SUBMISSION TO THE MVS Act REVIEW

Competition and Pricing

Introduction

The purpose of this submission is to demonstrate that the current Low Volume Scheme for the supply of new vehicles is being used by one manufacturer to extract super profits from the Australian consumer and to suggest minor changes to the regulations to prevent this happening.

Background

The Low Volume Scheme for new vehicles allows for the supply to the market of up to 25 or 100 vehicles per year per vehicle category. The Scheme provides a major concession in that it allows alternative forms of evidence to be submitted against some of the ADRs. In the main this applies to ADRs where destructive or expensive testing is required.

The intention of the Low Volume Scheme is to reduce the barriers to market entry (being the cost of compliance) for low volume vehicles. By reducing the cost of compliance the end cost to the consumer is reduced, and as demand for motor vehicles is elastic, it follows that a lower price to the consumer leads to more sales and increased revenue to the Commonwealth and States in the form of duty, GST and LCT.

The Low Volume Scheme is capped at 100 vehicles per year per vehicle category, if the volume is more than 100 vehicles per year the importer must obtain Full Volume Compliance. Full volume compliance is a more expensive and complex process, although the overhead pales into insignificance when amortized across thousands (or tens of thousands of a vehicle) being imported. The regulations also protects the "investment" made in gaining full volume compliance by making full volume vehicles ineligible to be entered on the Register of permitted vehicles under the low volume or SEVS scheme (Regulations 24 (4) (b) (ii)(B).)

The intention of the regulation is sound, to provide a cost effective mechanism for entry of low volume vehicles whilst maintaining rigorous standards for high volume vehicles and providing the high volume importer security that the investment made in obtaining full volume compliance is not compromised by parallel imports. Whilst the full volume importer achieves sole supplier status on their vehicle, the price they are able to achieve is influenced by competition from the (many) other importers of similar competing products.

Whilst there is an upper limit on the number of cars (100) that can be complied under the Low Volume Scheme there is no lower limit on the number of cars that can be complied under the Full Volume Scheme. When the legislation was drafted it was naturally assumed that low volume importers would be attracted to using th lower cost, less complex scheme if they were eligible.

Making super profits

XXXXXXXXX are a very low volume manufacturer (7200 vehicles globally) and sell between 90 to 130 new cars annually in Australia comprising of 4 models. XXXXXXXXX are eligible to use the Low Volume Scheme for compliance for all their vehicles as they import less than 100 of any model and they used the low volume scheme until 2005.

From mid 2005 onwards, XXXXXXXXXXXX (the Australian XXXXXXXXX importer at the time) commenced using the Full Volume Scheme to comply vehicles for the Australian market, thus blocking entry of vehicles under the SEVS scheme.

Having secured market exclusivity, prices increased from 2006 onwards despite reductions in duty and a more favorable exchange rate. When XXXXXXXXX Australasia took over distribution in 2013 the pricing level has been maintained.

The pricing disparity (super profits) caused by a lack of competition can be readily shown by comparing the retail price between the UK and Australia (with taxes and exchange rates factored in) of the most popular new XXXXXXXXX model, the XXXX .

Both the UK and Australian markets are Right Hand Drive and the vehicles are technically near identical (and therefore cost the same to make) - low volume manufacturers like XXXXXXXXX build their vehicles as "world cars" , meeting the most rigorous standards in order to avoid the expense and hassle of producing market specific models.

I've used the retail prices for comparative purposes as the retail price includes all the hidden costs such as the cost of providing warranty, marketing and the dealer and distributor profit margins (which are understood to be similar in the UK and Australia.

Basic pricing comparison calculation

XXXXXXXXX XXXXXXX UK Retail price including VAT	£178,551
UK price excluding VAT (to achieve base price)	*£146,987*
Exchange rate conversion factor Australian dollars	1.8315
Australian dollar cost	**$269 206**
Australian duty @ 5%	$13 460
Australian GST @10%	$28 266
Australian LCT (@ 33% above $75 375)	$78 511
UK retail price with Australian taxes and duty added in.	**$389 443**

Australian retail price (XXXXXXXXX Melbourne 15/10/2015 advertised on Carsales.com	**$601 270**
Price differential (super profit)	**$211 827**

The super profit is earned by XXXXXXXXX Australia or the importer, (not the local Australian XXXXXXXXX dealers and is in **addition to the usual profits** XXXXXXXXX generates in other markets such as the UK .

Since 2005 XXXXXXXXX has sold approximately 800 vehicles in Australia, and based on the above numbers a simple calculation shows the super profit generated could be additional $ 168 Million (800 x $210K) from Australian consumers, a staggering amount in addition to the usual profits that XXXXXXXXX make in other markets like the UK.

The actual amount of super profit will be to the estimate, we don't have access to the actual numbers and XXXXXXXXX sell a mix of some slightly cheaper and some more expensive cars , but the actual amount is still likely to exceed $100 million

It is also unknown if the super profits are taxed in Australia, some multinationals are able to use transfer pricing to shift profits to low tax countries and reduce their Australian tax obligation.

Regardless, the super profits are an unnecessary burden on the Australian consumer, effectively a "gift" to XXXXXXXXX from the Australian government that might also be tax free.

Recommendation.

Amending the regulations to either:

a : Specify a lower limit to the number of cars that can be complied under the full volume scheme to a minimum of 100 vehicles, thus ensuring that low volume vehicles are complied under the low volume scheme (which is non exclusive)

OR:

b: Allow full volume vehicles to be entered on the Register of permitted vehicles in cases where less than 100 vehicles are complied under the full volume scheme in the previous year.

The intention of the amendments would be to permit the importation and compliance of new (XXXXXXXXX) vehicles on a non- exclusive basis under the low volume scheme and prevent companies from making super profits through the unintended consequences of gaming the legislation.

Outcomes

The likely outcome would be a substantial reduction in the retail prices of new (XXXXXXXXX) vehicles in Australia as (XXXXXXXXX) would adjust prices to head off competition from vehicles imported through the RAWS scheme.

Because demand for vehicles is elastic, lower prices will lead to increased sales and hence generate additional GST, LCT and duty revenue and in the longer term benefit local dealerships and employment from a larger "fleet" of XXXXXXXXX vehicles to service.

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