

Australia's Automotive Manufacturing Industry
Productivity Commission
LB2 Collins St East
Melbourne VIC 8003

Via email: automotive@pc.gov.au

Submission re: Suggestions to Remove Restrictions on the Large-Scale Importation of Second-Hand Vehicles.

Executive Summary

- AMIF considers that the large-scale importation of second-hand vehicles in to Australia imparts significant costs and little in the way of benefits.
- AMIF has clear recollection of the recent period in Australian history prior to tighter restrictions being placed upon the importation of second-hand vehicles in Australia from both a retail motor trader and consumer perspective.
- AMIF suggests that the removal of restrictions on the importation of second-hand vehicles based on purely economic drivers is illogical and does not make sufficient recognition of engineering reality.
- AMIF contends that those costs will take the form of consumer detriment in areas such as challenges in vehicle safety considerations, support, servicing and maintenance.
- AMIF contends that a decision to remove restrictions will manifest, in time, to increasing cases being mounted under Australian Consumer Law, potential difficulties with the administration of the Personal Property Securities Register and a range of other unforeseen consequences.
- AMIF contends that there are costs in the form of long-term environmental considerations in the context of the existing challenges encountered in the development of end of life vehicle policies.
- AMIF contends that any examination of this suggestion in isolation from the entire Australian automotive industry and the symbiotic relationship between automotive manufacturing and the downstream sectors of retail, service, repair and recycling, affiliated businesses and other industries, would be a fatal flaw in the development of a future whole of industry policy framework.

- Government support and intervention strategies can best be supported by an evidence-based policy developed in the sort of business-case environment that is provided by the use of the 'Green Paper / White Paper' tool.
- The development of a Green Paper, and subsequent White Paper, will allow a fragmented industry, which is essential to national economic wellbeing, to identify, analyse and prioritise critical issues. It will allow for the critical areas of Commonwealth and State bureaucracy to arguably, for the first time, coordinate and collate the intelligence needed to develop a cohesive, whole-of-industry policy framework that provides surety and viability into the future.

Submission Overview

This submission is prepared by the Australian Motor Industry Federation (AMIF). AMIF is a federation of the various Australian states and territory motor trades associations and automobile chambers of commerce. That Federation represents the interests of all retail motor traders in Australia, which encompasses every facet of the downstream supply chain in the automotive industry in this country, thereby comprising over 75 per cent of all automotive-related activity in the economy.

AMIF has taken a particular interest, therefore, in the Commission's enquiries in the explicit context of its inquiries regarding the removal of restrictions on the large-scale importation of second-hand vehicles to Australia. That interest is motivated by the reality that it would be the Federation's retail motor trade members who would be compelled – if such suggestions were to become a functional reality – to maintain, service, repair and otherwise deal with those vehicles.

Before making these comments, AMIF wishes to preface them by indicating that the context it is employing is that of considering the term, 'second-hand vehicles' to have like meaning to the term, 'grey import vehicle'. AMIF can see no other meaning it might ascribe. This view is reinforced by AMIF noting the Commission's references to 'removing restrictions' on such importation, which restrictions are currently applied to grey imports in Australia.

On that assumption, therefore, AMIF assures the Commission that it has abundant proximity and first-hand experience in this discreet issue and, as such, urges the Commission to take particular note of these comments and to not hesitate in including AMIF in any further exploration of this issue.

AMIF does not support any efforts to remove, or otherwise avert, restrictions on the large-scale importation of second-hand vehicles into Australia. AMIF observes the Commission's request for further information in the form of 'benefits and costs' with some unease, as it considers doing so ignores overriding considerations such as the practical and operational reality were such a proposal come to realisation. AMIF might also go close to suggesting that evaluation of such a proposition in such a form may also be dismissive of the issue of grey imports from a historical perspective within the broader Australian automotive industry context¹.

¹ That is to say, the industry in its entirety, rather than a singular focus upon the 25 percent of it that manufacturing represents.

Consideration of this issue cannot – and ought not -- be reduced to mere costs and benefits. Rather, the Commission is best to be made aware of, and then employ, a matrix of considerations that are attuned to, cogniscent of, and give a predominance of weight to, factors such as those outlined within this Submission and others akin to them.

Subtle, but Critical, Differences

AMIF respectfully suggests that greater clarity of perspective on this matter would be attained by the Commission – and policy makers generally -- if some commentators in this space could be disabused of the notion that all models of vehicle, of a particular marque, are identical the world over. The reality is that they are not. Quite aside from the obvious superficial differences that might be evident – different lighting standards and safety equipment specification to meet particular domestic safety regulations for example – there are, invariably, stark differences ‘hidden’ within the vehicle specification.

Further, it is somewhat unlikely that a state of global vehicle harmonisation will be attained in the foreseeable future. While it might be possible – eventually – for the regulatory regimes of the various jurisdictions within the global vehicle market (those things that currently make vehicles ‘specific in specification’ to their country of first sale), there will always remain the reality of the need to apply engineering solutions to ‘adapt’ a vehicle to the conditions and cycles of use that it will be subjected to in the country of its sale and use. This is particularly the situation in Australia, where the demands placed on a vehicle in terms such as climatic extreme, distances travelled and road surface type and quality are unique and, in fact, often replicate – within this country -- the demands on a vehicle to be typically found singularly among a collection of countries where that vehicle might be sold.

It is well understood by many within the retail motor trades that many imported second-hand vehicles in Australia bear deficiencies of some sort when compared to the ‘equivalent’ vehicle sold at first instance in Australia. Those deficiencies can be seen in; inadequate engine cooling system efficiency; compromised drive train durability; excessive chassis noise, vibration and harshness measures; inferior chassis stress cycle resistance; sub-optimal suspension specification² and so on.

The reality for the foreseeable future is that Australia will remain a unique market. That reality is cast into the context that a contemporary motor vehicle is, arguably, the most complex ‘consumer good’ residing in the market. The contemporary motor vehicle is one possessed of multiple layers and matrices of interdependent systems and sub-systems, each that integrate mechanical and electronic sophistication. Each of those systems and sub-systems needs to be attenuated – during the design and vehicle proving stage – for the conditions it will need to endure for the market in which it is intended to be sold.

² Spring and damper rate settings for the Australian market are nearly always variant from overseas equivalent models. This is due largely to the differences in wheel frequency experienced by vehicles under Australian operating conditions. Those specification changes – invariably in terms of higher spring rates and commensurate shock absorber valving adjustments to control them – changes, significantly, the transmitted forces acting upon the vehicle’s suspension components and chassis. More than a few imported second-hand vehicles simply ‘fall apart’ under Australian usage patterns and typical use cycles.

For example, due to unique-to-the-world fuel standards in Australia, vehicles imported to Australia under existing arrangements invariably have unique-specification electronic control units (ECU)³. In practical terms, this means that the grey import vehicle residing in Australia, which has been imported from its original country of delivery, will have variance in specification that cannot always be seen by plain visual inspection.

While the primary ECU of the imported vehicle may appear identical – visually – to that of the same model of vehicle supplied in this country by the vehicle’s manufacturer (or through the manufacturer’s Australian agent or concessionaire), it is a winning odds proposition – in terms of the software and logic employed and, therefore, ECU internal component specification – that it is completely different in parameter and operation to that of the imported vehicle.

This reality also harbours a cascade effect. Due to vehicle ECU interoperability and interdependency, other ECUs – those controlling vehicle operation systems such as transmission function, or anti-lock braking, traction control, vehicle immobilisation, or cruise control – will be, by necessity, all synchronous in function.

The implication of this reality has already played out countless times in Australia, usually to the detriment of the owner of a grey import vehicle that has developed a fault in its primary electronic / engine control unit. Given the interoperability of all vehicle ECUs, simple replacement with one from an Australian delivery vehicle invariably proves to be no remedy at all. Failure of the other ECUs to ‘recognise’ the logic of that replacement will cause other ECUs to ‘stand down’. In basic terms, the vehicle simply will not start – despite the fitment of a functioning ECU – or will run with impaired parameters (typically the vehicle will only run in ‘limp’ or ‘safety’ mode).

The only alternative for that vehicle owner is to source an ECU identical in parameter to that originally fitted. Attempts to source the correct replacement part from the parts operation of a local dealer of that make of vehicle will invariably prove fruitless. Presentation of the vehicle’s VIN in order to accurately identify the correct replacement part will reveal the vehicle to be of non-domestic delivery and, hence, not supported by either the agent for the vehicle in Australia, or by the manufacturer from its country of origin.

This leaves the owner of the vehicle with – effectively – three alternative courses of action: accurately identify, themselves, the correct part from the country of first delivery of that vehicle and source same from that point (usually online); have a specialist repairer for that marque and ‘type’ of vehicle (that is, grey import) perform that very same task on their behalf; or, relegate the vehicle to being a mere ‘parts bin’ for similarly imported vehicles.

Given that vehicles of this sort can be purchased for outlays as little as \$7,000-00, and that an ECU’s landed cost, if sourced from country of delivery, can be in the same region of cost, it is unsurprising

³ Increased technological sophistication and emissions regulation demands that manufacturers employ ever sophisticated and advanced means of meeting market and regulatory objectives. To ensure engines operate at optimal efficiency and meet those objectives, manufacturers employ sophisticated, and complex, electronic software and logic. Those systems are broadly referred to as Engine / Electronic Control Units, or ECU. As many as 36 – and, sometimes, many more -- interdependent electronic control units can be found in a contemporary motor vehicle. All ECU’s fitted to a vehicle are interdependent in terms of logic and task.

that a number of vehicles in such a situation wind up either as the latter, or end up fitted with a proprietary, programmable ECU (such as those supplied by companies such as MoTeC, HALTECH, or Emerald). It is worth the Commission noting that fitment of a programmable ECU to any registered vehicle in Australia is, by AMIF's understanding, in conflict with the Australian Design Rules and the Vehicle Standards Act.

Issues such as these in terms of parts availability, supply, support and interchangeability are not restricted to 'major' components such as ECUs. Many engine hard parts – pistons, camshafts and fuel injectors⁴ for example – are similarly affected. So, too, drivetrain components⁵, body panels, interior trim and electrical components (headlights, for instance). Also impacted can be access to technical information required to perform routine servicing and maintenance of affected vehicles. This latter issue being of particular importance in the context of collision repair, as even at the granulation of differences between like models of differing intended point of first delivery, significant variances in vehicles can be found⁶.

A no better example of variance of imported vehicles from those standards imposed by the operation of ADRs can be seen in vehicles such as the Subaru WRX and the Mitsubishi Lancer EVO. Both of these vehicles were, and continue to be, available domestically and available for sale in the context of being delivered to consumers, in Australia, as a 'country of first instance'.

This is due to the respective manufacturers undertaking 'tweaking' of the engineering (and other) specification of the vehicles as to ensure they meet emissions and performance requirements while consuming fuels to Australian standards and conformance with other ADRs (through a process of 'type certification'.)

But, a good number of those vehicles have also made it into Australia as grey imports. The variances between the Australian delivery vehicle and its grey import cousin can, however, be quite stark when evaluated beyond a superficial level. It is worth the Commission noting that many of those importations can only legally be performed with assurances that the vehicle – upon arrival – will only be used in motorsport competition and, thus, at best be accorded conditional registration for use on the roads of the various Australian jurisdictions (registration for use only while competing in rallies, for example, where the nature of the event requires that vehicle to traverse public roads).

The reasons for these conditions being imposed are various and easily discoverable, but can largely relate to those vehicle's non-compliance with Australian collision safety standards (side intrusion bar absence for example), which is offset by the double-edged sword of the requirement – for motorsports competition – for the vehicle to be fitted with roll over protection of an appropriate standard (typically a welded-in, Cr-Mo steel, 12 point, internal roll cage). It is a double edged sword

⁴ All parts that might be required to rebuild an engine.

⁵ Most notably, clutches, driveshafts, transmissions and final drives.

⁶ For instance, an Australian delivered Rover 3500 – superficially identical to a Rover SD1 – has a completely different chassis. There are many other examples: Isuzu PF 60 / Opel Kadett and Holden Gemini. Jeep Wranglers for US supply and those destined for export. While these are, by and large, historical examples, AMIF is aware that examples such as these remain the case today.

because fitment of a roll cage – while offering a highly desirable standard of occupant protection in the event of the vehicle experiencing a collision with the scenery – also alters the crumple rate of that vehicle, hence possibly comprising a risk to other road users in the event of them being involved in a collision with a vehicle thus modified.

While some support mechanisms have developed around some grey imports, those mechanisms tend to be confined to specialist retail motor trade areas such as those inferred above, or in the successful conversion, or modification, of the vehicle in order for it to meet the requirements for Australian registration (hence the current Registered Automotive Workshop, or RAWS, scheme). Nevertheless, mechanisms such as these typically require, of the service provider, the establishment of contacts with, and reliance upon, sources of support outside Australia, or of the need to acquire the resources to adapt, modify, or produce parts that might be required.

AMIF also has a number of concerns in relation to large-scale importation of second-hand vehicles from the perspective of vehicle end of life. Issues around efforts underway by AMIF to develop a template, or framework, for an overarching, national, vehicle end of life policy reveal a matrix of policy issues of some complexity. Aside from some obvious matters that fit almost neatly into realms already explored in other areas of product stewardship and concern for the environment, there are also raised a number of inter-jurisdictional issues and social policy considerations that add to the complexity of the task.

The infusion of large numbers of vehicles, possessed of a specification variant to that of the Australian norm, will do little to ameliorate that complexity. It would be AMIF's contention – from the awareness that it has gleaned from the work it has already done on issues relating to vehicle end of life in Australia – that such a reality would only serve to add to that complexity and to add to it in a significant way.

The Commission would be well aware of the characteristics of the Australian new motor vehicle market, comprised, as it is, of over 350 different models of vehicle, offered for sale from over 66 manufacturers. AMIF is not aware of any factors -- including the cessation of vehicle production in Australia -- that would significantly alter those circumstances in the immediately foreseeable future.

The reality of those circumstances, when considered in concert with the quantum of new vehicle sales in Australia in the last half decade and the size of the market, makes this nation's new vehicle market the most competitive in the world. As such, the competitive pressures within that market, particularly for new vehicle dealers, are arguably also the most intense. These are circumstances, however, to which the players in the market, not least of which being dealers, have adapted resulting in ongoing viability of operations, albeit in a delicate balance.

It is not possible for AMIF to anticipate with precision what impacts on that balance might occur were restrictions on large-scale importation of second-hand vehicles be lifted. AMIF might reasonably speculate, however, that the impacts on consumers and retail motor traders could be significant. Given AMIF's presumption of the unlikelihood of manufacturers (and their Australian agent's) preparedness to provide support for vehicles of non-domestic origin or sale of first instance, the on-occasion fraught area of warranties (for instance) could become more so. This could only

serve to be to the confusion and detriment of consumers, while simultaneously increasing pressures on retail motor traders who, in essence, are the meat in the sandwich in matters relating to warranties.

Summary and Conclusion

In summary and conclusion, AMIF can see little in the way of benefits able to be derived from a lifting of restrictions on the large-scale importation of second-hand vehicles into Australia. Rather, AMIF sees costs in the form of increased regulation, increased compliance, disturbance in the market, environmental impact and, perhaps most critically, in consumer detriment in the form of safety concerns and the access to support for the maintenance and repair of those vehicles. AMIF's recollection of the circumstances in the market prior to the introduction of restrictions heavily informs its views in this regard. Resultantly, AMIF would not support proposals to remove restrictions on the large-scale importation of second-hand vehicles.

AMIF once again contends that the ongoing work of the Commission in this regard provides an opportunity for it and, through its work, the Federal Government, to consider the Australian automotive industry as a whole and to explore, for the first time, the symbiotic relationships between automotive manufacturing, the downstream sectors of retail service repair and recycling, affiliated or connected businesses, and other industries. The issue at hand – that of considerations directed at the possibility of large-scale importation of second-hand vehicles into Australia – serves perfectly to highlight the need for that to occur.

AMIF welcomes the opportunity to provide these comments to the Commission and is happy to provide any further assistance, clarity, or further information as the Commission may require. AMIF looks forward to being of service to the review team.

**AMIF National Secretariat
Canberra**

Richard Dudley
CEO

Colin Duckworth
Director Policy