



**AUSTRALIAN
AUTOMOBILE
ASSOCIATION**



Mike Woods
Deputy Chairman
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

24 February 2014

By email: automotive@pc.gov.au

Dear Mr Woods

Review of the Australian Automotive Manufacturing Industry

The Australian Automobile Association (AAA) is the peak organisation representing Australia's motoring clubs. The AAA's constituent clubs are the NRMA Motoring and Services, RACV, RACQ, RAC (WA), RAA (SA), RACT, AANT and the RACA. Combined, these clubs represent more than seven million Australian members, and advocate on behalf of all road users.

The AAA appreciates the opportunity to provide further input to the Productivity Commission's (PC) position paper on the Australian automotive manufacturing industry. Since the AAA lodged its initial submission to this review in December 2013, the two remaining vehicle manufacturers operating in Australia, Holden and Toyota, have announced that they will cease manufacturing of passenger motor vehicles in Australia, over the next few years.

In light of these recent developments, the AAA believes there are a number of issues that should be further investigated for the Commission's final report. In particular:

1. The AAA supports the removal of remaining passenger motor vehicle tariffs. The AAA urges the Commission to recommend a timetable for the full removal an unnecessary impost on Australian consumers.
2. The AAA notes that the \$12,000 special tariff on used vehicles is an ad hoc and redundant measure. The AAA would support a recommendation to abolish the \$12,000 tariff on used vehicles. However, the AAA urges the Commission to take account of the need to ensure that strong standards for motor vehicle design and safety are applied to all vehicles entering the Australian market.
3. The AAA urges the Commission to recommend the abolition of the Luxury Car Tax.



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ANNIVERSARY

AUSTRALIAN AUTOMOBILE ASSOCIATION ABN 25 008 526 369
GPO Box 1555 | 103 Northbourne Ave | Canberra ACT 2601
Ph: (02) 6247 7311 | Fax: (02) 6257 5320
Email: aaa@aaa.asn.au | Web: www.aaa.asn.au

Vehicle Tariffs

In the AAA's original submission to this review, we urged the Commission to investigate the impact which tariffs have on affordability for the overwhelming majority of Australian motorists who purchase imported vehicles. With the subsequent announcements by Holden and Toyota that they would cease manufacturing vehicles in Australia, there is no local industry to protect and as such there is no rationale for maintaining tariffs on imported vehicles.

The Commission's draft report acknowledges that "tariff protection raises the prices consumers face, reducing household income for spending on other goods and services". The level of consumer detriment is reinforced by the fact that in 2013 nine out of ten vehicles sold in Australia were imported. The AAA has estimated the extent of the potential savings consumers could enjoy if tariffs were removed would range from approximately \$630 for a vehicle such as a Mazda2 to almost \$3,200 for a BMW 520.

The Australian Government estimates that it will receive \$920 million in revenue for the current financial year from the customs duty imposed on passenger motor vehicles. The amount is projected to grow well above the \$1 billion per year mark in the forward estimates. This revenue is paid by vehicle importers, but the cost is passed onto consumers.

Second-Hand Vehicle Imports

The position paper has addressed some of the barriers to the importation of second-hand vehicles into Australia. The Commission has noted the \$12,000 customs duty on second-hand vehicles appears to be "largely redundant" and that the real barriers to importing high volumes of used vehicles are the processes of obtaining vehicle import approval. While the AAA is supportive of the PC's recommendation to remove a redundant tariff on used car imports, we support the retention of robust processes to ensure the highest standards for vehicles entering Australia.

Relaxing the restrictions on 'full volume' imports of second-hand vehicles may have benefits to motorists in terms of improved affordability and consumer choice. However, the AAA believes that cheaper second-hand vehicles should not compromise design and safety standards. The position paper shares this view, stating that such "concerns are best dealt with directly, through regulatory standards applicable to all vehicles sold in Australia". The Government, possibly within the review of the *Motor Vehicle Standards Act 1989*, should ensure that safety standards of imported used cars are comparable to those of cars within Australia or near new cars available to consumers. The average age of Australia's fleet is currently approximately ten years-old and it is in the best interest of safety and the environment to bring that figure down.

It will also be important to ensure that any changes in relation to importation of used vehicles do not disadvantage importers of used vehicles through the Specialist and Enthusiast Vehicle Scheme (SEVS). In this context, it will also be important to ensure that the SEVS is used for the purpose for which it was originally intended and not as a 'back door' method of importation.

Luxury Car Tax

The luxury car tax (LCT) is a tax which falls on vehicles which introduce new safety and environmental technologies to the marketplace. The LCT severely constrains consumer choice by pricing a significant portion of buyers out of the market for vehicles priced at the

higher end of the spectrum. Furthermore, as the vehicles targeted are the leaders in introducing new technologies which enhance safety and environmental outcomes, the LCT only serves to constrain the development and utilisation of such features.

The position paper has reinforced the fact that the tax is levied on a narrow base and is an inefficient method of raising revenue compared to more broadly based taxes. The Henry Review of Taxation considered the LCT to be an inefficient and discriminatory form of taxation and recommended its abolition. The AAA welcomes the PC's suggestion that the Government's forthcoming Taxation White Paper may provide an opportunity to remove the LCT. The abolition of the LCT has been recommended by a range of taxation experts and reviews and the final report should also recommend the abolition of this inefficient tax.

I trust that you will agree that the issues canvassed here are of relevance and value to the Commission in framing its final report on Australia's automotive manufacturing industry.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Peisley', with a stylized flourish at the end.

Merrick Peisley
Director – Policy and Advocacy