



28 February 2014

**AFLA RESPONSE TO THE PRODUCTIVITY COMMISSION INVITATION
FOR ADDITIONAL COMMENTS IN RELATION TO THE
LARGE-SCALE IMPORTATION OF SECOND-HAND VEHICLES**

Members of the Australian Fleet Lessors Association (AFLA) appreciated the opportunity to participate in the recent Productivity Commission Automotive Manufacturing Industry Inquiry public hearings process.

The concerns we raised at the public hearing, and similarly in our original submission, focused on the Position Paper's draft finding 3.2 relating to the prohibition on the large-scale importation of second-hand vehicles.

We reiterate that the potential de-regulation of second-hand vehicle importation into Australia is a complex issue with serious ramifications. The time available to the Commission (and stakeholders) through this current review process is, with respect, materially insufficient to make informed recommendations on this matter given the breadth, depth and extent of consideration and analysis required. We contend that the status quo should remain in the absence of a well considered and thoroughly articulated case in support of large-scale importation.

This supplementary paper is in response to the Commissioners' request for AFLA's views on a model that may be acceptable to the industry in relation to the large-scale importation of second-hand vehicles into Australia.

AFLA's Overriding Concerns Remain

AFLA remains firmly of the view that there are compelling policy grounds for retaining the existing restrictions on the large-scale importation of second-hand vehicles into Australia, and these remain irrespective of the existence of a local automotive manufacturing sector.

The overwhelming insight from the New Zealand experience of the lifting of restrictions is that it produced a material ageing of the car park population, amongst other consequences. There also appears to be little disagreement amongst stakeholders that there is a direct correlation between the age of a used vehicle (in this case imported) and a corresponding increase in risk to

road safety, emissions production, protection of consumers, vehicle reliability, asset valuations, and so on.

We also contend that the broader automotive supply chain in Australia is already facing significant disruption and any additional uncertainty, such as a material change to the market dynamics with the mass importation of second-hand vehicles, is not in the broader interests of the sector.

On balance we believe that, given there has not been a full and detailed investigation of the potential benefits and costs to the Australian community of the large-scale importation of second hand vehicles, it is not possible to conclude that the impacts of such reform will produce a net benefit to the Australian community, the environment and the economy. Notably, we further contend that the economic benefit to consumers, that is the notional reduction in vehicle prices, has yet to be made in a credible manner.

AFLA Comments in relation to Transitional Arrangements

We emphasise that AFLA remains firmly opposed to the easing of existing restrictions. However in assessing the overall benefit to the Australian community, environment and economy, should it be categorically concluded that such reform is worthy of consideration we respectfully recommend, in the strongest terms, that the New Zealand experience not be repeated in Australia.

Accordingly we recommend that in order to assist in minimising the downsides flowing from a policy change, as experienced in New Zealand, that the following transitional and other arrangements would need to be incorporated at a minimum:

1. A Time Lag for Introduction:

- Any transitional arrangements for lessors would be dictated by the nature of existing contractual arrangements. AFLA Members have a leasing portfolio of 360,000 vehicles, of which 220,000 are operating leases. Under operating leases the lessor bears the risk in relation to the value of the asset at the end of the lease.
- With the potential of a deflation in used car values from an easing of restrictions on used car imports, our Members alone could experience a loss on realisation of these vehicles in the hundreds of millions of dollars. The bulk of these contracts are for up to five years, however members have operating leases stretching out to six years.
- Accordingly, we submit that any easing would need to embody a **six year** timeframe **prior to the introduction of policy changes**. This would also ensure that any changes take place well past the planned cessation by the existing major automotive manufacturers.

2. Age Restrictions on Imported Vehicles

- The New Zealand experience, which has seen a significant ageing of their car park along with a raft of associated issues and unintended consequences, clearly demonstrates the need for tight restrictions on the age of imports in order to help mitigate such consequences.
- Accordingly a strict age limitation (in conjunction with relevant design/safety standards) would be required.

3. Restrictions on the Volume of Used Vehicles for Import

- As the potential impact of easing restrictions is unknown in the Australian context, we suggest a managed approach to the number of these imports which are allowed to enter the country. This would potentially ensure a migration process that enables the regulatory regime, consumers and the broader automotive sector to adapt over a period of time and for adjustments to be made to such a program based on a 'manageable' volume.
- Restricting numbers (and potentially the type and origin of vehicles) in the first instance could allow for a proper and trialled process in respect of maintaining appropriate vehicle safety standards, ensuring a full and complete inspection of the vehicles and the implementation of consumer warnings.
- Without significant further analysis, it is difficult for AFLA to comment on the specific quota of imports which would need to be initially set and potential increments which could occur in the years post introduction.

4. Safety and Other Requirements

- In recognition of the potential impact on safety standards, we suggest that compliance requirements include a comprehensive annual inspection requirement for imported used vehicles. Australian Design Rules and crash standards should also be consistently applied to new and used vehicle imports. However the specific safety requirements, crash-test standards, emission requirements, ownership and history verification etc., are all complex issues, outside the expertise of AFLA, requiring significant in-depth analysis and consultation prior to determination of any such transitional arrangements.
- Our overriding concern remains however as to whether the safety standards which are a fundamental element of the Australian car park and manufacturing/import process can be maintained and extended with confidence across a large-scale used vehicle importation process.

Governments' significant investment in road safety, which has saved countless lives, will be jeopardised.

- Finally, we request that the Commission note there would be a need for the Australian Tax Office to facilitate a more flexible approach to depreciation and minimum residual values. Under present ATO administrative arrangements business owners would potentially be locked into an asset that is depreciating at a rate significantly greater than allowable depreciation deductions, and for leases with a residual value significantly above the market value at end lease.

In Summary

In the absence of a comprehensive analysis of the potential impact of reform, we believe there remains significant material doubt as to whether there is a net benefit arising from change to the current restrictions surrounding the importation of second-hand vehicles into Australia.

Should consideration ultimately be given to this reform, AFLA Members suggest that a package incorporating a six year commencement timeframe, strict limitations on the age of used imports, a staged approach to the number of used vehicle imports allowed, and robust safety and compliance requirements, would embody just some of the transitional arrangements at a minimum necessary from the perspective of the fleet leasing industry.

We also suggest that this framework would certainly not prejudice considerations relating to safety, environment, consumer protection and other issues identified.

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