

12 February 2014

Mr Mike Woods
Deputy Chairman
Productivity Commission
Level 12, 530 Collins St
Melbourne VIC 3000

Dear Mr Woods

Thank you for the opportunity to make a submission to the Productivity Commission's position paper on Australia's Automotive Manufacturing Industry. My submission contains no confidential information and can be made publicly available.

This submission is focused on providing data for the Commission's Information Request 3.2 about the benefits of removing restrictions on the large-scale importation of used vehicles.

The current importation restriction 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 calculated¹). The current importation arrangements restrict competition and allow the car manufacturers to charge Australians higher new car prices. Allowing the private importation of used cars would make the new car market more competitive. Where car manufacturers selling vehicles in Australia were previously shielded from international competition, they would now have to compete vigorously with used car imports. The potential benefits of removing these import restrictions would be around \$2.6 billion annually for Australian consumers.

I also refer the Commission to the Centre for Independent Studies' report² comparing used car prices in Australia compared with overseas prices. The Commission may consider using data for this inquiry.

The Commission may wish engage a consultant to undertake similar analysis for new cars that I have done and undertake similar analysis for used cars that the Centre for Independent Studies has done. This would provide more data about the benefits of removing current restrictions on large-scale importation of second-hand vehicles. There

¹ I have made these calculations as there is an absence of this information available for Australia. As a comparison, the European Commission annually monitors new cars prices across Europe; see European Commission, Car prices within the European Union, 1 January 2011

² CIS policy monograph 125. Price drivers: five case studies in how government is making Australia unaffordable. O. M. Hartwich and R. Gill.

are companies that would have the databases available to easily undertake such a study (for example R. L. Polk Australia, Australian Automotive Intelligence or Blue Flag).

On page 6 of the position paper, the Commission states that “[Australia’s new car market] *is highly competitive to the benefit of Australian consumers.*” I argue that this statement is incorrect. When compared to the new car prices overseas, Australia’s new car market is not highly competitive internationally. Even international visitors quickly work out that Australians pay much higher new car prices than they do.³ I argue that the Commission needs to correct or qualify this statement.

I agree with the Commission’s Draft Finding 3.2 that the rationale for large-scale importation of second-hand vehicles is weak. The current restriction on the importation of used vehicles is anti-competitive for Australian consumers. Car manufacturers will argue strongly to stop the current ban on large-scale importation of second-hand vehicles being removed. The car manufacturers have made some public statements in the past arguing the case for why new car prices need to be higher in Australia compared to overseas. I have provided some of these arguments below.

My calculations show that Australian consumers paid \$351 million more than overseas consumers for new Mercedes-Benz cars in 2011. David McCarthy, Corporate Communications, Mercedes-Benz Australia said *“It would be easy to say we’re making huge profits at the expense of the Australian consumer. But that wouldn’t be true. The margin we work on is virtually the same as the one [Mercedes] works on in every other market.”*⁴ What Mr McCarthy is saying is that Mercedes-Benz’s head office in Germany charges its Australian subsidiary much higher prices for new cars compared to its other subsidiaries. The Australian subsidiary then has to pass on these higher prices to Australian consumers. Therefore, the current restriction on large-scale importations of used vehicles currently benefits the international car manufacturers at the expense of Australian consumers.

My calculations show that Australian consumers paid \$86 million more than overseas consumers for new Porsches in 2011. This is \$64 000 more for each car. Porsche Australia’s spokesman Paul Ellis has provided an explanation about the price difference between Porsches available in Australia and the US *“In the US you basically get a cardboard box and steering wheel for your \$88,800. Our cars have a much, much higher level of standard equipment.”*⁵ This shows that some car manufacturers are only providing new cars with higher levels of equipment with a higher price tag and limiting the choice for Australian consumers for new cars with lower levels of equipment with a

³ <http://www.smh.com.au/technology/technology-news/apple-cofounder-woz-weighs-in-against-tech-giant-on-price-discrimination-20120511-1yggd.html>

⁴ <http://www.smh.com.au/executive-style/motors/luxury-cars-why-do-we-pay-more-20110419-1dml9.html>

⁵ <http://www.mrtperformance.com.au/about-us/news/1/1082-why-do-cars-cost-more-in-australia>

lower price tag. I argue that the current import restrictions for large-scale importation of used vehicles limits Australian consumers' choice of vehicles.

My calculations show that Australian consumers paid \$196 million more than overseas consumers for new Porsches in 2011. Mr Uwe Hagan, Audi Australia's previous Managing Director, argued that Australian-delivered Audis are built to a higher standard for our hotter climate and that "*the cost of upgraded glues and plastics account for some of the price difference.*"⁶ This argument is interesting given that there are hot climate countries in Europe such as Spain and Portugal.

Given Ford, Holden and Toyota have now all stated they will cease making cars in Australia by 2017, I would that 2016 would be an ideal time to allow large-scale importation of used vehicles into Australia. The necessary work by the Commonwealth government could start in 2014 to amend legislation and to establish the administrative arrangements to allow the large-scale importation of used vehicles in 2016.

Thank you again for the opportunity to make a submission. I trust that you and your team will find my submission a useful input for the review.

Yours sincerely

Peter Smith
Southbank, Victoria

⁶ <http://www.carsales.com.au/news/2011/prestige-and-luxury/audi/pricing-in-australia-a-question-of-interest-23595>

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)	Australia vehicle sales in 2011	Total extra cost for Australian consumers (\$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 vehicle 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	\$10.0m
Porsche						
Cayenne	\$US48,200	\$46,025	\$104,600	\$58,575	803	\$47.0m
Boxer	\$US49,500	\$47,266	\$101,500	\$54,234	232	\$12.6m
911	\$US82,100	\$78,395	\$193,000	\$114,605	201	\$23.0m
Panamera	\$US75,200	\$71,807	\$170,400	\$98,593	107	\$10.5m
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 vehicle 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	Overseas Price	Overseas Price (\$A)	Australian Price (\$A)	Extra price for Australians per vehicle (\$A)	Australian vehicle 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