. We've asked FAPM for their feedback about what they see as the outcome from that program so far. We have also asked the Department of Industry for their comments and they have said it's too early really to evaluate it. But we can fully understand the desirability of some sort of program of that that does achieve results.

Of course the \$64,000 question is whether or not you can target that sort of program so that you don't give a leg up to the component suppliers who are transitioning into a new business who then start competing with people who aren't getting any assistance at all. Because one of the natural things I would guess is a component supplier might say, "Well, I'll move into the after parts market," which is actually a good news story here. We've got quite a large after parts market component supply industry that's exporting, it's making differentiated products and appears, unassisted, to be making quite good levels of profits. But I can imagine them complaining bitterly if, with special government assistance, the existing component suppliers start to come in and eat their lunch.

SENATOR XENOPHON: And it's more like a \$640 million question than \$64,000 question. I think that that is what we need to - you need to take all that into account. But insofar as there are some industries that have an opportunity to grow in terms of growing the market overall rather than one sector cannibalising the other, that's what I think the key distinction should be and where the policy framework ought to be directed towards and also potential export markets as well. But Brand Australia has a good reputation. We have a fantastic reputation in terms of our clean, green agricultural produce, in terms of building of quality goods. You will need to capitalise on that and that's why we need that niche market.

It's something that Rob DeBelle and I have had long discussions about because we still have a good name, a very good in the region and we need to find those niche premium markets and that's where the growth is, rather than trying to compete with Thailand or South Korea.

MR WEICKHARDT: The other tricky issue which you mentioned was the concern that some in the industry have about highly paid consultants sweeping in and consuming all the available funds and not doing very much that's useful. On the other hand, if we're looking for some of this component industry to get good advice about the sorts of things they might do to diversify, define new markets, generate new jobs, then you pay peanuts and you may get monkeys. So finding the right course there is going to be quite tricky, I think.

SENATOR XENOPHON: I raised it because someone had raised it with me and I think it's my obligation to raise this concern. I raise it in this context: of course some of these big consultants many of them do terrific work. They have great

expertise. They have got their reputations by virtue of being able to deliver results. But if we are talking about a small to medium business with 50 or 100 employees and the reasonable cost of that consultation with those consultants with run into the hundreds of thousands of dollars, all I'm saying is that there ought to be an expert advisory service or panel that can do virtually the same thing that can cut its cloth accordingly and provide a good service and the trade remedies, the trade advisory service headed out of Melbourne by the AIG, there is no question of the quality of their advice and their expertise. The problem is that it goes down to resource.

All I'm saying is that there ought be different pathways and we need to be acutely aware that those costs, those consultants' fees are proportionate to the nature of the problem and the size of the business and I think that's not an unreasonable - - -

MR WEICKHARDT: I totally agree.

MR WOODS: I think you made quite powerful arguments in several of your points there about the design of the support programs and I think that has been quite a valuable contribution to this debate. We have found in other inquiries that if you have a program that provides financial counselling and you get a grant of \$7000, magically every financial plan costs \$7000. But if the grant was reduced to \$5000, magically a financial plan costs \$5000. A behaviour adjusts to the program design.

Your cautionary points on the importance of clear and simple program design of ensuring that it's directed and it's proportionate, I think is very helpful to this inquiry. Do you have anything further?

MR WEICKHARDT: No, I don't think so. I think you've raised issues that we are very conscious of. Most of them are quite complex in terms of trying to find the right answer that helps the industry in a way that's really creating some additionality here.

SENATOR XENOPHON: I just think it's very important that the industry is consulted at that level. These are a terrific bunch of people that we deal with, not just - they're workers, they're skilled workers. They're very proud of them, they're very protective of them and on protection sense that they actually want - they don't want to see their workers go. If you talk to employers with 50, 100 employees it's like big, extended family. They just want to be listened to.

I have to take issue with what the Department of Industry said, they're saying it's too early to evaluate. Well, my message to the Department of Industry - which I might get a chance to give them directly as it's Senate estimates next week - is that we're running out of time. Every day wasted - every day lost is quite precious here and we need to sort this out sooner rather than later. There needs to be an enormous sense of urgency all round, at government department level and industry level to get

this right because if something falls over and they don't last to 2017, then you will see a lot of devastation and you will also see a lack of transitioning and with that lack of transitioning you will see many hundreds of millions of dollars of equipment and plant that has been invested in in recent years just become a redundant assets.

MR WOODS: In your presentation you made other points in relation to the ATS et cetera. Be assured that we understood those points and we are talking to the relevant parts of industry on those matters.

SENATOR XENOPHON: If I could just re-emphasise the issue of the level playing field. We haven't done as well as I think we could have or pursued our existing remedies under the WTO as well as we could have and that's why it needs support to have that advocacy service and I would urge the commission to consider the importance of the current service that at this stage will potentially lose its funding in just four months time.

MR WOODS: We didn't engage in a debate on anti-dumping but you have in front of you the two commissioners who wrote the commission's latest anti-dumping report. But we can leave that for another day.

SENATOR XENOPHON: But advocacy is important.

MR WOODS: Yes, indeed it is.

SENATOR XENOPHON: It's not fair for a small business to be told, "It's going to cost you a million dollars to run this," and there are other issues of onus of proof which I have advocated for, which I am hoping some of the Coalition are now listening to.

MR WOODS: Thank you very much, Senator.

SENATOR XENOPHON: Thank you.

MR WOODS: Could I call forth Mr Kym Dier, please. Thank you very much. Could you please, for the record, state your name and whether you are representing any organisation.

MR DIER: My name's Kym Dier. I'm a private individual and I'm speaking from past experience importing motorcycles and cars and following the political machinations very closely. I'm 67 years old, diabetic, heart attack, triple bypass, pacemaker, defibrillator. But because of the problems with the department I was working until midnight or so last night, didn't get home until half past 12. I was up at 5 o'clock in the morning. I think by now I should be having a sleep but I've come in here because I think there are things that should be said.

The industry, and big industry, big government, big unions, they act together and do very little to consider the individual, as far as I'm concerned. My relationship with the industry is that if you're an inconvenience they will work with government and they will set out to break you. Being involved in importing motorcycles with a partnership I decided to do it on my own. I mortgaged everything, put a lot of money into going overseas, filling containers. When I was about to go and have them cleared, "We've changed the laws, you're going to have to have compliance now," and their suggestion was I send them back to America where I'd purchased them. I wasn't that happy about that and I was determined to keep going. So two years later I got the compliancing done but it was absolutely worthless at the time because what had happened the government had brought in what they call in the 15-year rule, so bikes 15 years old and older didn't need compliancing, so they didn't have an advantage over any competitors and I (indistinct) interest charges and a lot of time and effort for several years and that was just down the drain.

I lost interest in motorcycles then I believe there was a demand for affordable vehicles on the lower end of the market and I looked at bringing diesel cars in from Japan where I settled on a Corolla diesel. I'm getting that out here. They were then talking about dropping the category and I was a little bit slow in doing anything and by the time I had to get my compliancing in I'd had a heart attack and was having difficulty but no provision was allowed for that. Where a phone would have sufficed they took three weeks to send a letter and when I go out the back I thought, "Well, that cost me a lot of money." But the way they operate, I said there is really no care about the individual at all. Now, I feel like I've been hard done by, but people that I'm associated with - are you aware of the Taiyo Corporation?

MR WOODS: Sorry?

MR DIER: Taiyo Corporation.

MR WOODS: Please, explain.

MR DIER: T-a-i-y-o from - they were in Western Australia. They got a consortium together, raised hundreds of thousands of dollars, did full volume compliancing on the Mazda Capella, which was sold here as the 626. When the compliancing was finished they had no complaints at all or suggestions that they were going the wrong way from the federal government. When they'd finished, the government put a \$10,000 tariff on each one of the full volume imported used cars. They were told there was going to be compensation. Two years later, none had been received so they took legal action. Hundreds of thousands of dollars to lawyers, the case was lost, and the guy's now trying to get enough money together to go and buy a house, because it - I think it would have cost the person I know well, individually, a \$1 million in money they'd put in, lost opportunities.

But this was on behalf of a motor industry that is completely foreign-owned and is interested in two things: market share and profits. They will do anything; they will be as ruthless as they have to be to go and maintain that market share, and there's examples how they have done so. And the profits, well, they don't want competition; they want to have a closed-shop arrangement and that's been what's happened up 'til now. But as I said, the present situation has been arrived at with it being obvious what's happening and all we've been doing is using carrots not sticks.

I believe if the government had used a bit of foresight - and I've contacted an MP about that, who just referred me to the minister, but I wanted to talk to him in depth about it. I believe, if they'd used a bit of imagination and introduced a trial with the used cars, they wouldn't go and pose risk to the market as such, or they can determine how they'd go, but it would send a message to the manufacturers that there is another option there if you close and pull out. You know, the stick, I think, would have been worth a lot more than shovelling money at them to go and keep them here, because as soon as they can do it cheaper somewhere else, they could and they did.

And I just can't see how people in senior government and government departments, the politicians and whatever, I can't see how they couldn't see it coming. To me it was obvious and, you know, this was mentioned as far back as 10, 12 years ago, where I was on a phone link-up with a senate inquiry speaking, I think, with Nick Sherry. I could see it happening then, and if anyone thought it wasn't going to happen I think they had their head in the sand. But we've allowed the situation to develop and the fact that it's happened is - well, pretty well predictable.

I still believe there's an opportunity to supply vehicles on the bottom end of the market. Everything changes: the car market in Japan changes, as the car market here does, and some of the cars that were available over 10 years ago aren't available now at a competitive price, whereas here we had manufacturers manufacturing Commodores and Falcons specifically. Those vehicles were sold mainly to fleet users; that was 85 per cent of the market at one time. Now, we had a market then of

700 and something thousand, it's now gone up to a million. We've increased the volumes considerably, but those vehicles have been dropping all the time. The fact that they can drop to 30-odd thousand plus means that it's business whose abandoned buying the local, big cars, not the Australian public, who generally bought these vehicles second-hand.

But the market has changed, the industry hasn't been able to keep up with the changes - didn't want to, provided they were given money. And you can't ever tell what their profitability was, because as I said, I worked in quality insurance for an automotive supplier and you'd hear what's allegedly happened, and that was that a company would buy a big press through one of its subsidiaries overseas and they would be paying a lease price equivalent to the purchase price. People would come in and go and do evaluations and then send back an invoice, and you don't know what the inputs are, or how much, or whether it's a tax rort - which was suspected. But I don't think we've been served very well by the car industry; I think they've got overseas masters that they have to keep happy. You can't imagine someone from here going to Detroit and saying, "Well, we've got to give the Aussies a better deal," you know, because it doesn't happen.

MR WOODS: Yes. Can I remind you of the time. I would like the opportunity to just ask you one brief question if I may - - -

MR DIER: Yes.

MR WOODS: - - - before we run out of the allotted time, Mr Dier, and thank you for coming. Having been in the import business for a while, are there particular concerns and issues that you would become aware of in your time in this industry that should be taken into account when considering opening up the second-hand vehicle market further, in terms of whether it's fraud, or safety, or standards, or other issues?

MR DIER: You've got to be extremely careful on the information you're given by the departments, by the government, You've got people running these schemes that have to second-guess what the government wants, because they're not going to be honest and forthright, because I think they're concerned what it might do to their position.

But as the used cars, if you have a choice, you should be able to make that. If you go and look at what's happened with the Chinese cars, they haven't met the expectations of the market and they haven't taken off as I thought they might. But I've been to China a number of times and I can see what's happening, and with all the major manufacturers over there, in partnership or with the local firms, the technology transfer is working over there, and the smaller independents, everyone, is getting the hang of what it's about. And they will be competitive; it's not "if" and "but", it's

"when" they are going to be competitive.

Whatever we do for used cars, I think that will just be, to a large degree, a temporary measure till the other cars come in. I think everything is in a state of flux, but when you've got people suggesting that the used cars importers are nothing but a bunch of pirates, and making more money than drug dealers, and actually advocated keeping Korean cars off of the market. If they think they can get away with it, they'll do anything.

We had distortions in yesterday's paper by a Rickman Smith, who's from Regency Park, Department of Transport, arguing that the used vehicles coming in don't comply with the intentions of specialist and enthusiast vehicles. Well, that was a reinterpretation of the Act, which was completely unambiguous. Well, I've read the Motor Vehicle Standards Act, that you could bring in diesel, four-wheel drive, turbo-charged versions of passenger cars already sold here, and that's what I've done with the diesel Corolla. But they changed it and unless you've got very, very deep pockets, you either have to accept it or get out. And we've got a lot problems there, as I said, you know, the statement or the article in yesterday's paper, you know, it might just as well have been written by the industry than by someone from the government, because it was, yes, entirely intended to denigrate the importers of used cars, and that's been ongoing.

MR WOODS: Thank you, Mr Dier. We have run well over time, but thank you for coming here.

MR DIER: Okay.

MR WOODS: And giving evidence today. Appreciate that.

MR DIER: All right.

MR WOODS: Can I ask the Auto Services Group to come forward, please. Thank you very much.

MR APPELT (ASG): Okay. I'll attempt to be as succinct as I can.

MR WOODS: Thank you. Could you please, for the record, state your name, and the organisation you are representing, and the position you hold.

MR APPELT (ASG): My name's Kristian Appelt. I am the director of Auto Services Group.

MR WOODS: Thank you. You have provided us with some talking points, but you have an opening statement you wish to make.

MR APPELT (ASG): Yes. I might start by saying that all big businesses start as small businesses. My role in Auto Services Group is quite similar to Kym's, actually. I deal with a number of businesses. Under my umbrella come a number of businesses that focus on importing used cars into Australia from the UK, the USA, and Japan. In terms of specifics, I'm looking at the importation of used cars or speaking to that part of it today, request 3.2.

In 2013, 1.136 million cars were sold in Australia. It was a record year and it continues to be a record year on year for used cars. Figures from the Department of Infrastructure taken from the 2012-2013 financial year indicate that vehicles that come in under the specialist and enthusiast vehicle scheme are also referred to as the Registered Approved Workshop Scheme. Vehicles complied under that represent 7245 vehicles, which calculates out at 0.63 per cent of the new car market. Now, I deal with the registered approved workshops on a daily basis, mainly because they handle most of the cars that I import into Australia, in terms of ensuring that they comply with the current regulations.

There are 144 registered approved workshop - I'll refer to them as RAWs.

MR WOODS: Yes, yes. We understand RAWs.

MR APPELT (ASG): Okay, yes. They are, in effect, all small businesses. They are limited by current regulations, and they will all ensure that they stay small businesses, because they are only allowed, per workshop, to comply 100 cars per year. That's their limit. They obviously supply work to other small businesses in terms of the customs brokers who clear the cars, the tow truck operators who bring their cars to the workshop, the tyre distributors when they change the tyres over, and so on. I, for example, wouldn't exist, my business wouldn't exist, without their contribution.

Of those 144 RAWs, there are nearly - I think, something like 40 per cent of those are complying less than 10 vehicles per year. Now, that is a sign of a system that is under strain in terms of, there are probably at this stage more workshops than there are vehicles to be complied - or suitable vehicles to be complied.

MR WOODS: Presumably they're doing other work though.

MR APPELT (ASG): They are doing other work.

MR WOODS: That is a margin gain for them.

MR APPELT (ASG): Yes. It depends, some workshops operate completely independently, others will operate as part of a dealership. The process that is involved in compliance usually ranges between 2000 and 40,000 dollars worth of work. At the top end of the market you have got vehicles that are left-hand drive that are being converted to right-hand drive. Now, by and large those processes are completed within Australia, they obviously employ a significant number of people to complete that process, and effectively, certainly in terms of the conversion, the vehicles that are being converted, that results - it amounts to what is a secondary manufacturing process.

So the points I'd like to make are in terms of information request 3.2, looking at the potential benefits of removing those restrictions. The first one is, obviously, wider choice for the consumers. That's always a consideration. Downward pressure on new car prices, which some would argue, you know, are still artificially high, perhaps, in Australia. But also I see the potential for what is, effectively, a very good system and a system that is working. The system itself works quite effectively as it currently stands. Potential to utilise a system that is already in place, a system that is employing people, and has the potential to employ more people in the manufacturing skills to do the work that is required to bring these cars up to standard in Australia, so to take those 144 businesses and help them to grow into larger businesses by increasing the number of vehicles that they're able to comply.

In terms of the potential cost of removing these restrictions and who bears the costs, the RAW Scheme as it currently stands is largely self-funded. Looking at it from that perspective - I mean, there are going to be economies of scale too, but ultimately the cost of the import approval is borne by the importer, as it would be now. So the cost to the government is relatively low in this respect.

I think, having said that, I think there is scope for streamlining the current system. For example, there are a small number of people in the office in the RAW section, they are very, very hard workers. But the problem is there are situations where, obviously, they need to take holidays; when they take holidays, no-one comes

in to replace them, because it's very hard to pass those skills on easily; and then what happens is that the RAWs and the other people, the flow-on, people like me, who are dealing with the customers, have to then wait because everything slows down. So the time taken to issue an import approval takes longer; cars are stuck on the docks overseas, which often happens; it usually costs money. So there are flow-on effects there, so there are benefits of streamlining that system a little further as well.

In terms of compliance and dealing with Australian safety and environmental standards, I know that New Zealand has been looked at as an example. I think there needs to be a move towards acceptance of international standards as they currently stand, certainly in places like Japan, the USA, and the UK. I think there is a benefit in terms of looking at how the restrictions are - looking at vehicles that are, say, under five years old or under 10 years old, because they represent - obviously, the more recent the model, the more likely it is to meet standards in terms of safety and emissions.

I think probably the big point I need to make about this is that my concern is that - there seems to be a general sense that the importation of used vehicles is going to be extended, certainly amongst the RAWs, and my concern is that large business will sweep in, as has happened in some cases in New Zealand already, where large companies who are importing new cars also move into the used car market. Basically, my concern is that those 144 RAWs who are currently doing cars will get swallowed up by some of the larger companies.

I guess, my suggestion would be, if there is scope for increasing the number of cars that are going to come into Australia as used vehicles, would be to cap the number of RAWs and increase the number of vehicles, rather than opening up - - -

MR WOODS: Is that a business protection measure?

MR APPELT (ASG): It is for the sake of these - I mean, you are talking about people, who are effectively small businesses, who will foresee trouble on the horizon; people who have invested a lot of money and time into getting to the point where they are currently. Now, within reason, those 144 could be sold and on-sold to other companies or whatever, but at least that then gives them value in their business that they've already established under the current scheme. Because my concern is that, you know, big business will come in, they suddenly start complying 10,000, you know, used imported cars, and the RAWs who are trying to make a small economies of scale, will mean that the smaller companies will get swallowed up.

I guess my comment to that is increase the number of vehicles available to each RAW, don't increase the number of RAWs because I think as it currently stands I don't think that number is probably fair. In terms of, "Benefits expected to exceed

costs, how should the restrictions be removed?" It's fairly straightforward, just increase the number of plates available to each RAW year on year so that it's graduated rather than just going - I mean, we can learn from New Zealand's mistakes in that regard. They opened the floodgates and I've seen first-hand dealers working on margins of \$500 or less over there because they just got completely oversupplied with vehicles.

Personally I would like to see a greater percentage - it's currently 0.63 per cent. There is certainly scope to increase that to, for example, 5 per cent. At that point each RAW would be able to have 400- 500 cars per year. Again, they may not use that and they don't get anywhere near that. They're currently operating at half their potential capacity as it is now.

MR WOODS: Thank you.

MR WEICKHARDT: You mentioned that you were sensitive about perhaps the age limits on the cars and you mentioned five, then 10 years old. In your view would it be wise - because others have made this point to us - that there is a real concern from the New Zealand experience about older cars coming in that don't meet safety and environmental standards. What's your recommendation about what the age cut off should be?

MR APPELT (ASG): My initial reaction is to say five years, the reason being that with workshops and the way that they comply vehicles, vehicles under five years old currently don't have to go through - they have to go through emissions but they don't have to change the catalytic converters as they currently stand. Once they hit five years old they have to change. My concern about that is currently they're changing to after-market catalytic converters that really aren't very useful. They will work for the purposes of passing a test and after that they tend not to work very well at all. So I would be more in favour of any system that enables the cars to - if they're using the factory catalytic converters, enables them to keep them on.

One of the big costs for a workshop is the emissions testing and I think if the vehicles are already meeting emission standards overseas, then I think that would be a fair enough assumption, as New Zealand currently makes, that those standards are equivalent. New Zealand accepts that equivalent there.

MR WOODS: Quite a practical suggestion. Thank you for that. One last from me, that if you do significantly increase the numbers coming in, although you do talk about a graduated and measured approach to it, how does the administrative processes try and identify fraud, whether it's odometer readings or mis-specification of vehicles and the like? Are there any practical lessons there as well?

MR APPELT (ASG): Absolutely, yes. This is one, funnily enough, has been

discussed back and forth at a departmental level. I have been discussing it at a departmental level for a little while now. Certainly out of Japan vehicles are provided with an export certificate that shows the readings from the last time that it was registered. So each time the vehicle is registered they had an odometer reading. As it currently stands, the workshops, when they comply the vehicles, are supposed to provide a copy of those export certificates. As it currently stands they do but there's no double-checking or cross-processing from the department to show that if the car comes in with a lower reading than what is showing the last time the vehicle was registered, then that vehicle should not be complied.

At the moment there is no cross-checking there and I think some of that would be just a realigning of the processes so that those vehicles are - because Japan tends to be the main culprit. But certainly even things such as - it's not difficult to get a reading from a vehicle taken in the country of origin before it leaves too, an independent reading and sending it off. There are businesses that will do that.

MR WOODS: Rather than a reading of choice.

MR APPELT (ASG): Yes, exactly.

MR WOODS: Thank you very much. I appreciate the time and effort that you've given to presenting to the commission. I appreciate that.

MR APPELT (ASG): Thank you.

MR WOODS: If we could call ANCAP to come forward, please. Thank you very much. Could you please, for the record, state your name, the organisation you represent and the position you hold.

MR CLARKE (ANCAP): Yes, I am Nicholas Clarke. I am the chief executive officer of ANCAP Australasia Ltd.

MR WOODS: Thank you for providing a submission to this inquiry and I apologise for the background noise. Do you have an opening statement you wish to make?

MR CLARKE (ANCAP): I'm conscious of the time. I just have maybe three or four points I'd like to do because we've put in two submissions to this process and perhaps some of the questions you may have might be useful. Thank you for the opportunity to come and present for you. It's pretty important that we get a view in relation to imported used vehicles from a company like ANCAP that deals in safety because we've mentioned in our submission that safety is one of the biggest concerns we have.

I think also too that there's a bit of background and perhaps framework and context that the commission needs to be made more aware of in terms of some of the issues surrounding imported used car. Some of those I've mentioned in the presentation issues, such as what is compliancing, what is a used car, issues of fraud, theft, all of those sorts of things. The two things that concern us the most are safety standards and the provenance of used cars. The way ANCAP works for new vehicles is that we do sample testing basically and we can test a vehicle and we know that the vehicles coming off that production line will be of equivalent safety. Safety standards are improving all the time and we're getting much more technology in vehicles, life-saving technology, and as a result of that and of other things, such as education, better roads and so forth, we've seen a reduction in deaths on our roads of about 26 per cent since 2007-08 which is phenomenal.

I've mentioned in the submissions that we've written that the Australian government has calculated that the cost of road trauma in Australia is \$27 billion on a willingness to pay basis which is a huge impost on the community. We are firm believers at ANCAP that while you still need to build roads and you still need to educate drivers and you have graduated licensing systems and so forth, it will be through technology in cars that we will see the greatest impact in terms of reduction of road trauma. It takes much longer to build a road than it does to produce a car with a lot of safety-assist technology.

So safety is the key when it comes to making our point about imported used cars. The provenance of those cars is the issue. By definition it is not possible to

either comply them fully with the Australian design rules, nor is it possible for the ANCAP to conduct tests on those vehicles because it's not possible to take a sample of those vehicles and draw any conclusions from testing. I think the other issue that we've seen over time is that when there are natural disasters in foreign countries, in the US and others, Cyclone Sandy and Katrina and so forth, you do see a lot of used vehicles appearing on the market. There tends to be an increase in used vehicles on the market, used boats, used machinery and so forth and it has been alleged that some of that machinery, of course, has suffered from flooding and all the rest of it.

So the provenance of cars is very important. You're not aware of accident history, service history and all of those sort of things. So I think this presents, from where we sit, a really unacceptable level of risk to the community in terms of bringing in used cars now that really are - more like 10 years old rather than three or four or five years old. I think the market for those cars is very small. Frankly, bringing a 10-year-old car into this country would be bringing in a car that wouldn't comply with any of the safety standards or the standards that we set at ANCAP.

One suggestion that if the government was looking to redirect any money away from the automotive manufacturers, perhaps it could look at some incentive programs for getting people into safer cars and for urging manufacturers and the importers to bring the safest cars possible into this country rather than bring cars that perhaps have elements missing and despecification. That is all I wanted to say via introduction. I think my submission covers most of the rest.

MR WOODS: Thank you for the material that you have presented to us, including some photos of crash testing. There has been quite a lot of useful information there. As you rightly point out, there is pressure from some quarters to increase the numbers of second-hand vehicles coming in and so from our point of view the question is can it be done safely and with consumer protection and a range of other issues and what are the benefits of that happening?

We have heard earlier evidence that perhaps if you tailor the age of the vehicles that are permitted to be brought in to significant improvements internationally in safety standards, and the example given was in relation to emissions, but there might be other points or milestones in international standards that suggest maybe it's three years or five years or whatever is an appropriate point. Do you have a view on that? You made mention of the 10-year vehicle with uncertain provenance and standards that may not be equivalent to the fleet on our roads. How would you respond to that issue?

MR CLARKE (ANCAP): I think the key point in relation to any age used vehicle coming in, but let's address the younger vehicles, is that even if they've met the legal standards under, for example, our ADRs or the UNECE regulations for crash testing, as I pointed out in the submission with those photos, they're at a very base level.

They're not about safety per se. They're about opening the market, "At least there's some minimum test that say, 'Yes, it's not going to collapse completely'" - although there's evidence in those photos that perhaps they do – but to a very low standard. Even if it has that basic legislative compliance, it still may be a very unsafe car.

MR WOODS: Yes, if it has one star, it still has one star.

MR CLARKE (ANCAP): Exactly. Three, two, one stars are basically the same. The only difference is that in a one-star car it's collapsed completely, in a three it's just started and one slight variation in that crash and it's going to be one star - as soon as you break the structure of the passenger car, as soon as that weakness point comes. I think when we look at three to five-year-old cars, we tend to fantasise a bit about, "It's going to be a Mercedes or it's going to be a BMW or it's going to be a high-end Mazda or a Toyota," but I don't think that's the reality. Cars are made all over the place now and some of the other material that I put in my submission was that through our sister organisations around the world we do testing in Latin America, Japan, Korea, China, all over the world, brand new cars being sold in Latin America get zero stars and these cars that have got the same model name, maker name as cars that are sold here or sold in Europe and the customer has no idea, "Yes, this is legally complied. It might come in here. It looks like a model, brand - fantastic," but what you get is evidenced in the photos that you've got there.

MR WEICKHARDT: Are they cars exported from Europe or North America to South America with lower specifications or are they chiefly cars made in South America?

MR CLARKE (ANCAP): Made in South America by the major manufacturers but because of the less well-developed nature of the countries there they build cars to a price and what they're building really is cars that may be cheap at purchase time but they're not cheap in the long run when you consider the high number of people that are killed and injured in those cars. In the catastrophic collapses of those cars we're talking very low speeds. 64 kilometres an hour is a very low speed. It's just what we do around urban areas. So we're not talking about high-speed crashes, we're talking very low-speed crashes.

If you then bring that back to three to five-year argument, if these vehicles coming in are under a high-volume used importation scheme, then that just destroys the work that we've done in safety over the last 10 or 20 years, particularly last 10 years.

MR WOODS: Is this because they have different specifications, glass thickness for windscreens or side struts or whatever or is it because of the quality of the build but for the same general specification?

MR CLARKE (ANCAP): The specifications will be the same, the materials will be of a poor quality. The base metal steels and aluminium products and alloy products will be of lower quality.

MR WEICKHARDT: Which affects the structural integrity.

MR CLARKE (ANCAP): Absolutely. There are two important things: the first thing about crash worthiness is the structure. If you've got a bad structure you could have a thousand air bags and you're still going to be in trouble. Have a really good structure, then have all the passive restraint, all the air bags and other things. Even then - what we're focused on now is all of the active safety, the stuff that helps you avoid accidents and that technology is coming in so rapidly some of the major manufacturers, as I think I articulated in my submission, are saying 2020 for autonomous cars. This is not going to be like an episode of the Jetsons where we're all flying around in cars, but the thing is that incrementally cars are becoming more autonomous. We're not talking about the expensive cars, we're talking about cars right across the spectrum.

MR WOODS: So the electronic stability controls and the like?

MR CLARKE (ANCAP): That's just one and we made that requirement six years ago. Autonomous emergency braking that will stop you before you ran into someone or at least mitigate the risk of the crash. Lane keeping assist which will actually steer you back on the road as you come off the road. Rear collision warnings, so you won't run over kids or other things in your driveway. There's huge amounts of technology. The end of that technology, as far as we can see today, is a car that - you tell it where to go and it will drive you there and you just don't do anything.

But before we get there, there's increased levels of automation and things like platooning. What I mean by that is that trucks go up and down the highways all the time, there are systems under test in Sweden where you can actually online hook into a truck that's leaving this depot at X hours, you just join it, the two computers hook up, you might have five, 10, 20 vehicles, the cars behind sit there, they don't have to steer or anything, it's like a road train in that true sense. So that's another technology which we hear very, very soon and then 2020, 2022, 2025 the majors will have fully autonomous vehicles on the market.

MR WOODS: Can I just as a slight side question before I hand to my colleague. Do you have a view on the state governments adopting occasionally, particular specifications and whether that's helpful in the overall process of ensuring the safety of the vehicle fleet?

MR CLARKE (ANCAP): As you've said in the position paper ANCAP five star is now a requirement for fleets almost universally and we've worked very hard over the

last probably five years. All of the state governments, federal government, New Zealand government and many, many, many other corporate fleets - BHP Billiton made a statement the year before last it will be five-star worldwide in all its mines and that's a big challenge because it's mining everywhere.

But in terms of the welfare of their staff, rapid turnover of their vehicle because typically fleet vehicles get turned over after two or three years. That has a great benefit to the mums and dads that want to buy a two or three-year-old vehicle that has five-star safety. So I think there's massive benefit from encouraging the fleet to buy these safer, and safer, and safer cars. In Australia over half the purchases are fleet purchases, and we constantly talk to fleets about their buying policies.

In fact, I've got a new round coming up: I'm speaking at the Fleet Managers Conference in a few weeks time to say, "The next version of your car must have autonomous emergency breaking, so that your car will not run into other cars. Again, that is another level of safety for your staff, which then feeds back into the second-hand market when the mums and dads buy their second-hand cars."

MR WEICKHARDT: Okay. Thank you, and thank you for your submission. We anticipated this area was reasonably complicated and I think that some of the submissions we have received since suggest that it is even more complicated than we might have envisaged. However, you may or may not have seen, we have received a number of submissions throughout this inquiry from people who have alleged, some of whom have provided quite a lot of information, that car manufacturers in some sectors of the market, particularly in the up-market sector of the market, regionally price cars coming into Australia at a significant premium to the equivalent car that is sold in overseas markets.

Now, of course there are then also claims and counter claims about specification levels and their engine models, but one submission we received post the position paper suggested that the difference in prices at that premium end of the market compared to overseas markets, in Europe in particular, was equivalent to something like \$2.6 billion a year detriment to consumers in Australia. Now, if that were the case - and let's suggest the sort of really extreme position here, and you limited imports of second-hand cars to cars that were less than three months old, where provenance could be absolutely guaranteed and certified by an independent authority, where harmonised standards suggest these cars in future might meet Australian design rules - and I know the Australian design rules are under review at the moment, but there is a prospect in, you know, three or four years' time that we will be harmonised with a European standard. You've talked about, on your website, I think, the fact that your testing is now becoming harmonised with Euro NCAP.

In those circumstances where we did have harmonised design rules with Europe and therefore you could be reasonably confident that a brand new, let's say,

Mercedes or BMW purchased out of the UK, which is right-hand drive, came into Australia with a provenance guarantee, perhaps with the undertaking from the manufacturer that they would notify the new owner of the car of recall or anything like that, I find it hard to believe that that would degrade Australia's safety standards and performance. Is that a fair hypothesis?

MR CLARKE (ANCAP): Look, I don't know what the answer to that question is. I think it is a -, the expectation that you will buy this near Mercedes or near-new Mercedes, I think that's fantasy really, because the reality is that used imports are really at the lower end of the market.

MR WEICKHARDT: Well, I know that's the case at the moment.

MR CLARKE (ANCAP): Yes.

MR WEICKHARDT: But all I'm saying is, if there is a big gap sitting there in terms of potential price differential, then the way of testing that is to set some very tight controls on safety, age, and provenance - - -

MR CLARKE (ANCAP): Yes.

MR WEICKHARDT: Then let the market determine, because it's not going to be costless to import cars under those circumstances. It's a risk for the new owner: they probably don't get any warranty and things of that sort; they may not get parts as easily exchanged. I think we've got a submission coming up immediately after lunch from the Australian Motor Industry Federation, who say, "the computer might be different, the fuel standards are different," so there are some risks.

MR CLARKE (ANCAP): Yes.

MR WEICKHARDT: But if there is as big a price gap as people have suggested, then one of two things will happen: either people will take advantage of that gap and they will import cars and they will take the risk that there are some issues that will affect them; or alternatively, the gap won't turn out to be as great as is alleged, because the sellers in Australia will bring down their prices to counteract that gap, which has of course happened in a number of areas. Digital cameras in Australia used to cost 50 to 100 per cent more than they cost in Asia; that gap has almost completely been eroded, as I understand it now, by people simply importing their cameras from Asia and, surprise, surprise, the local providers have decided to price at the Asian price.

MR CLARKE (ANCAP): Absolutely. iPhone is the same. An iPhone around the world is much the same price and they're all of the same standard, and why shouldn't a car be. That's another issue. Look, I don't think there is an, "I agree," or, "I

disagree," answer to that. There is no yes/no answer, because I think the context of all that is very complex. We're a very, very small, but highly competitive market here. Higher prices can be to do with the investment of the manufacturer in Australia. At one stage I recommended people don't buy European cars because you wouldn't have anybody in Australia that would be able to service it, or if you lost your key or some special part went, it took six weeks to come from Europe.

Now, yes, that's changed and, yes, under imported used schemes, terrific, maybe that circumstance would work and you're willing to take the risk. But even casting forward, I just still don't think that is the reality. I think opening the door to high-volume used cars - these are the cars that you will get from Brazil and so forth. The Used Volume Scheme, in New Zealand and in Australia, has all been about bringing cheap product in to make a decent profit, because we know that margins on new cars are still quite modest, and it is as much volume as profit - as we can get to get our profit up. I think that the risk on this side, of bringing in the cars in volume that are really poor, is much greater than the circumstance of, say, driving down the price of high-end cars. I think that is a modest benefit; this is a really big risk. I think that is a far greater risk to the community.

MR WEICKHARDT: But you don't think that risk could be mitigated, to start with, by setting a very tight age limit and setting a limit on the number of countries that cars came from, for example.

MR CLARKE (ANCAP): That would be a question of whether you wanted a new car industry or market here at all, I think, because those markets would be so close, maybe people wouldn't buy it; maybe people would go for the cheaper, three-month-old, and maybe there would be an entire shift to the market.

MR WEICKHARDT: Okay.

MR CLARKE (ANCAP): But I just think the risks are far too great on the bulk of the market I think also you have got to look at the sales profile in Australia, too. The sales of luxury cars and those high-end cars are pretty small, pretty modest. Even if the price came down to the prices that they are quoting in Europe, there are still only a small number of people that are going to buy those cars. Slightly bigger, but still a modest section of the community.

MR WOODS: Thank you, Mr Clarke.

MR CLARKE (ANCAP): Thank you.

MR WOODS: We appreciate the time and the material that you have presented to us.

MR CLARKE (ANCAP): Thank you very much.

MR WOODS: I'll adjourn until 1.30.

(Luncheon adjournment)

MR WOODS: Thank you, we will resume the hearings relating to the inquiry into automotive manufacturing. We welcome the Australian Motor Industry Federation. Gentlemen, can each of you separately give your name, the organisation you represent and the position you hold.

MR DUDLEY (AMIF): Thank you. Richard Dudley, chief executive officer and company secretary for the Australian Motor Industry Federation.

MR DUCKWORTH (AMIF): Colin Duckworth, policy director for the Australian Motor Industry Federation.

MR WOODS: I apologise for the building works that are happening out the back but we will struggle on. You have an opening statement that you wish to make?

MR DUDLEY (AMIF): Yes, thank you, sir. First of all, thank you to the commission for the opportunity for the Australian Motor Industry Federation to present information to the inquiry for automotive manufacturing industry. We welcome the opportunity. By way of background AMIF is the national voice for the other 75 per cent of the Australian automotive industry. Some 100,000 business nationwide who employ more 300,000 Australians and contribute an aggregated \$208 billion to the national economy.

AMIF's members are the state and territory motor trades associations and automobile chambers of commerce respectively whose members in turn constitute the retail, service, repair and recycling sectors of that 75 per cent and the many discrete subsectors and professions within that area. The businesses range from small family orientated operations to multimillion dollar enterprises and the members represent indeed the largest small business sector in the nation.

The inquiry has already received a submission from AMIF on the broad parameters of its investigations and today we'll briefly again touch on the central themes from that submission. But for now, with your indulgence we'd like to address a specific issue the inquiry is focused on as a result of its investigations to date in regard to the suggestions of removing the restrictions on the large scale importation of second-hand vehicles. AMIF suggests at the outset that a removal of the restrictions on the importation of second-hand vehicles based purely on RAW economic drivers is illogical. Such a decision, AMIF suggests, would preserve the ad hoc approach to policy formulation for the Australian automotive industry which has sustained a fairly narrow and tunnelled approach for more than 40 years and largely confined itself to the manufacturing sector.

AMIF believes there is little benefit to be obtained from such a decision due to the following reasons: consumer detriment, no quantifiable economic benefit, a

reduction in the automotive safety envelope, a deterioration of the environmental aspirations of the nation and the resulting potential cost and complexity of the government at a state and federal level. Just exploring a couple of those issues, the consumer detriment will occur from a matrix of sources. Safety and compliance of grey imported or second-hand vehicles cannot be assured. Of the 66 brands and more than 350 model variants currently available to Australian consumers, each and every one of those vehicles is unique to Australia due to its compliance with Australian design rules and adherence to fuel standards and safety and environmental regulations. Removing the restrictions on the importation of second-hand vehicles would require a robust, enhanced regulatory regime to ensure each and every vehicle imported outside of the current arrangements for normal retailing of new vehicles met these standards.

AMIF would argue such a regulatory regime is not currently available and the cost of the development, the jurisdictional commonality and the enforcement of such a regime would prove to be a very costly exercise. Consumers may find it difficult, if not impossible, to source finance and insurance for the purchase of grey imported second-hand motor vehicles due to the inability of finance and insurance providers to assure themselves that the vehicle will be supported by traditional service and repair suppliers. Consumers cannot be guaranteed that they will be able to readily avail themselves of the support, the servicing, the maintenance and repair of such vehicles.

AMIF contends that a decision to remove restrictions will manifest in time to increasing cases being mounted under the Australian consumer law and potential difficulties with the administration of the personal properties securities register and a range of other unforeseen circumstances. AMIF suggests that the economic benefits of the removal of restrictions is marginal at best. The Australian retail automobile market is the world's most competitive and volatile. Australian consumers already have a level of choice totally disproportional to its population. As previously mentioned, 66 brands are represented with more than 350 model variants. This compares to the United States with a population of 315 million and around 35 to 40 brands, resulting in less models. Almost all of these compliance supported vehicles eventually find their way into the second-hand vehicle market in the nature. New vehicles, because of this fierce competition mentioned previously, are increasingly less expensive, putting downward pressure on the used car market.

The removal of tariff protection will likely increase the attraction of other automobile manufacturers to the Australian market and further improvements to the second-hand market of compliant vehicles which raises serious questions regarding the benefit of lifting restrictions on grey imports when aligned to the cost of regulatory compliance and consumer protection. Competition in this country is clearly alive and doing very well. So what would the government achieve, we ask, by the removal of such restrictions? When does excessive competition become counterproductive? AMIF contends that there are costs in the form of long-term

environmental considerations as well in the context of existing challenges encountered in the development of an end-of-vehicle-life policy.

We repeat our call that the opportunity is now with the cessation of manufacturing of automobiles in this country for the government to develop a whole-of-industry policy framework for the entire Australian automotive industry. An examination of individual components of policy or regulation, in isolation from the entire Australian automotive industry, and the symbiotic relationship between automotive manufacturing and the downstream sectors of retail, service, repair, and recycling, affiliated businesses, and other industries, would be a fatal flaw in the development of a future whole-of-industry policy framework.

Government support and intervention strategies can best be supported by evidence based policy developed in a business case environment, which is provided by the use of the green and white paper policy tool. The development of a green paper and subsequent white paper will allow a fragmented industry that is essential to the nation's economic wellbeing to identify, analyse, and prioritise the critical issues it faces into the future; it will allow for the myriad of Commonwealth and state bureaucracy to, arguably for the first time, coordinate and collate government's role with the outcome being a cohesive policy framework that provides surety to an industry into the future.

To do otherwise, AMIF would contend, will enshrine the relatively ad hoc policy on the run that has been evident to date in initiatives such as the cleaner car rebate scheme, the luxury car tax, and the plethora of other tax regimes and regulatory requirements. The time is now for a cohesive plan to be put together, and we think that this is well within the remit of the Productivity Commission to take a look at that issue as well. I'll hand now, briefly, over to my colleague, who can perhaps, given his background, give a very succinct case study example of the practicalities of how this might work if it were to take place, with your indulgence.

MR WOODS: Thank you.

MR DUCKWORTH (AMIF): By way of background, I've a couple of past lives but one of those past lives was in the retail motor trades, and that involvement was largely around things like spare parts, the performance sector, in competition, and innovative engineering. Then later in life I decided to reskill myself and get tertiary qualifications to take me away from the retail motor trades as far as possible, and yet here I am.

MR WOODS: Welcome.

MR DUCKWORTH (AMIF): Thank you. I think that it gives me a little bit of a unique perspective, because I, from my own personal observations, see that there is,

in some sectors at least, sort of a belief that a Volkswagen Golf, for instance, running around the roads of Munich is identical in almost every respect to a Volkswagen Golf running around the streets of Barton in Canberra. The reality is that it is not. It is superficially the same, but due to our unique fuel standards and unique emission requirements and our unique ADRs, those vehicles that have been type certified for this country are actually quite, quite different when it comes to a closer evaluation or comparison of those Volkswagen Golfs.

To give a hard example or a live example of one that I'm aware of - I won't name the manufacturer, but if one were to import a particular vehicle from Hong Kong, for argument's sake, that had been already available for sale in Australia and it starts to develop a fault somewhere in, say, any one of its electronic control units, it's not just simply a matter of replacing the faulty electronic control unit with one from, say, an Australian-sourced car. Because of the interoperability of all the systems, and because the car in Australia, for instance, has been specifically attuned to meet all the Australian standards and to cope with its fuel supplies and so forth, the engine control unit from the Australian car won't talk at all to the engine control unit in the imported vehicle; it just won't. It's like one system is talking Arabic, but a component of it is talking English, and the vehicle won't understand; it won't even start.

The difficulty then arises when the poor consumer who has this car then trots off to the dealer and goes, "I'm looking for this part," they run the VIN number and they say, "Dreadfully sorry, that car was not delivered to Australia and we cannot get that part for you." No matter how much the consumer protests, it has been my experience that the manufacturer will just say, "No, that vehicle was not delivered to Australia, we will only supply that part to where that vehicle's country of source was." That then leads the consumer to have to, essentially, acquire that part by other means. That might be the Internet, that might be on eBay, it could be any other way or through another specialist sort of person or repairer that deals with that sort of vehicle, who does this on their behalf.

And they better be careful when they do that, because that vehicle that has been imported may well have four different ECUs in it of the type that are being looked for, that all have their own unique things, depending on the type of the engine, the specification of it, what type of transmission is fitted, and so on. So if they get it wrong, they're back to square one; if they get it right, eureka. But even if they get it right, they're going to find that that part is going to cost them almost as much as what the vehicle cost them to land. While that is an example of something that happens with, say, an expensive component, like a part of the interoperability systems of a vehicle, it is also true of other parts.

So one of my vehicles, for instance, it is potentially - it was released in most of the countries on the planet, it really was. But in terms of, say, the camshaft

specification for it, there are eight different camshafts that went into that car for its lifecycle: eight different ones. So any given model - say, a 1980 version of it - if it was in America it had a different camshaft, if it was delivered to Australia it had a different camshaft, if it went to the UK it had a different camshaft, if it went to Asia it had a different camshaft in it. Completely different, and that's, again, because the manufacturer seeking to tune the specification of the engine so that it can operate on our fuels and get the emissions that we require of it.

That's just sort of one example. I mean, there are several others: it goes down to the fine granulation even of chassis construction, so it becomes an issue for motor body repair. You might have two, three cars from different sources of first point of sale and they all look identical until you start to pull them apart. You find the one that has gone to Australia and South Africa has twice as many spot welds in it and the metals that are used are different; you'll have different-sized wheel arches to cope for different off-road conditions, no interchangeability whatsoever. Again, you run into that problem where the manufacturer will not supply the local supplier with the parts; you have to get them from the country of source origin.

MR WOODS: Okay. A couple of questions, if I may, and thank you for the material that you have been providing, including draft material to give us a heads-up on subsequent information. But if I can sort of go back, before we deal with second-hand car issue, can you describe to us the implications for your industry - and the sales, service, repairs, industry - of the decision of the three assemblers to plan their termination in Australia. What impact will that have?

MR DUDLEY (AMIF): I think it is a little bit too early to tell. The three manufacturers - and I was present for the testimony provided by General Motors Holden in Melbourne. I think it is a little bit early. They have all given commitments to their retail network and the maintenance of that retail network. I think time will tell whether those commitments - and I don't discount at all the current commitment to it, but I think in time, depending on how the industry shakes itself out and whether other decisions are made, such as tariff revocation, et cetera, which will be an attraction to, potentially, other manufacturers to come into the country, that will potentially have an impact on the retail environment.

One of the issues is there is already a considerable consolidation going on and unprecedented generational change happening in every single one of our sectors at the moment. In retail space there is a consolidation of the family or private-owned dealership into larger dealership enterprises, or indeed from private into public entities, and that is gathering momentum fairly quickly over the last five years. That consolidation, we anticipate, will continue. Whether those market environments then preclude a reduction of those retail outlets, time will tell.

Also, there are some elephants in the room which are often not talked about.

Manufacturers do not want dealerships to have too much power in terms of the way they operate. So there is already a move towards online retailing of specific models, there is already a move towards a greater online presence, and there is a move by manufacturers into company-owned dealership outlets. Those are issues that need to be closely watched so that the consumer of this country is not disadvantaged by the consolidation that's going on. In the areas of service we have a consolidation and an exiting of industry of considerable proportions for mechanical repairers. This competitive environment that we're in, the sheer number of brands, the sheer number of models that are available from those brands is forcing a consolidation in that industry as well. It's causing a restructuring and a rethinking of business models. Gone are the good old days arguably where any car could roll in off a driveway and you could be confident that you had the skills and the technology to be able to service anything that rolled in.

We're now looking at a situation where business owners are having to decide whether they're going to specialise in certain marks or brands and, indeed, certain models. They may decide to specialise in four-wheel drives or SUVs as opposed to a specific brand. We expect that that will accelerate and we're getting signals now through environmental scanning of the industry that that is accelerating. We've seen a situation where in 2012 450 businesses on average were leaving the marketplace in these sectors that we're accountable for and represent. That's climbed now to around 870. We anticipate that that consolidation and that impact will continue and we suspect that the reduction of local manufacturing will be felt in those areas as well.

MR WOODS: You're talking about the consolidation and you're saying it's been happening for five years or more. What's the nexus between having the car manufactured in Australia and the sales, servicing and repairs of cars?

MR DUCKWORTH (AMIF): There's a couple of elements that I've observed anyway, and that is that since we've had manufacturing here in Australia and while we have had it, it has traditionally been the dealerships, for instance, of those manufacturers that have provided a cornerstone for the whole dealership network. So if you can imagine in the earlier days when we started to have people like Mazda, Toyota and Mitsubishi start to come to Australia the reason they were able to get a franchise in the first place was because they had a Holden or a Ford or a Valiant or whatever dealership, so it formed a bedrock.

It formed a bedrock simply because all of your technical information, all your support, all your backup was literally just down the road. So you had this opportunity then for this to be, if you like, the foundation for everything else to hang on. What I have seen, for instance, is that if you're looking for, say, technical information on a current model Commodore it's relatively easy to get if you're a independent repairer or a dealer because most of that technical information was developed here - not far from here in fact. So it was able to be got relatively easily.

But when you start to have, say, smaller importers or smaller representation of vehicles - what was it, Toyota sales in Australia represent only something like 4 per cent of their global production. So if you've shifted the whole information base and, if you like, the anchor for the dealership networks and it no longer resides here and it resides offshore, you'd have to start to think that there's going to be some sort of cultural shift involved in terms of pandering to 4 per cent of their sales. You do find that, the smaller volume suppliers enter this country, the technical information for those cars is the hardest to get. Take, for example, dealership franchise arrangements, for instance, when I'm reviewing franchise agreements it's really very rare to find a franchise agreement from a local manufacturer that is widely variant from the franchising conducted in the area.

Not so when you're starting to evaluate franchise agreements that have headquarters miles away from here because they don't have that quite thorough understanding - no matter how hard they try and get it, they just do not have it. I've even seen instances where franchisors of some marques have merely tried to import their entire franchising terms, conditions, laws and everything and subject the dealers to that.

MR WOODS: Thank you. Do you want to take the opportunity of giving us the benefit of your views on the luxury car tax?

MR DUDLEY (AMIF): I can't add anything to what has already been said by other participants in this inquiry and indeed through the Henry Taxation Review and indeed other forums. The tax is unconscionable. It serves no purpose other than being a revenue raiser and the original auspices onto which it was set up, we would argue, have now long since past, even if they were valid in the first place. The issue is - and we recognise this for government - it is a half billion dollar revenue raiser. It behoves industry to actually try and identify, along with government, not just its revocation but how does government replace that half billion dollars in revenue at a time when government is trying to return a budget to surplus and to basically reform all of its raising activities and all of its expenditure activities.

So I think to be fair to government by merely just asking for its revocation, which we obviously do, we have to be cognisant as well that what do they do in terms of the half billion dollars that's going to be taken off the bottom line. This is why we are calling for a green paper, white paper. There is a myriad of issues, both in taxation and both in terms of the actual operations. There is nothing other than a continuing reliance on road transport in this country for the foreseeable future. Due to our population and due to our geography and massive capital expenditure into public forms of transport are still a long way off, if at all. In the last 10 years China has built 200 airports across the nation. We have spent 48 years arguing about whether we will build one more airport on the eastern seaboard.

I know that's irrelevant to the inquiry here, but the bottom line is that we will be continually reliant on road transport. We have a heavy reliance on it now and surely an industry that contributes this and is such a contributor to the national economy is worthy of a special consideration where issues like the luxury car tax, the whole taxation regime as it applies to automotive, the lack of any plausible policy on how we deal with the end of vehicle life. We're one of the countries that don't have any plan whatsoever, apart from periodic explorations of things such as electric vehicles and other propulsion systems but we do not have any effective means of having a policy on what we do with the nuts and bolts of a car except in some regulatory sense.

So there is an opportunity now with the exit of the manufacturing base to take a look at a framework for the future and our belief is industry doesn't know everything. I can tell you now that we are short 19,000 skilled mechanics nationwide - 19,000 - in an environment where we've got seven and a half thousand to 10,000 leaving the manufacturing industry. I'm not aware whether the three manufacturers are aware of the need we have on our side of the can. I'm not aware whether in all of the rescue packages that have been discussed whether there is any consideration about the identification of that shortage on our side of the tent versus those who may have some skills, may have some experience and certainly will have engine knowledge, engine power plant knowledge, whether there are conversions possible for those individuals across into our identified shortages. Now, whose fault is that?

I would argue that the motoring organisations do a wonderful job of lobbying on behalf of motorists. We do a wonderful job on behalf of the 75 per cent of the industry. FCAI does a wonderful job on behalf of the manufacturers and importers but we rarely get together to discuss things of commonality. Equally I'd argue that the government departments who have a finger in the automotive pie rarely get together to truly understand what government is doing in terms of support, intervention, taxation regimes and other policy drivers in a collective sense. A green paper/white paper will provide the opportunity to force industry to come together to lay its cards out on the table to get some of this critical information out there, then to prioritise what the issues are. Equally it will allow government to actually sit around another table and to figure out who is providing what support in what context.

Government has traditionally been doing some wonderful work in terms of support and getting people into the trades, apprenticeship training, those sorts of areas. But if we have no clarity about where that's going at the end or we have no clarity about the significant, unprecedented change that each of the sectors are going through at the moment, then it is again a little bit over here and a little bit over there but not really aligned to any central plan. We would argue that if it's good enough in critical areas such as defence and education, health and there's even going to be a white paper on northern Australia, then surely an industry like automotive is

deserving of the similar sort of treatment so the government doesn't go through this repetitive process of being asked for handouts and rescue packages.

MR WOODS: It's a role for a transparent independent organisation to do a thorough policy review of the area.

MR DUDLEY (AMIF): I respect the mandate of the Productivity Commission, I respect the mandate of previous reviews but I would argue that in this space the 75 per cent of the Australian automotive industry that keeps this country moving has never been a consideration as part of examinations of automotive policy for, in some respects, quite good reasons. But now that we're at this nexus and three auto manufacturers have made the tough call that they've made and as disappointing as that is, now is the time, given that we're going to continue to be reliant on motor vehicles, for us to actually bite the bullet and have some direction in where government policy goes to so that we don't have this continuing circle of rescue packages, bailouts and a lack of clarity about what the needs are across the whole industry.

MR WEICKHARDT: If I can just ask a few questions about the second-hand vehicle area. We recognised when we wrote the position paper that this probably a complex area and, of course, submissions since have suggested that it's probably, as you peel the onion, more complicated than we had imagined. You may have seen, if you've looked at our web site, that we have received a number of submissions on both sides of this fence. One we received very recently from Mr Peter Smith, claims to have calculated the premium that Australian consumers pay annually for buying cars at a price higher than the price of counterpart vehicles overseas.

Of course, such comparisons are always contested and they're complicated by issues of what sort of fittings and standards and extras and things like that are supplied but let me say, having been involved in a retail inquiry, and had countless examples of digital cameras, phones, perfume, shoes, skis, you name it, there are a lot of manufacturers who have chosen to regionally price their goods around the world, deciding what the market will bear and when you're a long way away from the rest of the world and you don't have many other options, then you just have to put up with it sometimes.

So one of the points that was made to us before the position paper was written was that if there is such a differential in terms of new car pricing where manufacturers, particularly at the upper end of the market are deciding Australian consumers can afford to pay and will pay, then the issue becomes how can you try and ensure consumers get the best deal whilst protecting things like safety and other standards, environmental standards without giving rise to consumer detriment. Now, you've raised, and other people have raised, the issue that if you buy a vehicle overseas you don't know its provenance, you don't know the standard by which it's

been made, you may not get recall notices, there are all sorts of risks.

But I have put it to several people who have appeared before this Commission that you can hypothetically imagine - and this is imagine - opening the doors just a chink and, say, allowing people to buy a vehicle overseas or have an agent buy it for them overseas, insist that the vehicle came from a country where its provenance is well known and where the safety standards are well known and indeed where in future Australian design rules might well be aligned with their design rules, let's say, Europe. If one were to see cars no more than three months old imported into Australia, I find it difficult to see that our environmental standards and safety standards are likely to be compromised by people bringing top-end Mercedes, BMWs, Audis or whatever into this country.

Now, of course, there might be two consequences of opening the door just a chink like that. One is that the local manufacturers suddenly decide, "This is stupid, we'll adjust our prices so it's no longer worthwhile anyone importing those cars," or the people who import them might decide that in fact this price differential is quite illusory and it's not worthwhile doing it. But it would be one opportunity to put to rest whether Australian consumers are being exploited by the regional pricing strategy of the major motor suppliers and I wouldn't have thought it was beyond the wit of man to devise a set of regulations around that that would protect consumers from the detriment that might arise. You've talked in your submission about the fact that local service people refuse to get involved or acknowledge a car that was bought overseas.

MR DUCKWORTH (AMIF): No, that's not what I'm saying. What I'm saying is that when you start to look at the actual subsystems and - cars are becoming increasingly possessed by electrickery. They really are. I mean, the normal car that rolls off a production line today will have as many as 36 electronic control units in it. Again, as I say, because you've got unique other standards here, such as fuel standards - - -

MR WEICKHARDT: Well, we have at the moment.

MR DUCKWORTH (AMIF): We have at the moment but that will be something that will have to change.

MR WEICKHARDT: In the future that may not be an environment we operate in.

MR DUCKWORTH (AMIF): But that would be the sort of things that would have to change.

MR WEICKHARDT: Sure.

MR DUCKWORTH (AMIF): That itself, I think, from my knowledge of the downstream petroleum industry has its own knock-on consequences as well. So it has a knock-on consequence down through the retail fuel industry, it has a consequence for importers of fuel, it has a consequence for refiners, so there are a whole pile of those things quite separate to the consequences it has to the retail motor trades or to manufacturers.

MR WEICKHARDT: Yes. But increasingly we're living in a global economy where you have to start looking at things like fuel standards and say, "Does it make sense for Australia to have separate fuel standards?" The number of refineries that we've got in Australia is declining on a pretty regular basis and it may well be in the future that the fuel standards are harmonised, the car safety standards are harmonised and in those environments one would have thought that it might well be the case that if I can get somebody internationally to acknowledge that, yes, I bought that phone from a certain supplier and they'll treat me as if I'm one of their customers, that the same might happen with cars.

MR DUDLEY (AMIF): The hypothetical you're posing I think, as my colleague said, if a lot of those issues were addressed as part of the chink in the door our fear would be that it's not a chink that the floodgates would actually open because once you've started the process, how do you then determine what's fair and equitable to other types of vehicles coming in? Who makes a decision about is it three months within production date or is it five years.

MR WEICKHARDT: Sure.

MR DUCKWORTH (AMIF): So those sorts of issues we wouldn't rule out. If they could be overcome, and given the fragmented nature of the industry, that's not assured.

MR WEICKHARDT: No.

MR DUDLEY (AMIF): And the differing views of governments. But given your hypothetical, yes, it is possible and, yes, the industry should be thinking about those sorts of issues. We have - and I will correct the record as well - we will have members who are absolutely vehemently in support of the importation of second-hand motor vehicles. We will have mechanical service repairers who have no problem at all being the agent that my colleague referred to in sourcing off the Internet the required parts and we would caution them but not restrict them obviously. Our concern would be when it all goes horribly wrong, is that said individual business going to stand up - because invariably what they'll do is pick up the phone to one of my members and say, "I've got ourselves into this predicament. What do I do because the consumer is now using the Australian Consumer Law to question what I've done?"

MR WEICKHARDT: Yes.

MR DUDLEY (AMIF): Now, we have some issues with the Australian Consumer Law which will in time be sorted out about major versus minor and whether any automotives should be included in there or not. But they're the sorts of issues that we're cognisant of. If you're contending that those sorts of issues can be addressed from a policy-setting standpoint and again that probably lends itself to my call for a green paper/white paper, then it's worth of consideration. But to do it simply by the revocation of the current restrictions from an economic standpoint without covering off all of those complexities that need to be addressed would be erroneous in our view.

MR WEICKHARDT: I totally understand and we were in no circumstances saying that the floodgates should simply be opened. You've got to think through the whole set of issues. But I think it would be good for the industry to think about a future where we were part of a much more global environment where, for good reasons - I mean, there must be costs at the moment to Australian consumers of having - manufacturers have to make a car that runs to separate fuel standards, that has a separate side bar intrusion standard. These things don't happen free of charge.

MR DUDLEY (AMIF): But then our argument would be, "The market forces are actually dictating whether there is a dollar to be made in the Australian market." We represent one of only 33 per cent of the right-hand side drive market in the world. It's a very small market when you compare to the 70 million, is it - almost 80 million motor vehicles that are produced annually globally. Yet all of these companies, all 66 of them - it used to be 67 until recently - decided to - there's obviously a market here, there's obviously money to be made. How marginal that is or how beneficial that is is obviously up to the Australian consumer. But clearly there is room for growth as well because we are aware that there are other manufacturers, particularly from Asia, who currently aren't represented in this nation who have aspirations towards potentially coming here in time and there will be a consolidation as well, we believe. How long can this keep going?

MR WOODS: Are you thinking of India having a bigger presence?

MR DUCKWORTH (AMIF): I think that India, from my observations - and this is starting to delve off into the territory that would normally be my colleagues over at the Federal Chamber of Automotive Industries. However, as a long-term, almost lifetime industry observer, I think that the India situation will play out much like it has in China where the preoccupation has been for domestic supply.

MR WOODS: Yes, absolutely.

MR DUCKWORTH (AMIF): And export has merely been sort of like a little productive sideline which I think brings me to another consideration thinking this through. Yes, I've got a whole pile of Nikon camera gear there that's manufactured by Nikon of Japan that I can buy anywhere in the world and the price is roughly the same whether I buy a D7100 body at Ted's in Canberra or somewhere overseas.

MR WEICKHARDT: It used not to be.

MR DUCKWORTH (AMIF): I know it used not to be. But the reality is that the manufacturers do have to, irrespective of the standards, produce cars that are for the conditions of their market. I cast my mind back in particular to when the first Commodore was contemplated for Australia and General Motors-Holden brought in a whole pile of Opel Rekords which was the car upon which it was based and in their development proving to be able to see how much they would have to alter the Rekord, it wound up being in a complete re-engineering exercise. There was no way that an Opel Rekord would survive 10 years in an Australian environment with the typical use of a car.

So quite apart from all the other standards that they have to comply with, like, emissions and so forth, there were considerations around chassis rigidity, there were considerations around vehicle harshness, noise and vibration. There were considerations around the sheer durability of being able to keep the front suspension in the things. The Rekords that came out actually used to crack the B-pillar off the roof. The thing would be that flexible that the thing would just literally turn into a noodle once it had been driven around outback roads for around about two years. And so that's why Holden more or less said, "Nice thought but we're going to have to do it pretty much with a clean sheet of paper but we'll change all the lines on everything, the specifications and materials on the Rekord to be able to produce that first Commodore," and thus it has been ever since.

So while you have that sort of situation, you'd also have to have the situation where the manufacturers were all pretty much in uniform agreement and changing the cultures of some of those manufacturers, I think, could be a bit of a challenge and that's something well beyond the remit of the Australian government or the Australian people to be able to do.

MR WEICKHARDT: Yes. In future people will decide whether they're prepared to make things that - - -

MR DUCKWORTH (AMIF): Perhaps.

MR WEICKHARDT: - - - fit our unique needs or not. As you say, that may mean there are fewer models that come here. Anyway, we understand the points you raise. It's not straightforward and needs to be done in a thoughtful manner. But I suspect in

the future we will see greater harmonisation and greater internationalisation of this business.

MR DUDLEY (AMIF): It goes without question. That's one of the key external drivers to the restructuring that's occurring in the sectors of our part of the industry and it's being driven as such. There is one medium-sized SUV on the Australian market that has seven independent computer systems, a myriad of laser systems, a myriad of other sensing devices, all inter-operable. If there's raindrops on the windscreen, that talks to the braking system and so on. That is fundamentally changing how not only businesses adapt to that in terms of service repair, even the recycling of those vehicles but also the professions that are going to still be required and how we deal with them.

So I think there are tremendous opportunities but there is going to be a lot of pain as the sectors restructure as well. So it's not just about manufacturing. The manufacturing and the cessation of manufacturing, as it now has turned out, is going to be an added complexity.

MR WOODS: Can you just remind of what you see as the shortage of mechanics.

MR DUDLEY (AMIF): 19,000 at the end of 2012.

MR WEICKHARDT: Is that shortage even throughout the country? Is it all regional?

MR DUCKWORTH (AMIF): It's quite amazing really but I can remember seeing some research a while back - I will try and find it - but there was always this sort of assumption that there was this huge drain in areas that were close to where there was resources activity. The astonishing finding was, well, that's not true, it's actually everywhere. One theory that I postulated around that was, "Well, with the advent of fly-in, fly-out, it doesn't matter where you live any more." A mate of mine drives trains for a mine in Karratha. He lives in Brisbane.

MR WOODS: Does that suggest that wages for mechanics have been rising if you've got that level of shortage?

MR DUCKWORTH (AMIF): Those of that used to work in the trade, we have a view on that.

MR DUDLEY (AMIF): Probably given that my members are employer groups largely, the issue around salaries - the dynamics of the professions are changing. We are dealing, for example, at the moment with secondary school age people examining career options with the perception issues that still remain about being a motor mechanic. It is no longer a grease monkey type profession. In fact a motor vehicle

mechanic nowadays is more likely to be a computer engineer, a diagnostic technician and a range of other factors, particularly when it comes to the intra-operability of systems which is fundamentally changing the nature of how those professions will operate into the future. That's a challenge for our kindred organisation Auto Skills Australia. Their primacy is to look at the skills packages that are required and I do commend respective governments, both sides of the political sphere for their commitment to apprentices and trying to shore up that shortfall.

However, we do need to plan better and we need to actually be cognisant of these significant changes that are happening at a professional level as well as industry level.

MR WOODS: Thank you. Thank you for the material that you've provided to us and thank you for detouring through here to be able to present evidence to us today.

MR DUCKWORTH (AMIF): No problem at all. Thank you.

MR DUDLEY (AMIF): Thank you.

MR WOODS: That concludes the formal presentation and unless our colleague from The Australian wishes to do an unscheduled presentation I think we can call a halt to proceedings and conclude the hearings. Thank you very much.

AT 2.08 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY