

7 February 2014

Review of Australia's Automotive Manufacturing Industry

Dear Sir/Madam,

I am writing to make a submission in support of the removal of import restrictions on motor vehicles which are outlined in the Productivity Commission's position paper on the Australia's Automotive Manufacturing Industry January 2014.

The current restrictions on the importation of motor vehicles are anti-competitive and are not favourable for Australian consumers, taxpayers or the broader economy. Not only do these restrictions impact consumers of second hand cars but they also have a significant impact on the new car market in Australia. The second hand and new car markets are inextricably linked. It is irrefutable that the restrictions on the importation of motor vehicles in Australia (amongst other negative economic impacts), contributes to higher overall prices for imported cars in this country.

In support of the proposition to remove import restrictions on motor vehicles I have attached a submission (**Attachment A**) prepared by Mr Peter Smith which was included in the public consultation process relating to the Motor Vehicle Standards Act 1989. In this submission Mr Smith attempts to quantify the cost to Australian consumers as a result of import restrictions on the price of new motor vehicles in Australia.

Whether intended or not (or effective or not), import restrictions also act as a form of industry assistance to the local automotive manufacturing industry by making imported cars more expensive in this country (both second hand and new cars). Therefore not only am I in support of the removal of import restrictions but I am also proposing that any analysis conducted by the Productivity Commission (or any other future government analysis) to attempt to quantify the level of industry support for the local automotive manufacturing industry would be enhanced by including an estimate of the cost impact (including through higher prices) of such import restrictions.

Based on the analysis conducted by Mr Smith, the cost to consumers is estimated to be over \$2 billion per annum. This estimate excludes the impact on second hand motor vehicles and the impact on the cost of automotive parts in this country.

Notwithstanding the direct and indirect forms of assistance provided to the local automotive manufacturing industry, currently around 90% of vehicle sales in Australia are of imported vehicles. Furthermore, the level of exports of Australian manufactured cars has fallen by around 50% since 2008. Given the recent decisions of Ford and General Motors to end local manufacturing these figures could only be reasonably expected to deteriorate significantly. Even if Ford and General Motors had decided to continue local manufacturing it is still reasonable to extrapolate (with increasing global competition for motor vehicle production and trends in consumer preferences etc.) that the level of imports would have continued to rise and the level of exports would have continued to fall.

Overall, noting the cost of import restrictions to consumers and the distortionary impacts of providing assistance (in its various forms) to one part of the economy at the expense of others, it is clear that the costs of import restrictions on motor vehicles far outweigh any benefits and are ultimately anti-

competitive. For these reasons there is no net benefit to Australian consumers or the broader economy in continuing with these restrictions or delaying the removal of these import restrictions.

Thank you for this opportunity to make a submission into this review and I look forward to the next steps in this process.

Yours Sincerely,

S Lee.

21 June 2013

Dear Sir or Madam

Thank you for the opportunity to make a submission to the Consultation paper of the Motor Vehicle Standards Act 1989.

I argue that there should be much fewer restrictions on the importation of used vehicles into Australia. The current importation restrictions on used vehicles leads to higher new car prices for Australian consumers. For example, Australian consumers paid \$2.6 billion more for new cars in 2011 compared to overseas consumers (see the attachment for details of how this figure was calculated). The current importation arrangements restricts competition and allows the car manufacturers to charge Australian higher new car prices. Allowing the private importation of used cars would make the market more competitive as the car manufacturers would have to adjust their pricing strategies to reflect the prices individuals could purchase new cars overseas and import them back into Australia. Where car manufacturers were previously shielded from competition, they would now have to compete more vigorously to keep pace with the much cheaper imports.

As the consultation paper states (on page 8), it is a long-standing government policy that regulation should not restrict competition unless it can be shown that the benefits to the regulation outweigh the costs. However, there is no evidence that the benefits of the current restrictions on importation of used cars outweigh the costs. I argue that the costs (\$2.6 billion in higher new car prices for Australian consumers in 2011) outweigh the benefits to the Australian community. Therefore, the current policy objective of choice and competition is not being achieved. In fact, the current restriction on the importation of used vehicles is anti-competitive for Australian consumers.

This problem existed in the United Kingdom during the 1990s where there were similar restrictions on importing used cars into the UK. During this time, the media and consumer groups provided much evidence that the car manufacturers were charging UK consumers much higher new car prices compared to the new car prices in other European countries. The UK government then abolished the importation restriction on used vehicles and the prices of new vehicles in the UK are now similar to the prices of new cars in other European countries.¹

¹ See European Commission, Car prices within the European Union, 1 January 2011

I recommend that the current restriction on the importation of used motor vehicles be removed. It should be replaced with a policy that allows the private imports of used cars. Safety and roadworthiness of vehicles can be ensured by importing vehicles that ²:

- are not older than 10 years and have not been driven more than 120,000 kms.
- are right-hand drive vehicles from OCED countries: United Kingdom, the Republic of Ireland, Japan and New Zealand³.
- Undergo the normal roadworthiness procedure on arrival at an Australian port.

As a helpful suggestion for the next step in the process, your department should commission a consultant to undertake a detailed study into compare the price differences for new and second-hand cars in Australia and other countries. I have provided an estimate of the higher overall prices Australians paid for new cars in 2011. In addition, the CIS report⁴ some data about used car prices. However, a more comprehensive study that is made publicly available would help inform the size of the problem and how much Australian consumers are being overcharged for new cars compared overseas consumers.

I look forward to the next step in the process of reviewing the Motor Vehicle Standards Act 1989.

Yours sincerely

Peter Smith
Southbank, Victoria

² as recommended in CIS policy monograph 125, pages 9-10 . Price drivers: five case studies in how government is making Australia unaffordable. O. M. Hartwich and R. Gill.

³ As they are developed economies and comparable countries, there is every reason to believe that cars registered in these countries will be, for all practical considerations, as safe as cars in Australia.

⁴ CIS policy monograph 125.

Attachment: Supporting Data

This section provide details about the methodology and data used to calculate the overall higher new car prices Australian paid in 2011 compared to overseas consumers.

Methodology

1. Match the vehicle model in Australia with overseas.
2. Pick the base model vehicles to compare to provide a conservative or low-end estimate of the price differences between Australian and overseas vehicles.
3. Work out the underlying manufacturer's price by removing taxes and other charges. For Australian prices, the GST, import duty, stamp duty, the luxury car tax, dealer delivery charges and other on-road costs are all removed. For UK prices, Value Added Tax (the UK equivalent of the GST), vehicle taxes and other on-road costs are removed.
4. Convert the overseas car price into Australian dollars. The exchange rates used are:
 - 1 UK pound equals \$A1.52
 - 1 US dollar equals \$A0.95
 - 1 Canadian dollar equals \$A0.97
5. Compare the prices for each vehicle model in Australian dollars.
6. Compare the overall extra costs or savings Australians consumers. This is done by multiplying the sales figures for each Australian vehicle model by the higher (or lower) prices Australian pay.

Table 1: Summary table

Brand	Average higher price per vehicle (\$A)	Sales in 2011	Total extra cost for Australians (\$A)
BMW	\$20,245	17,508	\$354,451,556
Mercedes-Benz	\$17,432	20,120	\$350,726,079
Toyota	\$2,722	118,141	\$321,608,095
Subaru	\$7,476	34,011	\$254,269,295
VW	\$4,442	44,271	\$196,655,218
Audi	\$13,514	14,511	\$196,106,126
Mazda	\$2,190	78,295	\$171,427,025
Ford	\$3,195	47,361	\$151,323,080
Mitsubishi	\$4,602	32,746	\$150,687,561
Nissan	\$2,249	63,160	\$142,021,588
Hyundai	\$1,968	66,577	\$131,032,719
Land Rover	\$16,307	5,832	\$95,103,152
Jeep	\$10,056	8,648	\$86,964,363
Porsche	\$64,071	1,343	\$86,047,973
Lexus	\$13,448	6,347	\$85,356,649
Ferrari	\$243,842	134	\$32,674,810
Volvo	\$8,168	2,923	\$23,873,710
Honda	\$1,730	13,155	\$22,756,553
Jaguar	\$31,625	693	\$21,915,784
Maserati	\$147,208	140	\$20,609,123
Suzuki	\$6,374	2,927	\$18,655,645
Aston Martin	\$102,699	101	\$10,372,567
Bentley	\$163,444	61	\$9,970,068
Lamborghini	\$169,800	32	\$5,433,614
Smart	\$5,750	236	\$1,356,993
Total		622,635	\$2,591,393,624

Table 2: detail data by manufacturer and model

Model	Overseas Price	Overseas Price (\$A)	Australian Price (\$A)	Extra price for Australians per vehicle (\$A)	Australian sales in 2011	Total extra cost for Australians (\$A millions)
Lexus						
IS250	£20,821	\$31,591	\$48,522	\$16,930	1,794	\$30.4m
CT200H	£19,171	\$29,088	\$34,774	\$5,686	1,311	\$7.5m
RX350	£36,388	\$55,211	\$72,012	\$16,801	1,172	\$19.7m
Volvo						
XC60	£28,608	\$43,407	\$47,087	\$3,680	1,575	\$5.7m
XC90	£32,992	\$50,058	\$63,470	\$13,411	1,348	\$18.1m
Jeep						
Grand Cherokee	\$US28,995	\$27,687	\$41,330	\$13,643	3,374	\$46.0m
Wrangler	\$US22,045	\$21,050	\$29,451	\$8,401	2,824	\$23.7m
Cherokee	\$US23,395	\$22,339	\$28,921	\$6,581	1,573	\$10.4m
Patriot	\$US15,995	\$15,273	\$23,091	\$7,818	877	\$6.9m
Bentley						
Continental GT	£103,208	\$156,598	\$320,042	\$163,444	61	\$10.0
Porsche						
Cayenne	\$US48,200	\$46,025	\$104,600	\$58,575	803	\$47.0m
Boxer	\$US49,500	\$47,266	\$101,500	\$54,234	232	\$12.6
911	\$US82,100	\$78,395	\$193,000	\$114,605	201	\$23.0
Panamera	\$US75,200	\$71,807	\$170,400	\$98,593	107	\$10.5
Jaguar						
XF	£24,375	\$36,984	\$68,609	\$31,625	693	\$22.0m
Audi						
A3	£21,400	\$31,652	\$37,739	\$6,087	1,452	\$8.8m
A4	£23,625	\$34,943	\$45,304	\$10,362	2,925	\$30.3m
A5	£33,830	\$50,036	\$70,348	\$20,312	837	\$17.0m
A6	£31,790	\$47,019	\$68,609	\$21,590	500	\$10.8m
A8	£31,790	\$84,195	\$137,913	\$53,718	100	\$5.3m
Q5	£28,000	\$41,413	\$55,130	\$13,717	1,806	\$24.8m
Q7	£39,995	\$59,155	\$77,056	\$17,901	1,343	\$24.0m
Mercedes-Benz						
B180	£18,317	\$27,792	\$33,870	\$6,078	1,136	\$6.9m
C180 BE	£20,929	\$31,756	\$50,930	\$19,174	1,162	\$22.3m
C200 BE	£23,375	\$35,467	\$50,930	\$15,463	5,316	\$82.2m
C250 BE	£25,308	\$38,400	\$56,950	\$18,549	1,112	\$20.6m
E250 BE	£28,933	\$43,901	\$77,284	\$33,384	1,371	\$45.8m
ML3000CDI	£37,138	\$56,349	\$72,042	\$15,693	1,019	\$16.0m

Model	Overseas Price	Overseas Price (\$A)	Australian Price (\$A)	Extra price for Australians per vehicle (\$A)	Australian sales in 2011	Total extra cost for Australians (\$A millions)
Toyota						
Corolla	\$US16,130	\$15,402	\$18,252	\$2,850	36,087	\$102.8m
Yaris	£10,046	\$15,242	\$13,035	-\$2,207	16,214	-\$35.8m
Camry	\$US21,955	\$20,964	\$26,513	\$5,549	13,965	\$77.5m
Camry Hybrid	\$US25,900	\$24,731	\$30,426	\$5,695	5,204	\$29.6m
RAV4	\$US22,650	\$21,628	\$26,948	\$5,320	13,125	\$69.8m
Kluger	\$US29,395	\$28,069	\$34,774	\$6,705	11,692	\$78.4m
Prado	£29,104	\$44,159	\$50,861	\$6,701	10,849	\$72.7m
Landcruiser	£51,929	\$78,792	\$67,817	-\$10,974	9,119	-\$100.1m
FJ Cruiser	\$US27,580	\$26,335	\$40,426	\$14,091	1,886	\$26.6m
Mazda						
Mazda2	\$US14,530	\$13,874	\$11,970	-\$1,904	17,501	-\$33.3m
Mazda3	\$US16,845	\$16,085	\$18,329	\$2,244	41,429	\$93.0m
Mazda6	\$US23,125	\$22,081	\$27,655	\$5,573	5,794	\$32.3m
CX7	\$US22,190	\$21,189	\$25,959	\$4,771	9,714	\$46.3m
CX9	\$US29,725	\$28,384	\$36,981	\$8,597	3,857	\$33.2m
Ford						
Focus	£14,779	\$22,424	\$21,439	-\$986	12,863	-\$12.7m
Fiesta	\$US15,670	\$14,963	\$15,810	\$847	12,286	\$10.4m
Ranger	£14,754	\$22,386	\$30,765	\$8,379	15,586	\$130.6m
Mondeo	£17,988	\$27,292	\$30,765	\$3,472	6,626	\$23.0m
Subaru						
Forester	\$US20,595	\$19,666	\$27,428	\$7,763	13,142	\$102.0m
Impreza	\$US17,495	\$16,706	\$21,345	\$4,640	11,064	\$51.3m
Outback	\$US23,295	\$22,244	\$30,622	\$8,378	4,770	\$40.0m
Liberty	\$US19,995	\$19,093	\$29,166	\$10,074	3,898	\$39.3m
Tribeca	\$US30,595	\$29,214	\$48,285	\$19,071	1,137	\$21.7m
Nissan						
Navara	£17,307	\$26,259	\$27,818	\$1,559	21,675	\$33.8m
X-Trail	\$CAN23,778	\$23,169	\$30,426	\$7,257	12,089	\$87.7m
Micra	£8,829	\$13,396	\$13,173	-\$224	9,509	-\$2.1m
Dualis	£17,721	\$26,888	\$21,730	-\$5,157	9,214	-\$47.5m
Tiida	\$US14,480	\$13,827	\$16,513	\$2,686	3,577	\$9.6m
Pathfinder	£26,083	\$39,576	\$42,165	\$2,589	2,318	\$6.0m
Murano	\$US29,540	\$28,207	\$41,730	\$13,523	2,246	\$30.4m
Maxima	\$US32,060	\$30,613	\$34,536	\$3,923	1,923	\$7.5m
370Z	£24,254	\$36,801	\$59,687	\$22,886	609	\$13.9m

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Model	Overasas Price	Overseas Price (\$A)	Australian Price (\$A)	Extra price for Australians per vehicle (\$A)	Australian sales in 2011	Total extra cost for Australians (\$A millions)
BMW						
1 Series	£15,400	\$23,366	\$37,217	\$13,851	1,681	\$23.3m
3 Series	£20,792	\$31,547	\$50,087	\$18,540	4,203	\$77.9m
3 Series sports	£25,025	\$37,970	\$57,826	\$19,856	1,112	\$22.1m
520D	£24,375	\$36,984	\$70,845	\$33,861	655	\$22.2m
7 Series	£49,713	\$75,429	\$149,926	\$74,497	188	\$14.0m
X3 Xdrive20D	£25,442	\$38,603	\$56,545	\$17,943	1,292	\$23.1m
X5	£36,525	\$55,419	\$76,461	\$21,042	2,770	\$58.3m
Land Rover						
Discovery	£31,663	\$48,042	\$59,913	\$11,872	2,086	\$24.8m
Range Rover Sport	£40,829	\$61,950	\$87,739	\$25,789	1,619	\$41.8m
Freelander	£18,538	\$28,127	\$39,122	\$10,995	1,148	\$12.6m
Aston Martin						
V8 Vantage	£75,746	\$114,929	\$217,628	\$102,699	101	\$10.3m
Ferrari						
458 Italia	£141,288	\$214,376	\$458,217	\$243,842	134	\$32.7m
Lamborghini						
Gallardo	£122,775	\$186,287	\$356,087	\$169,800	32	\$5.4m
Maserati						
Granturismo	£68,492	\$103,922	\$251,130	\$147,208	140	\$20.6m
Volkswagen						
Polo	£9,172	\$13,941	\$16,690	\$2,749	4,358	\$12.0m
Jetta	£16,697	\$25,380	\$26,490	\$1,110	1,667	\$1.8m
Passat	£16,261	\$24,717	\$43,990	\$19,273	3,422	\$66.0m
Golf	£13,702	\$20,827	\$24,990	\$4,163	18,383	\$76.6m
Tiguan	£19,792	\$30,084	\$28,490	\$1,594	6,069	\$9.7m
EOS	£24,316	\$36,961	\$46,990	\$10,029	706	\$7.1m