

# Submission to the Australian Productivity Commission

## Review of the Australian Automotive Manufacturing Industry

27<sup>th</sup> November 2013

## ***Foreword***

The Australasian Fleet Management Association (AfMA) thanks The Australian Productivity Commission for the opportunity to share the Association's views and observations on the 'Review of the Australian Automotive Manufacturing Industry'.

AfMA is a not for profit organisation which has over 750 members (as at 1<sup>st</sup> November 2013) across Australia and New Zealand. Collectively these members are responsible for the management of approximately 800,000 vehicles.

For many years now the Australian automotive industry has been in a state of constant flux. Local manufacturers, traditionally the main supplier of the large passenger vehicle, have seen their market share in both real numbers and percentages fall dramatically.

In this submission AfMA has endeavoured to take a systems view, attempting to categorize where the local manufactured vehicle product presented by the Australian manufacturers sits at this time, how it arrived at this point, and what influences led us to this outcome.

While we are certain that the commission will consider all the relevant issues, we take this opportunity to bring out and reinforce some concerns which AfMA feels are an important part of an overall discussion. This is done in an attempt to recognize what challenges there are for local vehicle manufacturing.

## ***Executive Summary***

For passenger vehicle sales, local vehicle manufacturers have traditionally relied on business (fleet) purchases to sustain their local operations. Fleet sales account for in excess of 50% of all yearly new vehicle registrations and have for some time accounted for in excess of 70% of their local passenger vehicle manufacturing.

Because of this the Association is concerned that this issue has been couched as an arrangement between the local manufacturers and Federal and/or State Governments. It is the marketplace that is of much more relevance to any potential success of local manufacturing, regardless of the actions of government financial support.

A basic business foundation is that organisations provide a product the market wants at a price the market is prepared to pay. Over at least the last ten years, despite Federal and State vehicle purchasing mandates, the marketplace has turned away from locally produced passenger vehicles towards smaller vehicles and imported product.

Local manufacturers appeared not to fully appreciate or respond to what was clearly a shift in market sentiment and while there have been a series of record yearly vehicle sales the local manufacturer's market share has fallen by over 50 percent in the last eight years.

While much of the responsibility for the current demise needs to be borne by the manufacturing organisations involved, a significant responsibility must in the Associations' view, be assigned to successive Federal Government inaction. To date, intervention by government would appear to have been one of maintaining a status quo, rather than advancing a more strategic and positive outcome.

All too often failure to mandate regulations of systems and equipment, much of which is standard in overseas models, have left the local product constantly playing catch-up to overseas competitors.

One solution being espoused is to increase exports. There are barriers to this as Australian product lags behind other comparable markets such as Europe. For example Australian emissions standards are one level behind those of Europe and vehicles would be noncompliant. How would such a barrier be overcome? Would local manufacturing be producing two vehicles with different specifications; an advanced one for export and a lesser one for the local market?

There is a difference of opinion in the market place as to whether vehicle prices in Australia are elevated. Many suppliers say no but many industry watchers say yes. It is clear that elevated pricing, differences between Australian and overseas pricing, is occurring especially in what is termed as the 'luxury vehicle market'. Just how much elevated pricing there is in the non-luxury market sector is a matter for serious discussion.

Events worldwide are also set to impact on the Australian market and local manufacturers. The rising spectre of significant over supply/production of new vehicles worldwide, especially from emerging markets such as China and to a lesser extent India, will manifest itself in the Australian market in the form of a price war; signs of which are already emerging. This will put further pressure on local manufacturers.

To any observer the Australian automotive market is highly regulated in a way which, whether by design or not, favours local manufacturers. Despite support from successive governments local manufacturers' product has failed to attract sufficient buyers with their current product line up.

The question then is can local manufacturing continue to produce niche products for a market sector that is not attracted to them? If not then what is their product offering going to be and can it be produced competitively in Australia?

It is evident that numerous economies, including many emerging economies, are able to produce vehicles for a lower cost and at a higher specification than those being produced in Australia.

Local manufacturers do not currently have product that the marketplace wants to purchase in numbers that would make their operations self-sustaining. To continue to produce niche products for a small market is and will continue to be a high risk strategy. Therefore, on face value, there is no positive business case for continued financial support to the industry in its current form.

The Association notes that VFACTS sales figures released in November, as reported in GoAutoNews Nov 13 edition, indicate that purchases of locally produced vehicles by businesses fell by 10.5 percent. Within this figure some individual models sales were down by 20 to 30 percent.

This should not only be a question of financial assistance to local automotive manufacturing. Of equal importance is an urgent need for a restructuring program designed to bring the Australian market up to an equivalent level of development with comparable markets.

### ***Detailed Submission***

The Association's aim is to openly discuss all relevant aspects of the automotive industry and local vehicle manufacturing. Many reports and comments point to what can only be described as structural problems negatively affecting the local industry.

Previously A/MA has participated in numerous requests for submissions (Vehicle safety, Australian Design Rules, Emissions and Euro 5 and 6 standards to name a few) on many issues affecting the Australian Automotive Industry and what we see as their impact on Australian society.

While successive Federal Governments have had opportunities to lead through an active role on these issues such opportunities were, in A/MA's view, not taken. To date, intervention by government would appear to have been one of maintaining the status quo, rather than advancing a more positive outcome.

The Australian Automotive sector lags behind most other mature automotive markets in the important areas of safety and emission performance and this has consequences on a local manufacturer's ability to export its products. If export markets already have mandated requirements for manufactured vehicles over and above what is being produced in Australia it is difficult to see what export opportunities, if any, there are for local manufacturers.

### ***Vehicle Safety***

The mandatory inclusion of equipment falls to the Federal Government under the Australian Design Rules (ADR). It is somewhat of a disappointment that a delay of almost four years, to November 1<sup>st</sup> 2013, for the mandatory inclusion of Electronic Stability Control (ESC) for passenger vehicles was sanctioned by the Federal Government.

On January 1<sup>st</sup> 2011 the Victorian State Government introduced an ESC mandate. Vehicles manufactured after January 1<sup>st</sup> could not be registered for use in Victoria without ESC. This action was precipitated by an enquiry into vehicle safety. The study, in August 2008, into the Australian Automotive market was less than impressed at the level of safety features and performance available in the Australian marketplace; Parliament of Victoria, Road Safety Committee, 'Inquiry into Vehicle Safety', August 2008, ISBN 978-0-9751534-4-4.

This report's Executive Summary came to several conclusions that clearly show an inadequacy in the current market. According to the committee's findings (Executive Summary page xi):

- ✓ "The availability of safety technologies is at far lower rates in Australia than overseas";
- ✓ "Leading technologies are largely absent from Australian manufactured vehicles";
- ✓ "The Victorian and Federal Governments have not taken sufficient steps to ensure that vehicle safety in Australia keeps pace with international developments";

- ✓ “Contributing to disparities between leading countries and Australia is the practice of de-specification. The Committee has seen convincing evidence that vehicles imported, and even those manufactured in Australia, often have safety technologies removed from models sold in Australia. While manufacturers dispute the practice of de-specification the Committee considers that de-specification claims are valid”.

The enquiry made some 37 recommendations one of which was the mandatory fitment of Electric Stability Control before a vehicle could be registered for use in Victoria.

This recommendation was adopted; however, an effort to extend this life saving technology across Australia was unsuccessful.

Mr Lachlan McIntosh chairman of ANCAP made recent comments on this issue in the media:-

“As of the start of this month, carmakers are not allowed to import passenger vehicles that do not have electronic stability control fitted, although brands importing light commercial vehicles such as utes do not have to include it.”

“They (Toyota) have a whole raft of other (safety) technologies in their market in the US,” Mr McIntosh said. “I think the same goes for all the manufacturers – there’s been a de-spec’ing of cars for certain markets and waiting for particular regulations.

“This is very surprising, particularly given the fact that they (Toyota) spend so much money on research and so much money on inventing a raft of new technologies,” Mr McIntosh said.

“There seems to be some caution amongst manufacturers for saying we’ve introduced a new technology. If they have a new environmental technology, they shout it from the rooftops. They’re reluctant to do so for the safety ones. Why they hold things back is an absolute mystery.

### ***Australian Design Rules (ADR)***

Regulation that inhibits parallel importing without restriction, either via complex process or compliance requirements, should be removed. The current ADR system acts as a non-tariff barrier to potential imports. Vehicles compliant with the UNECE standards should automatically be granted import status.

The Parliament of Victoria, Road Safety Committee undertook an inquiry ‘into the Process of Development, Adoption and Implementation of Australian Design Rules’, November 2009, ISBN 978-0-9751534-8-2, made, amongst others, the following observations:-

- ✓ “The Committee considers that Australian Design Rules are increasingly out dated and do not reflect international developments in vehicle safety”.
- ✓ “Australia’s independent set of vehicle standards is, despite harmonisation, contributing to a minimum level of vehicle safety that is lower than other economies, such as New Zealand”.

- ✓ “ADR’s are not keeping pace with technologies being fitted to vehicles sold in Australia. While the Committee appreciates that an ADR cannot be developed ahead of a new technology, there is a need for the ADR review process to be more responsive to developments in vehicle safety”.

A/MA notes the recent news that the Isofix child restraints have received regulatory approval for use in Australia. This comes some 16 years after its introduction in Europe and 11 years since adoption in America. Previous to this, overseas manufacturers were required to modify their basic designs and manufacturing to incorporate an Australian ADR requirement for unique child restraint anchor bolts so denying Australian consumers the latest safety technology.

ADR simply identify a minimum standard to be achieved and as such do not promote the adoption of the latest safety technology by manufacturers. As the committee identified in its report, a vehicle that meets all its applicable ADR may only achieve a 1.3 ANCAP star rating.

Accident survivability as measured via the ANCAP testing process shows several vehicles granted ADR compliance achieve a low ANCAP safety rating; as low as one star. These products are on sale in the Australian market.

At such low protection level survivability in what is considered a typical vehicle crash, the 60 kilometre off-set frontal crash, is very low; the likelihood of serious injury is also heightened.

In addition should the ADR contain elements that are uniquely Australian, overseas manufacturers may be reluctant to make production changes purely to meet an ADR. This has the potential to disadvantage the end-user as such vehicles would not be available in the Australian market.

There is also a need to remove the ADR compliance gap between passenger vehicles and light commercial vehicles. By this we mean that while passenger vehicles have, although sometimes only as an option, side and curtain airbags, in many instances these are not available, not even as an option, on light commercial vehicles.

To bring the Australian market up to current standard practice A/MA would suggest the following actions be addressed with some urgency:

- ✓ Move to the full adoption of the United Nations Economic Commission for Europe (UNECE) standards in place of the current ADR system;
- ✓ Consideration should be given to establishing a relationship between the New Car Assessment Programs (ANCAP and the European/USA/Japan equivalent) and an acceptable minimum crash protection rating that vehicles must meet before they can be registered for use in Australia. A/MA suggest ANCAP 4 star.
- ✓ Introduce the requirement for ESC to be a standard fitment;
- ✓ Introduce the requirement for side impact protection (curtain airbag or equivalent) as a standard fitment;



- ✓ Expedite the introduction of Euro 5 and 6 to match standards already in place in vehicle manufacturing competitive countries;

Initiatives that are proven to save lives, reduce serious injury and improve urban air quality should take precedence over any other consideration. Product users should not bear the consequence of a supplier's inability to meet standard practice. The conclusion therefore is that on balance adoption of the UNECE system will benefit the Australian consumer.

In addition, mirroring legislated requirements of regimes such as the European Union and/or the USA is also a consideration. For example, the USA has adopted, by legislation, a number of mandatory safety features; ESC, enhanced head (side impact) protection, remote monitoring tyre pressure systems, enhanced rear visibility requirements and electric window anti-choking safety system requirements.

If these are considered as standard, in a market where on the whole new vehicle prices are significantly lower than in Australia, why are they not available as standard equipment in Australia?

Standardising vehicle specifications across different markets is not a new concept. The European 'block exemption' program was one such program that was designed to address differing pricing, repair and servicing strategies by manufacturers across markets of the European Community.

### ***Euro 5 and Euro 6 standards and Urban Air Quality***

Australian vehicle emission standards lag behind those already implemented in other mature markets. The standards Australia is seeking to introduce (Euro 5 and Euro 6) have already been the benchmark practice for many years in overseas markets. In some cases by the time some of these standards become mandatory in Australia comparative markets will have already moved on to higher specifications. See table 1.

One reason why this is important is that according to Federal Government figures some 2,400 persons die prematurely each year due to poor air quality. (Australian Government, Department of Transport and Regional Services, Bureau of Transport and Regional Economics (btre): Health Impacts of Transport Emissions in Australia: Economic Costs; btre working paper 63).

Major cities in Australia have ongoing pollution problems, including frequent breaching of air quality standards, resulting in pollution related health problems. There are substantial costs<sup>1</sup> due to vehicle emissions and A/MA is of the view that every opportunity to mitigate these substantial costs, both in human and economic factors, should be seized.

<sup>1</sup> (Infrastructure Australia; Major Cities Unit: State of Australian Cities 2010: Executive summary page 2).

Declining air quality is linked to commonly reportable health conditions among children and young adults, with respiratory conditions and exposure to urban air pollution now accounting for 2.3% of all deaths. Draft RIS - Euro 5/6 Emission Standards for Light Vehicles page 7.

While vehicles are not the major source of particle emissions in most urban air-sheds, fuel combustion sources such as motor vehicles are a significant contributor to the overall particle

load in urban air-sheds. Australian Government, Department of Transport and Regional Services, Bureau of Transport and Regional Economics (btre): Health Impacts of Transport Emissions in Australia: Economic Costs; btre working paper 63.

Table One Comparison of the adoption dates for Euro 5 and 6 specifications Australia v Europe

<b>Standard</b>	<b>Euro 5</b>	<b>Euro 5</b>	<b>Euro 6</b>	<b>Euro 6</b>
<i>Location</i>	<i>New Models</i>	<i>New Registrations</i>	<i>New models</i>	<i>New registrations</i>
Europe	September 1 <sup>st</sup> 2009	January 1 <sup>st</sup> 2011	September 1 <sup>st</sup> 2014	January 1 <sup>st</sup> 2015
Australia	November 1 <sup>st</sup> 2013	November 1 <sup>st</sup> 2016	July 1 <sup>st</sup> 2017	July 1 <sup>st</sup> 2018

In addition to emissions output, Euro 5 introduces a durability requirement for a period of 160,000 kilometres travelled for emission management system and components.

A/MA would like to see an early introduction of Euro 5 and 6 as we feel that it will benefit the community as a whole.

### ***Price and affordability***

One consequence of a tightly regulated/restricted market is that price competition can be severely reduced. While there is an argument that prices are cheaper than before, (affordability) such comparisons do not contrast pricing across different locations and marketplaces. Just because it is cheaper than before does not convey a true sense of an items value for money.

In the few weeks preceding this submission there have been a number of media articles providing examples of differential pricing.

In the automotive newsletter, 'GoAutoNews, May15 edition page 14, a price reduction was reported for the McLaren 12C sports car. Announcing a price reduction of \$102,000 it is reported that McLaren Automotive "slammed what it called historic overpricing in the Australian market". Additionally, that "a number of the core manufacturers employed premium pricing policies - in other words they were gouging local buyers".

Again from the same outlet November 20 2013 page 11 under the story line 'Productivity commission submission savages luxury brands over pricing' cites a price difference of \$45,000 for an Audi A6 vehicle.

An article in the Financial Review under the headline 'Courageous drive for cheaper cars' gives a number of vehicle pricing differences, as follows:-

<b>Model</b>	<b>Overseas pricing</b>	<b>Australian pricing</b>
Ford Fiesta	Britain \$15,805	\$19,137
Ford Mondeo	Britain \$26,890	\$34,472
Porsche Cayman	USA \$55,374	\$107,100
Bentley Continental	Britain \$213,702	\$408,870

While there are movements in currency conversions it is difficult to explain/justify such pricing differentials.



To any observer there is no doubt that the Australian Automotive sector lags considerably behind most other mature automotive markets in the important areas of safety and emission performance and this has serious consequences for business and the public at large.

It is in the hands of the Federal Government to address these issues in the most expedient time frame for the benefit of both the business and general population.

A/MA thanks the Productivity Commission for the opportunity to share its thoughts and concerns on this important subject.

Yours sincerely

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