



**AUSTRALIAN  
AUTOMOBILE  
ASSOCIATION**



3 December 2013

Mr Mike Woods  
Deputy Chairman  
Productivity Commission  
LB2 Collins Street East  
MELBOURNE VIC 8003

**By email:** [automotive@pc.gov.au](mailto:automotive@pc.gov.au)

**Review of the Australian Automotive Manufacturing Industry**

Dear Mr Woods,

The Australian Automobile Association (AAA) is the peak organisation representing Australia's motoring clubs. The AAA's constituent clubs are the NRMA Motoring and Services, RACV, RACQ, RAC (WA), RAA (SA), RACT, AANT and the RACA. Combined, these clubs represent more than seven million Australian members, and advocate on behalf of all road users.

The AAA appreciates the opportunity to provide input to the Productivity Commission's (PC) review of the Australian automotive manufacturing industry.

The AAA is supportive of an Australian automotive manufacturing industry, recognising that local manufacturing needs to be viable, but conscious of potential effects on consumers.

The AAA is aware that many Australian motorists would like to have the choice of locally manufactured brands when purchasing a vehicle. However, Australian motorists also deserve value for money for the taxes they pay and recognise that the viability of the local industry is ultimately dependent upon the ability of local manufacturers to produce competitively priced vehicles appropriate for consumer preferences.

The question of whether or not to offer continued assistance to the automotive industry should consider the affordability of both locally produced and imported vehicles. A number of policy pursuits have a real effect on motor vehicle prices in Australia. Some of these, such as the continued application of tariffs on imported cars, are related to protection of the local manufacturing industry. Other mechanisms, such as the Luxury Car Tax, have an impact on both local and imported vehicles.

The Productivity Commission's review of the future of Australia's automotive manufacturing industry should consider the issue of motor vehicle affordability for local and imported vehicles. The Commission should explore the options which policymakers have at their disposal to improve affordability for motorists.



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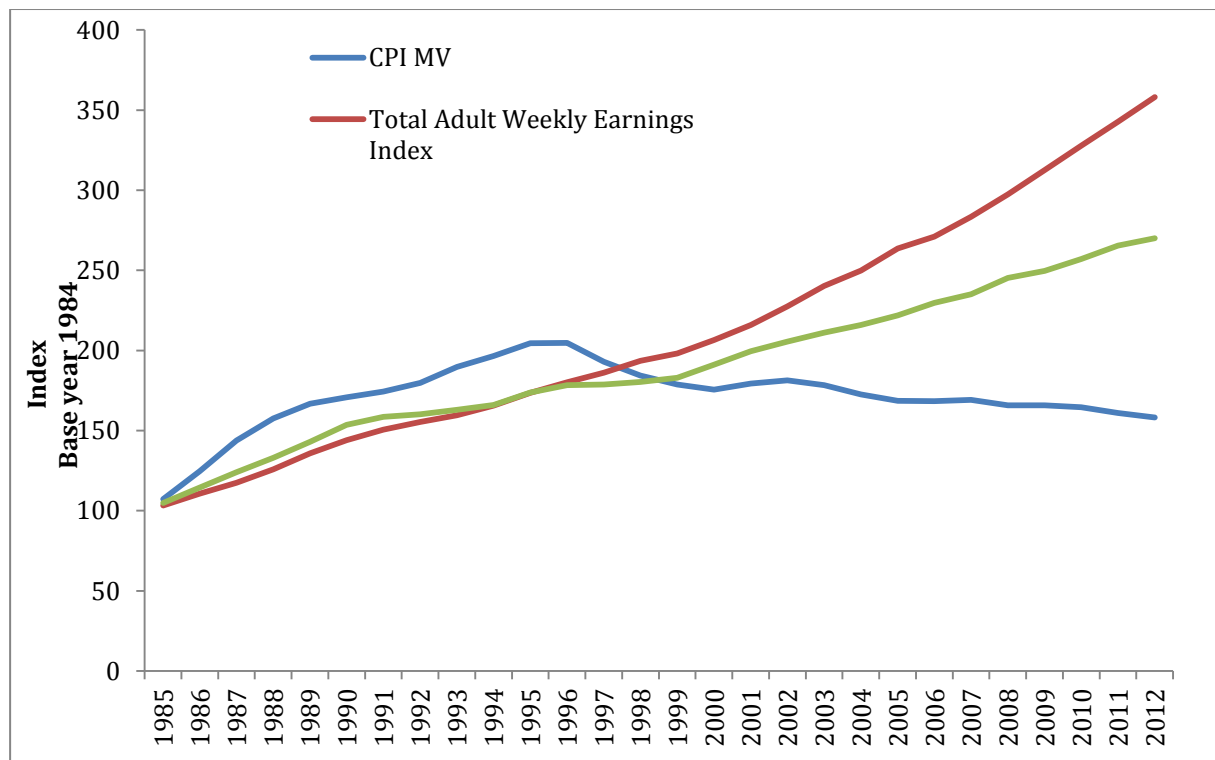
## Assessing the Affordability of Motor Vehicles in Australia

Australia has one of the most open and competitive motor vehicle markets in the world and motorists have some 50 passenger vehicle brands to choose from. Amid this competitive environment, motor vehicles have become more affordable in recent years.

Since the mid-1990s various factors have combined to improve the affordability of motor vehicles. A high growth in wages, low inflation, a strengthening Australian Dollar (AUD) and a gradual reduction in tariffs on imported brands have all contributed to improved affordability. Although a number of these factors have also constrained the potential of local manufacturers to compete, in general vehicles, in Australia are more affordable than they have been for many years.

Graph 1 shows that the Consumer Price Index for Motor Vehicles (CPI MV) has gradually decreased since the highs of the mid-1990s, tracking well below the general Consumer Price Index (CPI). Australia has also experienced an exponential growth in earnings since the turn of the century and the index for total adult weekly earnings has outstripped CPI and CPI MV.

**Graph 1: Consumer Price Index Motor Vehicles; Total Adult Weekly Earnings Index; and Consumer Price Index - 1985 - 2012**



Source: Australian Bureau of Statistics. Cat No. 6401.0 and Cat No. 6302.0

Although motor vehicles have become more affordable, evidence suggests that they can fall short compared to vehicle prices in other industrialised countries. The AAA conducted a price comparison of popular vehicles across a number of countries. The data summarised in the table below suggest that Australian motorists are paying more for certain vehicles than motorists in countries such as the United States and Canada.

For example, the Hyundai i30, which is one of Australia's best selling cars, costs \$4,000 more than the same model in Canada. Furthermore, the Mazda 6 Sedan costs almost \$6,000 more in Australia than it does in the US. Motor vehicle prices in Australia are comparable to the United Kingdom in most of the below examples, but Australians pay substantially more for cars priced at the higher end of the market. For example, the cost of a BMW 528i 2.0 L in Australia is almost \$90,000, which is more than \$30,000 more than the next most expensive country, Canada.

**Table 1: International Vehicle Price Comparison**

Model	Australia	United Kingdom	United States	Canada
<b>Hyundai i30 SE 5 door</b>				
1.8L Petrol	<b>\$24,355</b>	<b>\$24,360*</b>	<b>\$22,278</b>	<b>\$20,213</b>
Auto				
<b>Mazda6</b>				
Sedan, 2.5L Petrol Sport	<b>\$30,418</b>	<b>\$32,903^</b>	<b>\$24,666</b>	<b>\$26,247</b>
Auto				
<b>Toyota Corolla</b>				
1.8L Petrol	<b>\$18,173</b>	<b>\$28,717**</b>	<b>\$18,663</b>	<b>\$16,965</b>
Auto				
<b>BMW 528i</b>				
2.0 L Petrol	<b>\$89,818</b>	<b>\$48,157</b>	<b>\$53,008</b>	<b>\$56,208</b>
Auto				
<b>VW Touareg</b>				
3.0L V6 Diesel	<b>\$58,173</b>	<b>\$56,676</b>	<b>\$52,926</b>	<b>\$55,667</b>
Auto				

Source: *Australian Vehicles – Red Book; United Kingdom – Glass's Guide; United States – Kelley's Blue Book; Canada – Car Cost Canada. Prices accessed and converted to \$AUD on 1 December 2013.*

Note: This table should be considered as an indicative example of the price differences between motor vehicles in different countries. The AAA has compared vehicle models with similar characteristics and specifications, however the product offerings in the various countries means that they may vary. The information has used the manufacturer's suggested retail price (MSRP) and sales taxes have been deducted from Australia and the United Kingdom vehicles to bring pricing structures in line with US and Canadian vehicles.

\* Only 1.6 litre available

^ Only Manual Vehicle available

\*\* Based on Toyota Auris

Although there are a host of market forces which determine the prices of vehicles in Australia, the Productivity Commission should consider a number of policy options which may improve vehicle affordability.

## Import Tariffs

One major contributor to the improved competition in the motor vehicle market is the gradual reduction of tariffs on imported vehicles that occurred since the mid-1980s when tariffs were at 57.5 per cent.

While a great deal of progress has been achieved by the gradual lowering of tariffs, it should be noted that a tariff of five per cent still applies to imported vehicles. The Australian Government estimates that it will receive \$920 million in revenue for the current financial year from the customs duty imposed on passenger motor vehicles. The amount is projected to grow well above the \$1 billion per year mark in the forward estimates.

In deciding the future of the local automotive manufacturing sector, the Commission should consider the role of tariffs, not only as a mechanism for protection of the local industry but also the impact which they have on affordability for the overwhelming majority of Australian motorists who purchase imported vehicles.

### **Luxury Car Tax**

The luxury car tax (LCT) is a perverse tax on vehicles which introduce new safety and environmental technologies to the marketplace.

The Commission should examine the role which the LCT plays in determining the cost of vehicles. The LCT applies a cost of 33 per cent on the GST-exclusive value of domestic or imported cars in excess of a threshold, which is currently \$60,316 and \$75,375 for fuel-efficient cars.

The earlier example of the relative high price of the BMW is only one example of the excessive cost of certain vehicles compared to those in other nations. Australia has some of the world's most expensive cars due in large part to the distortionary effect of the LCT.

The LCT severely constrains consumer choice by pricing a significant portion of buyers out of the market for vehicles priced at the higher end of the market. Furthermore, as the vehicles targeted are the leaders in introducing new technologies which enhance safety and environmental outcomes, the LCT only serves to constrain the development and utilisation of such features. The AAA is particularly concerned that the LCT is incompatible with the National Road Safety Strategy, which aims to reduce the nation's road toll by at least 30 per cent between 2011 and 2020.

To demonstrate the adverse effects of LCT on safety, consider that purchasing the base model of vehicle which falls under the LCT threshold may not include ground breaking safety technologies. The cost of adding safety enhancing features, such as adaptive cruise control, a lane departure warning system or a blind spot monitor, may push the price of vehicle over the LCT threshold, potentially affecting a buyers decision whether or not to include such features.

In 2013-14 the Government expects to raise \$400 million in revenue from the LCT with similar amounts per year over the forward estimates. The Henry Review of Taxation considered the LCT to be an inefficient and discriminatory form of taxation and recommended its abolition. The Productivity Commission should consider the future of this tax and its current and future effects on affordability, consumer choice and road safety.

### **Concluding Remarks**

The AAA recognises that many Australian motorists would like to have the choice of locally manufactured brands when purchasing a vehicle. However, the primary concern of most motorists is not whether a car is manufactured locally. Australian motorists make a significant contribution to the nation's tax base and they deserve value for money for these taxes. They also deserve a competitive and affordable market for motor vehicles.

The PC's review of Australia's automotive manufacturing industry should consider the issue of motor vehicle affordability as well as the tools which policy makers have at their disposal to ensure improved levels of affordability.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew McKellar', with a stylized, cursive script.

**ANDREW McKELLAR**  
Chief Executive