
Dear Sir/Madam,

I would like to make a submission to your ongoing inquiry into the Automotive Manufacturing Industry.

By way of background, I am the former Managing Partner of McKinsey & Company in Australia and New Zealand, and I have had some experience with the Automotive sector - at the policy level in Canberra. I am happy to talk about this submission should you wish to contact me about it.

My concern overall is that there is a fundamental under-estimation of the level of support given to the Automotive industry and a corresponding fundamental over-estimation of the importance and benefits of this support. The impact of these mis-estimations are that the entire industry and its corresponding structures are a much larger drag on Australia's productivity than currently articulated. Some of my concerns are no doubt related to the way the industry is positioned politically and in the public so you may have these issues well-understood directly. I hope my comment are useful.

First, the assistance to the industry only picks up the direct levels of assistance, namely the direct injection of government money plus the money raised through tariffs of imported cars (namely GST and the Luxury car tax). While this is significant, it fails to recognise the corresponding price gouging that occurs by the foreign car companies who are able to operate local pricing under a very large price umbrella. It is not a coincidence that Australia is one of the most profitable (in terms of \$ per unit sold) market for many of the German car makers around the world. A high-level calculation will illustrate:

An Audi A6 Bi Turbo Diesel Quattro model sells in the UK for GBP44,000. At today's exchange rate, this is \$A74,576. This same car sells in Australia for \$A118,000. A difference of \$A43,000. If one is to ask in the automotive trade 'why the difference' the usual response is 'the luxury car tax'. This is incorrect.

The UK price includes 20% VAT so the pre-GST or pre-VAT price in the UK is approximately GBP36,667 or \$A62,147

To ship the car to Australia costs approximately \$1500 (to do the calculation properly, I should net off the shipping costs from Germany to Britain also but for simplification let's leave it at \$1,500).

Upon arrival in Australia, GST is payable at \$6,215 for a total (including GST) of \$A68,362

Luxury Car tax would be payable (at the rate of 25% of every dollar above \$55,000) of \$A3,340 (25% of \$13,362)

This give a total (theoretical) landed price into Australia of \$A73,202.

Remember above, this car sells for \$118,000 in Australia - a difference of almost \$45,000.

So, the question is 'why the difference?'. Simply it is price gouging by the international car makers, taking advantage of a non-tariff trade barrier that requires Australian compliance certificates on cars to be registered in Australia and significant restrictions on personal importation of cars. Taken across the entire population of imported BMWs, Audis, Mercedes, Porsches etc. This amounts to an enormous economic rent placed on consumers in Australia. I do not have the total import statistics to hand (but you do) and the total amount of money that is streaming out of Australia to these international car makers each year is a substantial burden. This is important because it is enabled by the protection of our local industry but provides virtually no benefit to to Australians (except for artificially increasing the take on the luxury car tax through car makers inflating their local prices).

Imagine what this money could achieve if it were used in Australia for more productive purposes rather than ending up in the hands of European car makers?

I believe that this needs to be considered in your overall report on the industry. The non-tariff trade barrier should be removed.

It is appalling that the government will spark in inquiry into why Apple iTunes charges \$1.99 for a song in Australia and \$0.99 in the US when there are \$45,000 differences in cars!

My second point is that at least politically, there is a fundamental over-estimation of the employment in the automotive sector that would be affected by the closure of Australia's car makers. Usually the statistics that are mentioned publicly include all people employed in the industry. If the car-makers close down here, it is only those directly associated with the manufacture and assembly of cars (and new car components) that will be affected. Those selling, marketing, transporting and repairing cars will remain - as will the makers of OEM replacement parts. Furthermore some of the manufacturers will remain as part of the global supply chain for the automotive sector for cars that are assembled elsewhere. This needs to be put in the context and the right numbers used. Furthermore, in the context of 457 Visa issues and an undersupply of workers in our resources sector, the overall impact of an economic transition from automotive to resources needs to be factored in. I suspect that actual employment impact will be very slight - and at least the cost per job of direct and indirect subsidies will be massive.

The third point is one to address the importance of a manufacturing base in Australia. Certainly retaining a manufacturing base of some sort is important. But the argument is rooted in 1950s thinking - where military preparedness was based on a manufacturing capability. This logic no longer holds. If there are only a handful of countries around the world that make their own cars in total - why do we believe this is a good thing? Surely the others that do not (that number many more than a handful) must have realised something we have not - that is - there are global supply chains for this sort of thing.

I do understand that your terms of reference are quite limited, but I do hope that sooner or later sanity prevails.

Please feel free to contact me.

Best regards

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