

Response to Information Request 3.2
Productivity Commission Position Paper January 2014
Australia's Automotive Manufacturing Industry

DRAFT FINDING 3.2

The policy rationale for prohibiting the large-scale importation of second-hand vehicles into Australia is weak. However, appropriate regulatory measures are required to ensure that consumer protection, community safety, and environmental performance standards are maintained before the restrictions are removed. These concerns are best dealt with directly, through regulatory standards applicable to all vehicles sold in Australia.

The \$12,000 specific duty on imported second-hand vehicles appears to be largely redundant, providing a prima facie case for its removal.

INFORMATION REQUEST 3.2

The Commission is seeking further information on the benefits and costs of removing restrictions on the large-scale importation of second-hand vehicles. In particular:

- . what would be the potential benefits of removing these restrictions?
- . what are the potential costs of removing these restrictions and who bears these costs?
- . how could compliance with Australian safety and environmental standards be most efficiently ensured?
- . if the benefits are expected to exceed the costs, how should restrictions be removed and over what timeframe?

Excerpt P29 PC Position Paper Jan 2014

Introduction

ANCAP strongly disagrees with the statement that the policy rationale 'for prohibiting the large-scale importation of second-hand vehicles into Australia is weak'.

Opening the Australian market to large-scale importation of second hand vehicles will reduce the safety of the Australian car fleet and to do so would be contrary to the intent of the UN Decade of Action for Road Safety 2011-2020¹ agreed by Australia and is entirely inconsistent with national efforts under the National Road Safety Strategy 2011-2020² to reduce road trauma.

Safer vehicles are a critical pillar in this Strategy. The Australian car fleet has progressively improved in terms of safety performance over the last decade. The cost of road trauma is \$27 billion per annum³,

¹ <http://www.un.org/en/roadsafety/>

² http://www.infrastructure.gov.au/roads/safety/national_road_safety_strategy/

³ <http://www.infrastructure.gov.au/roads/safety/>

safer vehicles will continue to make a significant contribution to achieving, in this decade, the 30% reduction in deaths and serious injuries agreed by all Australian governments in this decade.

Any perceived competition benefits from opening the market to imported used cars would be offset by the unnecessarily increased road trauma costs.

While in some cases there is down specification of new safety technologies in new cars and it could be argued that importation of relatively new used cars may bring forward those technologies into the Australian market, the potential of a flood of import of older used non approved vehicles from a range of countries will significantly reduce the safety of the Australian fleet.

Background

When the low volume imported used car scheme was established 25 years ago, it was aimed at providing a facility for specialist and enthusiast vehicles to come into Australia without having to provide evidence of compliance with Australian Design Rules ("ADRs"). At the time, concerns were raised by the Government about safety, the environment, trafficking of stolen vehicles, fraud and the like, and thus inspection regimes were put in place to check every vehicle. The Government was also conscious that it did not want to open the doors for imported used cars that may have been subsidized in the country of origin and then effectively "dumped" into other markets at artificially low prices. Over the years, the scheme has grown and a far wider variety of vehicles in increased numbers is available to Australian consumers.

The Commission's comments in Table B6 Japan, relate to these early considerations of the scheme – Japan is a major source of imported used cars. As is noted in the Position Paper, the average age of vehicles in Japan in the 1990's was less than 3 years, while 20 years later it was more than 7 years. This increase in the average age of cars in Japan has also had an impact on the average age of used imported cars available in Australia today. Japan will not be the only source of used vehicles with the rapid increase of motorization not only in Asia, but also in the developing world.

A brief analysis of the used imported cars for sale today (or available for export from Japan) shows that the average (mean and mode) age of these cars is 10-11 years. These cars do not meet modern safety standards (and quite possibly environmental standards) and add no value in terms of improving the safety of the fleet.

Safety

ADRs exist, in the main, to create a base level of compliance in order to encourage competition in the car market. In terms of safety performance, ADR compliant vehicles may still perform very poorly, but this information is not visible or available to consumers. The community has a general expectation that if a car is available for sale in Australia then it must be safe.

ANCAP was established in the early 1990's to provide independent information to consumers about the relative safety of cars. ANCAP safety standards operate at a higher level than the ADRs, as they were established to encourage manufacturers to make cars to reduce trauma at crash speeds above regulation levels. As a non-regulatory organization ANCAP has been very successful and can move swiftly to increase safety standards to ensure that the community has access to the safest cars available.

The following photos are examples of cars that comply with the ADRs but have very poor ANCAP safety ratings. These cars put occupants at extreme risk of life-threatening injuries in a crash (test speed 64km/h).

The different role and distinct purpose of the ADRs comes into focus when examining these results. The Chery J1 is still on the market, while the Jumbuck was withdrawn in 2012 although small numbers were still sold in 2013. The other two vehicles date back to 2006 & 2008. Vehicles similar to these would be

likely candidates for importation as used vehicles. The difference being that the community would have no visibility of their safety ratings – used cars cannot be reliably tested and in many cases they may never have been tested, in their country of origin, when new. These and many similar vehicles would be sold to consumers without knowledge of the serious life-threatening safety deficiencies.

ANCAP results



Proton Jumbuck 1 star

Chery J1 3 stars

Holden Barina 2 stars

Chrysler Voyager 2 stars

Imported used cars are not required to be certified under the ADRs and indeed many of them are unable to reach the minimum standards of the ADRs. The low volume imported used car scheme was created to permit these cars to be sold in small numbers in Australia. Each and every one of these cars requires an inspection by a specialist, authorised inspector – but this still does not mean that the vehicle becomes ADRs compliant, rather a minimum amount of work is undertaken to ensure that it is suitable to drive on Australian roads. It is not possible for ANCAP to conduct tests on these cars – each one will be unique.

ANCAP has achieved enormous success in encouraging new car buyers to buy ANCAP 5 star safety rated cars and the manufacturers have responded well by offering the safest cars across all market segments and across all price ranges. This achievement would be seriously undermined if unsafe used vehicles were allowed into the market in large-volume.

Australian fleets purchase more than 50% of all new vehicles and many of these fleets (including governments) have 5 star purchasing policies. New Workplace Health & Safety laws have also increased demand for 5 star rated vehicles. Employers have new and more demanding responsibilities to ensure safety in the work place – cars are often a work place and therefore 5 star ANCAP safety rated vehicles are an important way to meet their legal safety obligations.

ANCAP, together with its eight sister organisations around the world, is continuing to drive improvements in safety by increasing the hurdles each year for achieving 5 star ratings. With safety assist technology being rapidly introduced to the market, the focus is not so much on passive safety (protective technologies like airbags, crumple zones and the like) but more on active safety (avoidance technologies like autonomous emergency braking, fatigue detection, lane keeping with active steering and the like). Research results are already showing crash reduction rates with these technologies of up to 25%.

Major manufacturers including Ford, Nissan, Toyota, GM, Honda and others have already made announcements about the availability in the market of autonomous cars from 2020. Over the next 5 years, new cars will be available with increased levels of autonomous safety systems (as they have been in recent years).

Removing restrictions on the importation of used vehicles would lower safety standards in the Australian car parc. With the cost of road trauma in excess of \$27 billion per annum and with the recently identified savings effected by the new semi-autonomous technologies, opening the market to yesterday's cars, will lower the safety performance of the fleet and will not only put more people at risk but will do little to reduce the burden of road trauma on the economy and of course all Australians.

Certification

For a new vehicle to be sold in Australia it must demonstrate compliance with a range of ADRs and having done that, a "type approval" is given to that vehicle model. This means that all new vehicles

coming off the production line that meet the description of the model in the “type approval” are certified. Quality control in the manufacturing of new cars allows for this type of sample-based certification. Similarly ANCAP is able to select vehicles for testing that will be representative of all vehicles covered by the “type approval” and in turn the community can be assured that all of these vehicles will be of equivalent safety.

This is not the case for imported used vehicles. Irrespective of whether these vehicles may have had an original certification in another country (in many countries there are no regulations), this certification typically will be to a low standard and therefore the community will have no visibility on the safety performance of the vehicles.

It is not possible for ANCAP to sample test these vehicles because it is not possible to identify a test vehicle, which will be representative of them all. With used vehicles, the provenance of each vehicle will be unknown. This may lead to a market distortion, with two main classes of vehicles: those with ADR certification and an ANCAP rating; and those without either certification or rating. The latter perhaps, avoiding the costs of compliance and certification.

New Zealand Experience

The New Zealand case presented in the Position Paper is largely irrelevant in the Australian context, and some of the inferences drawn may have been valid a decade or more in the past but are no longer.

When New Zealand originally allowed imported used car into its market, much older vehicles characterized its then fleet. The opportunity to replace those vehicles with, at that time, used vehicles that tended to be around 3-5 years old was obviously attractive.

By the early 2000’s the gloss had started to diminish as the increased age (5-8 yrs) of the imported used vehicles increased.⁴

Cast forward and the New Zealand experience is now less attractive and the age of its fleet is increasing largely due to imported second hand vehicles⁵. With the age of the fleet increasing, New Zealand is at risk of falling behind and missing out on the rapid growth and development in safety.

New Zealand requirements for imported used vehicle certification (which from 2002 included a frontal crash test) are at a minimum to facilitate access to the market. Safety standards for those vehicles are largely unknown, but will inevitably be poor due to their age and unknown provenance.

The studies conducted by MUARC and referenced in the Position Paper in Box 3.6 p101 do not relate to current safety levels in new vehicles and in particular, focus only on passive safety and do not reference active safety. The MUARC studies were valuable at the time, but are not relevant in the current circumstances.

In 2013 MUARC noted that improvements in crashworthiness have slowed since 2008. This is partly true, because the passive safety assessment tests have remained somewhat constant for some years. New and more rigorous tests have been and are being introduced which will further delineate the difference in safety performance of new vehicles compared to used vehicles. As mentioned, active safety is now the focus of NCAP testing around the world.

The Australian regulatory introduction of ESC (Electronic Stability Control) in 2013 for example, a technology demanded by ANCAP in 2008 for a five star rating will not be guaranteed in any used car import.

⁴ http://www.aaa.asn.au/documents/submissions%2F2006%2Fauto_ind_ing.pdf p19

⁵ <http://www.transport.govt.nz/assets/uploads/research/documents/The-NZ-Vehicle-Fleet-2012-final.pdf> Figures 2.4, 2.5b, 2.11b & 3.1

What is a Used Car?

The imported used car market in Australia and New Zealand has been dominated by Japanese cars. By and large in Australia, given the restrictions on the type of cars and the numbers of cars, the supply of these cars has not given rise to many problems although odometer fraud remains an issue and of course, safety is of concern. Japan has a mature economy and a reputation for manufacturing excellence. The same cannot be said for all other countries that manufacture vehicles.

These days, cars are produced in many regions and in many countries. These cars come in all shapes and sizes and of vastly different quality and safety. Some of these cars are not marketed in Australia as new cars because they would not pass minimum compliance and certification requirements.

Through the Global NCAP network, of which ANCAP is a senior member, test programs in China, Latin America and ASEAN reveal that cars from major manufacturers, that look exactly like cars sold in Europe, USA, Australia or Japan are built to extremely poor quality and safety standards. There are quite a few examples of cars sold in Latin America and in Europe which look the same and have the same make and model names but are vastly different.

The photos below show the very poor results for cars that share the same brand and model name as cars sold elsewhere in the world. These are new cars sold in South America. ANCAP has a rating of 4 stars for the Alto and March/Micra, and 5 stars for the Clio, but clearly despite appearances they are different cars in terms of safety. Once again these cars put occupants at extreme risk life-threatening injuries in a crash. (test speed 64km/h)

Latin NCAP results



Suzuki Alto zero stars

Renault Clio zero stars

Nissan March 2 stars

Is it possible for cars built to these very poor standards to come into Australia, directly from the production line, as 'used cars' and therefore by-pass the compliance and certification requirements of the ADR? The answer is probably 'yes'. Experience has shown that even in the early days of the low volume imported used car scheme, that the restrictions were by-passed. For example, with limits to the numbers of vehicles an authorised person might be allowed to import, further authorisations were sought for the same organisation but using different personnel – the one organisation then had many authorised persons. In that way, sales yards were stocked with imported used vehicles; this was contrary to the expressed objectives of the scheme.

It would be a relatively simple matter for vehicles direct from the poor quality production lines to be sold and resold – but never used – and then brought to Australia under a used car importation scheme. These cars would by-pass the ADRs and further, they would have no ANCAP rating. The community would be left in the dark about the dangers of these vehicles.

It would appear to be extremely difficult and costly to legislate to control any scheme that allowed for large-volume importation of used vehicles.

Competition

Australia has one of the most competitive car markets in the developed world. There are about 50 different marques, more than 350 different models, and then often several variants with different

engines, different safety performance, different levels of equipment, performance and the like. The range from which to choose is enormous.

There is plenty of evidence to show that new cars have never been more affordable and *ipso facto*, these cheaper new cars put downward pressure on used car prices. There is a robust and extensive market for used cars.

It could be said that this massive range is too broad and there is too much competition for what is a very small market. This can lead to volatility and uncertainty in the market.

Any suggestions that removing restrictions on imported used cars in the interests of increased competition may be true in an ideological sense, but are of doubtful validity in the Australian context. There is a prospect that increased availability of imported used cars may well have an adverse effect on the sales of new cars and thus create further problems in terms of the age of the fleet and lowered safety standards.

Conclusion

Put in the context of the history of the low volume imported used vehicle scheme, there are very good arguments against removing restrictions on the importation of used vehicles.

In light of the issues raised in this submission, there is also a case for tightening these restrictions and returning the scheme to its original intent of only allowing the importation of specialist and enthusiast vehicles.

The Federal Government, all state and territory governments and a plethora of road safety organisations around the country, including ANCAP, have made significant investments in reducing the burden of road trauma in Australia. This effort, which continues today, has seen road deaths reduce by 26% since 2007/08. Notwithstanding this success, nearly 1200 people were killed on Australian roads in 2013 and more than 30,000 seriously injured.

This work cannot be undermined by the importation of used vehicles in large numbers.

ANCAP recommends that the final report arising from this Inquiry either leave current restrictions in place for the importation of used vehicles or alternatively tighten the restrictions to return the scheme to its original purpose.

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