

21 June 2013

Dear Sir or Madam

Thank you for the opportunity to make a submission to the Consultation paper of the Motor Vehicle Standards Act 1989.

I argue that there should be much fewer restrictions on the importation of used vehicles into Australia. The current importation restrictions 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 calculated). The current importation arrangements restricts competition and allows the car manufacturers to charge Australian higher new car prices. Allowing the private importation of used cars would make the market more competitive as the car manufacturers would have to adjust their pricing strategies to reflect the prices individuals could purchase new cars overseas and import them back into Australia. Where car manufacturers were previously shielded from competition, they would now have to compete more vigorously to keep pace with the much cheaper imports.

As the consultation paper states (on page 8), it is a long-standing government policy that regulation should not restrict competition unless it can be shown that the benefits to the regulation outweigh the costs. However, there is no evidence that the benefits of the current restrictions on importation of used cars outweigh the costs. I argue that the costs (\$2.6 billion in higher new car prices for Australian consumers in 2011) outweigh the benefits to the Australian community. Therefore, the current policy objective of choice and competition is not being achieved. In fact, the current restriction on the importation of used vehicles is anti-competitive for Australian consumers.

This problem existed in the United Kingdom during the 1990s where there were similar restrictions on importing used cars into the UK. During this time, the media and consumer groups provided much evidence that the car manufacturers were charging UK consumers much higher new car prices compared to the new car prices in other European countries. The UK government then abolished the importation restriction on used vehicles and the prices of new vehicles in the UK are now similar to the prices of new cars in other European countries.<sup>1</sup>

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<sup>1</sup> See European Commission, Car prices within the European Union, 1 January 2011

I recommend that the current restriction on the importation of used motor vehicles be removed. It should be replaced with a policy that allows the private imports of used cars. Safety and roadworthiness of vehicles can be ensured by importing vehicles that <sup>2</sup>:

- are not older than 10 years and have not been driven more than 120,000 kms.
- are right-hand drive vehicles from OCED countries: United Kingdom, the Republic of Ireland, Japan and New Zealand<sup>3</sup>.
- Undergo the normal roadworthiness procedure on arrival at an Australian port.

As a helpful suggestion for the next step in the process, your department should commission a consultant to undertake a detailed study into compare the price differences for new and second-hand cars in Australia and other countries. I have provided an estimate of the higher overall prices Australians paid for new cars in 2011. In addition, the CIS report<sup>4</sup> some data about used car prices. However, a more comprehensive study that is made publicly available would help inform the size of the problem and how much Australian consumers are being overcharged for new cars compared overseas consumers.

I look forward to the next step in the process of reviewing the Motor Vehicle Standards Act 1989.

Yours sincerely

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<sup>2</sup> as recommended in CIS policy monograph 125, pages 9-10 . Price drivers: five case studies in how government is making Australia unaffordable. O. M. Hartwich and R. Gill.

<sup>3</sup> As they are developed economies and comparable countries, there is every reason to believe that cars registered in these countries will be, for all practical considerations, as safe as cars in Australia.

<sup>4</sup> CIS policy monograph 125.

## **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

<b>Brand</b>	<b>Average higher price per vehicle (\$A)</b>	<b>Sales in 2011</b>	<b>Total extra cost for Australians (\$A)</b>
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
<b>Total</b>		<b>622,635</b>	<b>\$2,591,393,624</b>

Table 2: detail data by manufacturer and model

Model	Oversas Price	Overseas Price (\$A)	Australian Price (\$A)	Extra price for Australians per vehicle (\$A)	Australian sales in 2011	Total extra cost for Australians (\$A millions)
<b>Lexus</b>						
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
<b>Volvo</b>						
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
<b>Jeep</b>						
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
<b>Bentley</b>						
Continental GT	£103,208	\$156,598	\$320,042	\$163,444	61	\$10.0
<b>Porsche</b>						
Cayenne	\$US48,200	\$46,025	\$104,600	\$58,575	803	\$47.0m
Boxer	\$US49,500	\$47,266	\$101,500	\$54,234	232	\$12.6
911	\$US82,100	\$78,395	\$193,000	\$114,605	201	\$23.0
Panamera	\$US75,200	\$71,807	\$170,400	\$98,593	107	\$10.5
<b>Jaguar</b>						
XF	£24,375	\$36,984	\$68,609	\$31,625	693	\$22.0m
<b>Audi</b>						
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
<b>Mercedes-Benz</b>						
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 sales in 2011	Total extra cost for Australians (\$A millions)
<b>Toyota</b>						
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
<b>Mazda</b>						
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
<b>Ford</b>						
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
<b>Subaru</b>						
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
<b>Nissan</b>						
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	Oversas Price	Overseas Price (\$A)	Australian Price (\$A)	Extra price for Australians per vehicle (\$A)	Australian sales in 2011	Total extra cost for Australians (\$A millions)
<b>BMW</b>						
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
<b>Land Rover</b>						
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
<b>Aston Martin</b>						
V8 Vantage	£75,746	\$114,929	\$217,628	\$102,699	101	\$10.3m
<b>Ferrari</b>						
458 Italia	£141,288	\$214,376	\$458,217	\$243,842	134	\$32.7m
<b>Lamborghini</b>						
Gallardo	£122,775	\$186,287	\$356,087	\$169,800	32	\$5.4m
<b>Maserati</b>						
Granturismo	£68,492	\$103,922	\$251,130	\$147,208	140	\$20.6m
<b>Volkswagen</b>						
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