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Australia's Automotive Manufacturing Industry
Productivity Commission
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VACC Submission and Comments

Australia's Automotive Manufacturing Industry – Position Paper January 2014

In response to the Position Paper, VACC representing the retail automotive industry in Victoria and Tasmania with over 5000 member businesses operating in the retail automotive Industry, submits the following.

Given the time restriction for comment, our submissions are limited to just some of the matters raised in the Position Paper. We have specifically covered those issues that are most important to franchised new car dealers, independent used car traders and automobile repairers.

Industry Assistance

On the question of assistance to the Australian automotive industry, in our view, despite recent events, industry assistance should not be ruled out by Government and there are many good reasons to encourage research, development and production of automotive products in Australia.

The fact that some major global automobile manufacturers have decided, at this time, to cease the manufacturing of vehicles in Australia and preferring to become importers only does not mean that we should turn our backs on automotive manufacturing opportunities.

It is likely that in the future, manufacturing of automotive products, vehicles and components will occur in Australia. To what extent is unknown and whether Governments will encourage or assist is unclear. The level of assistance to many industries by Government is acknowledged as beneficial to the structure of business and society in Australia. Could any Australian business survive the full force of global competition if government did not concern itself with trade, trade agreements, tariffs, anti-dumping, etcetera? The answer is

probably not. Therefore, we should not believe that Australia should remove all industry assistance and interventions and require our businesses to operate in a purely theoretical economic market.

In the global market for all products, not just automotive products, there are many Government interventions. We must recognise that our approach to automotive imports here in Australia is not matched by many other countries. In many other places around the world, Governments actively assist home grown businesses and resist competitive automotive imports from other countries.

The global nature of automotive manufacturing has attracted to Australia many makes, models, and variants of cars, trucks, motorcycles and agricultural equipment to the point where we are saturated with choice. Some automotive goods are imported and sold in such a way that they could be described as dumped on the Australian market.

It is said that Australia is the most open market for new passenger vehicles in the world. That being the case, consumers have plenty of choice and the value proposition of new vehicles is very good.

VACC accepts that Australia has become very open to trade in automobiles. However, we should not dismiss the opportunities for Government to assist home grown businesses to start up, grow, trade and employ. It is in the interests of our whole community to encourage manufacturing of goods. Many a small business in the automotive industry has contributed to the supply of parts and accessories to vehicles manufactured here in Australia. Some specialist vehicle manufacturers and modifiers employ significant numbers of people and provide uniquely Australian products for our market. They should not be ignored by Governments, they should be celebrated, encouraged and assisted.

A good example of what can be done to partner with industry is the Victorian Government announcement on 13 February 2014 that it will enter into an agreement with Coca Cola Amatil to assist development of the SPC Ardmona fruit preserving business in Shepparton. This result is encouraging and should be replicated in other industries where the business case supports the benefits that will flow to the community.

Benefits of research and development especially in the design of vehicles and the advancement of technologies used to research and design are useful in a mature economy like Australia's. Therefore these benefits should not be thrown away by discouraging automotive manufacturer development or by scorched earth economic policies.

Luxury Car Tax

VACC agrees with the Henry Review assessment that, Luxury Car Tax (LCT): *"is levied on a narrow base, the LCT is a higher cost and less efficient method of raising revenue than more*

broadly based taxes. The LCT is also arbitrary in its effect, in that it leads taxpayers with the same economic means paying different amounts of tax depending on their tastes”.

Luxury car tax is a selective and discriminatory tax on certain cars. In VACC’s view, the tax distorts the market and acts as a disincentive to buyers. The tax is a remnant of a time when sales taxes and other inequities existed, taxing products at different rates without sound policy objectives. An extra tax on cars priced over \$60,316, is an artificial threshold, and is inequitable.

No other product is taxed in this way. International holidays, expensive homes, expensive restaurant meals and holiday homes are not taxed as luxuries. Other goods such as furniture, expensive artworks, plasma televisions, jewellery, watches, and antiques are similarly not taxed as luxuries. State stamp duty already taxes luxury cars at a higher rate than lower priced cars; therefore this is a double dip. Additionally, increased taxes on the ‘best featured’ vehicles cars will slow the introduction of safety features into other models.

VACC recommends that the Luxury Car Tax be repealed and that the Productivity Commission should support this policy.

Used car importation

VACC believes that the discussion of this item is outside the scope of the terms of reference of the inquiry and less than relevant to a discussion regarding automotive manufacturing. The existing used vehicle import arrangements are satisfactory and were not the subject of complaint or comment by submitters. The introduction of used cars as an issue appears to have been introduced as a matter of ideology.

VACC submits that the existing arrangements including the Special Vehicle Scheme and Registered Automotive Workshop Scheme (RAWS) should remain in place and to remove them would not be in the public interest. The risk of allowing an open slather of used vehicles to be imported is that the Australian market would be flooded with the unwanted stock of vehicles from other countries where such stock is of little or no value.

To allow such imports is effectively dumping upon Australia the unwanted used car stock of others. That is the experience of the retail automotive industry in New Zealand. Consumers in New Zealand may have welcomed the used cars but did not understand until later that these vehicles arrived with a range of problems such as the following:

No guarantee of compliance with safety standards

Imports often arrive without sufficient information to verify their construction specification or likelihood of compliance with the design and safety regulations of the location to which they are imported. Compliance costs can be expensive and all of the cost falls upon the importer/consumer. Costs can run into the thousands of dollars and may easily overtake the perceived advantage in cost of access to cheap cars from overseas.

Unknown history of use

It is a risk to consumers that imported used cars would have uncertain history which could not be traced and would create uncertainty in the used car market. Consumers are currently protected by the Motor Car Trading laws. Licensed Motor Car Traders would be exposed to trade-ins of high risk and potentially stolen vehicles that cannot be readily checked for authenticity.

Altered odometers

In New Zealand where used vehicle have been imported for almost 20 years there is an unacceptable incidence of used vehicles imported with altered odometer readings or kilometres travelled that are difficult to verify therefore causing consumer detriment, distrust and uncertainty in the used car market.

No support from the manufacturer

Used imports will not be supported with service or repair information supplied by vehicle manufacturers therefore creating potential for customer dissatisfaction and dispute. Unsupported vehicles can quickly become orphaned and almost impossible to repair.

Safety Recalls

Imported used vehicle will not be included in Australian safety recalls whether compulsory or voluntary. The owners will not be informed of the recall.

Difficulty in sourcing of spare parts

Parts for overseas used car imports are often difficult to source and not stocked in Australia. For example an electric sunroof motor for a model that in Australia was never fitted with a sun roof hence spare parts are not held in stock.

Diagnosis of faults

Diagnosis of faults and repairs can be confusing for repairer and expensive for owners due to different specifications and incompatibility with information supplied by vehicle manufacturers. Tracing wiring diagrams for electronic CPU information may be near impossible.

No warranty

Used Imports are not covered by manufacturer warranty by the Australian based manufacturer of the same name. It is very confusing for consumers who are unfamiliar with the differences between a vehicle originally imported new by a car company and a used car imported by a person that is not a car company.

Facilitation of trade in vehicles with dubious provenance or that may be stolen

Used vehicles originating from overseas may not be subject to the rigour of laws that prevent rebirthing of stolen vehicles, such as those in Australia. The addition of used vehicle imports in large numbers from overseas may increase the risk of stolen vehicles and stolen parts being imported to Australia.

These problems and more, were experienced here in Australia when the low volume used car import scheme was 'too flexible' and allowed many used vehicles to be imported in large numbers. The impact was that consumers were confronted with what appeared to be attractive alternatives but turned out to be expensive to repair and rapidly depreciating unloved vehicles of an unknown history from another country where data is not readily available.

Upon introduction of unrestricted used car imports to New Zealand, consumers quickly discovered that, whilst the vehicles arrived in great numbers, the necessary intellectual property, technical information and replacement parts to service and repair the used imports did not.

The Productivity Commission Position Paper seeks further information via an information request at 3.2. on page 29. In our view, the Productivity Commission should be answering these questions and undertaking appropriate analysis that includes the impact of a policy change on the whole automotive industry rather than asking questions in the report.

In the interests of consultation, the Productivity Commission should meet with Licensed Motor Car Traders (LMCTs) and Franchised New car Dealers in focus groups with a well described proposal and obtain genuine first hand feed-back for the retail automotive Industry and not rely on the academic research paid for by proponents or opponents of one or another vested interest based recommendation.

The existing LMCT business activity in Australia is a fully licensed and regulated industry with many consumer protections built into the system. Introduction of vehicles sourced from overseas breaks down those consumer protections and makes it more likely that unlicensed and less than honest traders will be attracted to act as brokers of vehicles originating from overseas. Some may say that this is good competition. Our experience is, that it is bad for the consumer and that fraud and deceptions abound in the unregulated population selling of vehicles sourced from places where bona fides cannot be checked. One of the reasons why removal of the used vehicle import tariff is identified as a problem because it would allow direct purchasing from vendors overseas, this is high risk for consumers that should not be encouraged.

Fraud, misleading advertising misrepresentation, odometer tampering and falsification of records cannot be prevented by Australian based consumers buying from overseas vendors. Alternatively, the Australian Government could legislate so that only Licensed Motor Car Traders (LMCTs), are permitted to import and sell used vehicles and therefore must validate those vehicles. We doubt that the Productivity Commission or Government would agree that only an LMCTs be permitted to import and exclude personal imports.

If unrestrained used car imports were to be permitted and the import tariff removed we would expect that a reduction in the standard of vehicles on the road and a reduction in the numbers of new cars sold. It could work against the improvement of safety standards which has improved by the introduction of new safer technologies to new cars. The safety technology of a 5 to 10 year old used import will be vastly inferior to a new 2014 model.

Unrestrained used car imports would also increase scrap in Australia, most end of life cars are shredded and the metal shipped overseas for recycling and smelting, however and the waste flock is buried into landfill here in Australia.

Under the existing SEVs system, allowance is made for vehicles that are otherwise not imported into Australia by a vehicle manufacturer or distributor. These arrangements are acceptable and to date, well managed and apply correctly to the import of vehicles. There are many opportunities to import these vehicles on a commercial scale.

LPG

VACC submits that the Productivity Commission has missed an opportunity to endorse the further promotion of an Australian LPG vehicle manufacturing industry.

VACC submits that the Productivity Commission has missed an opportunity to endorse the further development of an Australian LPG vehicle manufacturing industry by not including in the report an opportunity to further investigate the use of LPG and potential to support LPG vehicle manufacture.

It is inconsistent to request industry stakeholders to answer questions and further investigate used car imports yet not to fully investigate the use of Australian based facilities, expertise and labour to improve the manufacture of LPG fuelled vehicles.

The proposal submitted by VACC and Gas Energy Australia (GEA) to the Productivity Commission would create new manufacturing jobs for automotive workers affected by the current industry rationalisation and aim to create a world-class LPG manufacturing facilities using the same production methods used in Europe and the US to deliver economies of scale, Motor Vehicle Producer quality and a much wider range of new LPG vehicles than is currently available. This in turn would deliver broader benefits to the Australian economy in terms of energy, security, reduced greenhouse gas emissions and lower transport costs. It would also more than offset the risk to the substantial national investment that has been made in establishing a National LPG vehicle refuelling, maintenance and servicing network posed by the impending loss of traditional Ford and Holden manufactured LPG powered passenger cars and light commercials.

The decision not to support at least further investigation of the VACC/GEA LPG proposal should be reconsidered and reversed with a comprehensive investigation done to fully evaluate the proposal.

Questions - Information request 3.2, page 29 of Productivity Commission Position Paper.

Our answers to these questions should be read in conjunction with all of the comments above.

What would be the potential benefits of removing restrictions?

VACC does not believe that removing the restricted import of used vehicles would benefit Australia. In our opinion an unrestricted import would be grossly detrimental to consumers and to the automotive industry.

What are the potential costs of removing restrictions?

Cost to industry would be added by a reduction in the number of new cars sold. Cost to the community would be created by uncertainty created in the used car market and by importation of vehicles that have uncertain provenance.

How could compliance with Australian safety and environmental standards be more efficiently ensured?

VACC recommends the retention of the existing used vehicle import arrangements.

If the benefits are expected to exceed the costs, how should restrictions be removed and over what timeframe?

VACC does not expect that the benefits would exceed the costs and we have not seen any evidence in the Productivity Commission Report.

Conclusion

These comments while limited to a small range of the matters raised in the Position Paper, are important and should be fully debated before a final recommendation is made to Government. Further information can be obtained from VACC , we would welcome an opportunity to expand upon these comments.

Kind regards

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VACC