



GM Holden Ltd  
Trading as Holden  
191 Salmon Street Port Melbourne  
Victoria 3207 Australia  
ABN 84 006 893 232  
All correspondence to:  
GPO Box 1714 Melbourne  
Victoria 3001 Australia  
Telephone (03) 9647 1111  
Facsimile (03) 9647 2550  
[www.holden.com.au](http://www.holden.com.au)

## **Submission to the 2014 Review of the Motor Vehicle Standards Act 1989**

**GM Holden Ltd**

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*MVSAreview@infrastructure.gov.au*

Contacts:  
Mr George Svigos  
Mr David Magill

(03) 9647 1111

## **Introduction**

GM Holden (Holden) welcomes the opportunity to comment on the 2014 Review of the Motor Vehicle Standards Act 1989 (the Review). Holden and some of its dealers have participated in the workshops held in Brisbane, Sydney, Melbourne, Perth and Adelaide, during the public consultation process.

Holden has also participated in the preparation of the submission of the Federal Chamber of Automotive Industries (FCAI) and supports the submission of the FCAI to the Review. Holden also notes and supports the 2014 report by Pegasus Economics, titled *Implications of Parallel Imports of Passenger Motor Vehicles* (Pegasus Economics Report) which accompanies the FCAI submission.

Holden supports the strengthening of the Motor Vehicle Standards Act 1989 (MVSA) to harmonise Australian Design Rules with UN regulations and after local automotive manufacturing ends in 2017, to utilise selected but not necessarily all UN regulations as Australian standards.

Although Holden supports harmonisation with UN regulations, it does not support the relaxation of current regulations and taxes which apply to the importation of second hand vehicles. Nor does Holden support the parallel importation of new vehicles.

Holden describes large volume second-hand imports and personal parallel new imports, as 'grey imports'.

The MVSA is a very important piece of legislation that governs the regulation and importation of new and used cars into the Australian market. For a thorough review of the many aspects to this legislation, Holden believes a six week consultation period is insufficient to address all of the complex technical issues pertaining to the MVSA and other legislation by association.

Holden believes the consultation period should be extended, with a six month timeframe being more appropriate for all interested parties to consider the many complex matters before the Review.

## **Holden Background**

Holden is one of Australia's oldest and most trusted businesses. Established as a saddlery in Adelaide in 1856, it went on to build motor bodies and assemble vehicles for General Motors (GM). Holden has been owned by GM since 1931 and was the first company to mass produce a car in Australia, in 1948. Of the 67 vehicle brands currently in the Australian market, Holden is the only uniquely Australian car brand.

Holden has approximately 3,500 employees in its design, engineering, manufacturing and sales operations. Holden's combined operations in Victoria include a Head Office, a Design and Engineering Centre, Holden Engine Operations, Holden Service Parts

Operations and a Proving Ground. Holden's vehicle manufacturing operations, where it builds Commodore, Caprice and Cruze, are in Elizabeth, South Australia.

Holden is headquartered in Port Melbourne, Victoria and has sales zone offices in New South Wales, Queensland and Western Australia.

There are 230 Holden dealerships and service centres throughout Australia, employing a further 13,500 people. Holden has built up its strong and extensive dealer network over many decades and a number of our dealers have been selling Holdens since the introduction of the first Holden car in 1948.

Holden dealerships are respected and trusted businesses in the communities they service, providing high levels of customer care and service, stable employment and skilled jobs and training. Considerable respect is also earned from the support Holden dealers provide to their local communities, such as sponsoring community clubs, sporting clubs and providing donations and in-kind support to not-for-profit organisations.

Holden is a long term partner of Landcare Australia and the Leukaemia Foundation and through the Holden Foundation, Holden has been ready to assist during times of natural disaster. For example, Holden provided vehicles during the 2009 Victorian Black Saturday Bushfire emergency and gave a substantial donation to assist the clean up after the 2012 Queensland floods.

Holden annually provides a large number of non-saleable build vehicles from its engineering and manufacturing operations to the Australian Road Rescue Organisation, to enable teams from road rescue emergency services all around Australia to competitively practice simulated road rescues using near new vehicles, to perform their emergency recovery techniques on latest technology vehicles.

Holden is extremely proud of the support and employment it has provided to the wide Australian community over many decades. Having a healthy brand and dealer network enables more resources and support to be put back into the community.

Holden has a proud record of working to ensure that Australian motorists have affordable access to the latest safety and technological advancement in vehicles. Holden has had a world-class Proving Ground at Lang Lang, Victoria, since 1956, where vehicles are comprehensively engineered, tested and tuned for all Australian road conditions. Holden vehicles are renowned for their durability and leading the way in safety on Australian roads, through early introduction of safety features such as seatbelts, anti-lock brake systems (ABS), airbags, electronic stability control (ESC), park assist, head up display, lane departure warnings and collision alerts.

## **Comments to the Review and the Options Discussion Paper**

Holden is relatively satisfied with the current operation of the MVSA. Whilst there are aspects which could be strengthened, Holden does not see any particular market failure which has occurred as a consequence of operation of the MVSA. Such that the maxim “if it aint broke, don’t fix it”, may apply.

Holden believes that all importers of vehicles must be required to meet all legislative obligations. The Review should recognise that many legislative obligations are outside of the MVSA. These should be thoroughly considered as part of the Review and implications be assessed. For example:

- Radio Communications Regulations
  - To prevent interference to other services
  - New V2V safety systems from Japan may interfere with Australian tolling stations
  - New V2V safety systems from Japan may interfere with Telstra’s new mobile phone network
- Consumer Product Safety Standards
  - Vehicle jack safety
- Codes of Practice
  - Exhaust shields to prevent cars starting bushfires
- Electrical Safety Regulations
  - Safety of electric and plug-in hybrid vehicle chargers
- Restricted Materials Regulations
  - Eg. Asbestos, Cadmium, Hexavalent Chrome

It is also important that the Luxury Car Tax (LCT) is properly considered and accounted for when assessing vehicle prices in Australia.

### ***Option 4 – Strengthen the Act***

Australia should have national vehicle standards which are harmonized throughout the states. This should operate through a nationally accepted certification/approval system without additional state requirements. States which operate in an un-harmonised manner can create additional cost burdens and inefficiency to businesses and confusion for consumers. A recent example of this was the earlier mandatory introduction of ESC in Victoria, ahead of other states, causing additional regulatory cost burden to business and a dislocation of introduction of product to market.

### ***Option 5 – Harmonise Australian Vehicle Standards with International Standards***

Holden supports harmonisation of Australian Design Rules (ADRs) with UN Regulations, provided that the ADR is justified. There are some UN Regulations which are not

currently applied in Australia (eg. cold start) and this should continue to be the case, if the regulation is not justified in Australia.

Increasingly applying UN Regulations as alternative standards within the ADRs provides the most flexibility and avoids extensive rewriting of downstream state regulations.

As recommended in the 1999 MVSA review, “if Australia is to adopt UN/ECE standards, it is essential that the Australian classification system match the UN/ECE classifications”. National supporting regulations also need to be harmonized to ensure vehicle categories, masses, dimensions and tolerances are compatible with ECE regulations (eg. ADR and ECE have different definitions for Passenger Mass, Tare Mass).

### ***Option 6 – Streamline New Vehicle Certification***

Holden suggests a review of existing concessional arrangements, to have a consistent/equal certification process.

All importers outside of established distributorships should be aware of any additional costs which may relate to the import process, which may include Commonwealth and State charges. For example, what additional charges might be incurred at Customs and Border Protection, such as quarantine operations? For example, would the consumer bear the cost of precautionary vehicle decontamination?

Holden requests that a risk assessment be sought and published, from Australian Customs and Border Protection Service, pertaining to the risks and costs associated with importation of increased volumes of second hand vehicles, outside of established import distributorships:

- If vehicles are imported from regions where there are higher incidences of contamination, such as seed contamination, will there be strong quarantine measures in place and will the consumer bear the cost of any precautionary or required decontamination deemed necessary?
- What consumer safeguards would be put in place to assess if vehicles are being imported from natural disaster zones, for example, second hand vehicles partially damaged by floods or in the case of the 2011 Japan earthquake, vehicles that may have been exposed to radioactive particle contamination?
- Do second hand motor vehicles pose a higher risk for illegal importation of banned substances, especially if they are imported in high volumes?

### ***Option 7 – Reduce Barriers to the Personal Importation of New and Quality Second Hand Vehicles***

Holden, including its extensive dealer network, does not support a relaxation of the current regulations and taxes for the importation of second-hand and parallel new vehicles. Holden believes that doing so will leave consumers worse off and

compromised on safety and after sales service. Consumers will not have the warranty, recall and capped price service that they receive through authorised brand distributors.

Holden points to the analysis conducted by the FCAI which illustrates Australian consumers are benefitting from high levels of competition. The FCAI's global price comparison of a selection of vehicles of similar specification, illustrates that Australian vehicles are competitively priced.

Holden also supports the 2014 report by Pegasus Economics titled *Implications of Parallel Imports of Passenger Motor Vehicles*, which is attached to the FCAI submission.

As pointed out in the Review document, Holden's Commodore SS is exported from Australia to the US where it is sold as a Chevrolet SS. Just as many other like for like products in these two markets retail at different prices, such as Corona beer, so too do the Holden Commodore SS and Chevrolet SS. In the US, the SS is priced by Chevrolet, not by Holden, just as Holden sets the price of the vehicles it sources from other global plants, for its local market in Australia.

Price is determined by local market competition and where the vehicle is positioned in its market, against direct competitors in that market. The total size of the local market and purchasing power of its consumers are significant factors, as too are the input costs of the local business, product volumes and the underlying fundamentals of the wider economy, including exchange rates, interest rates, average weekly earnings, fuel prices, tariffs and various other federal and state taxes, incentives and regulations.

Volume of the market has a big impact, with higher volumes enabling a wider spread of overhead costs which leads to cheaper retail pricing. Some cross subsidization may also occur. For example, a larger vehicle in a brand's range may be set at a higher price to offset the lower margins and sometimes losses, of a smaller vehicle or the vehicle that sits in the most competitive segment in the range.

Holden disagrees with the PC recommendation to relax the regulations for importing vehicles to Australia. More rigorous and detailed study should be made before making the general assertion that Australian consumers are paying too much for motor vehicles in the mainstream market compared with other countries. Examples cited, such as the comparisons made based on second hand vehicles by the Centre for Independent Studies (CIS), are highly questionable in Holden's opinion.

News Corp journalist Josh Dowling makes a price comparison between three popular Australian small cars and three popular family SUV's and points out that in Australia, these vehicles are only marginally more expensive or cheaper, than in the US and significantly cheaper than in the United Kingdom.

(<http://www.news.com.au/finance/money/car-affordability-hits-new-high-prices-at-new-lows/story-e6frfmcr-1227010447528>)

Holden suggests that the Department of Infrastructure and Regional Development (DIRD) conducts and publishes its own comprehensive global price comparison analysis

of like for like vehicles, in the mainstream price range of \$15,000 to \$75,000. Holden is confident that such a study would show that Australian consumers have access to one of the most diverse and competitive new vehicle markets in the world and that they are not being 'ripped off'.

If there is particular interest by government to explore possible global pricing disparity and if so, the reasons, for vehicles in the upper/luxury end of the market, this should be specified and demarcated.

In this Review, no parameters have been determined as to what is out and what is in. Even the definition of the title term of Option 7 – *Quality Second Hand Vehicles* - is open to very wide interpretation.

Until a more precise definition is provided of what is being considered, Holden will assume that all grey vehicle imports are on the table for consideration, ranging from personal parallel importation of new vehicles, to large volume importation of 'end of life' vehicles from Japan.

#### *Competitiveness of market*

Vehicles which are sold new in Australia generally have higher levels of technology and safety features as a result of the high competitiveness of the market. In Australia there are currently 67 brands competing for new vehicle sales in a market of approximately 1.1 million sales. In 2012, the USA had 43 brands competing for a market of 16 million new vehicle sales and in China there were 47 brands chasing 18 million sales.

This is what makes Australia such a competitive market and why cars which come to this country have the latest features and technologies in order to compete. As a result, Australian consumers are the winners.

Car affordability in Australia in 2014 is the best it has been in nearly four decades according to the CommSec Car Affordability index. This can be seen when comparing the price of vehicles in the small car segment. For example, in 2013 the Toyota Corolla was priced at \$19,990 – the same price as it was listed in 1996. The 2013 model naturally has much improved technology, emissions and safety features. CommSec data shows that it takes 25.9 weeks of the national average wage to purchase a large family car. This compares to 31.3 weeks in 2011 and 37 weeks a decade ago.

The battle for sales in Australia plays a major part as brands constantly improve their offerings and levels of standard vehicle features, in their chase for market share.

#### *Safety of vehicles*

The safety of a motor vehicle is of far greater importance than the safety of most other products. Not only does a faulty car put the driver and passengers at risk but it also poses great risks to other members of the community, whether other vehicle occupants or pedestrians.

Holden has a proud history of leading the way in safety on Australian roads, through early introduction of safety features such as seatbelts, anti-lock brake systems (ABS), airbags, electronic stability control (ESC), park assist, head up display, lane departure warnings and collision alerts.

A very cautious approach should be taken when assessing current regulations and the importance of protecting Australian consumers. Holden is not of the view that relaxing import regulations will have positive safety outcomes for consumers. The MVSA currently safeguards consumers by ensuring that vehicles are of a high standard and of high minimum levels of safety requirements. The risk profile to meet these high standards is spread across the brands and their dealers.

### *Consumer Risk*

Holden is concerned about the potential impact on consumers and predicts an increase in risk and long term price impact to consumers through the 'grey' importation of vehicles, either second-hand or new vehicles parallel to authorised distributors.

By going outside the authorised dealer networks, consumers would lose the benefits of capped price servicing, local warranty, dealer network technical and service information and recall information. Routine servicing is likely to be more expensive and parts would be harder to source. Other costs could also be incurred, such as replacing tyres with ones suited to Australian road conditions.

Purchasers of grey imports would not have the opportunity to try before they buy. What safeguard measures would be in place to protect consumers from vehicle faults if they are solely purchasing direct from overseas, via a website; is it a complete case of 'buyer beware' and who would bear the cost of returning a defective vehicle?

It would also be perverse to assume that buyers of parallel imports are entitled to the benefit of demonstrator vehicles and information from an authorised dealership, prior to bypassing the dealer when making the purchase.

Under the current import distribution arrangements and under the Competition and Consumer Act (CCA), importers carry the risk. If current regulations are relaxed or repealed, then the consumer would bear the risk, associated costs and safety implications of a car that does not meet appropriate standards. The consumer would also carry the risk of difficulty with aftersales servicing and accessing spare parts, probably no access to warranty and very limited or no ability to be included in safety recalls. The consumer's first question should be, "who pays?" Under all these scenarios and in the instance of grey imports, it would most likely be the consumer.

Consumer risk would apply to vehicle warranties, the after sale of parts and service and recall mechanisms. Many second-hand cars are bought at auction and through dealers, as this guarantees a warranty for the vehicle. These warranties place the risk onto the

auction house or the dealer, meaning they are liable to fix many of the problems that may arise during the life of the warranty. If a second-hand or new vehicle is privately imported, then there is high probability it won't have an associated warranty. The risk that was previously backed by the auction house or dealer, then transfers completely to the consumer, eliminating the protection of a dealer purchase.

If an irregular vehicle is imported then there is no guarantee that, in the event of a recall, the owner will be made aware and/or contacted of this, potentially putting the consumer seriously at risk.

### *Local Communities*

Changes to the MVSA which allow large volume importation of second-hand vehicles will have a significant impact on Holden dealerships, including the sales of new and traded-in vehicles and the servicing and aftersales service of those vehicles. Dealerships will sell fewer new cars, impacting business operations and employment, and brands which sell fewer new cars will be less able to support the dealer network, which in turn will be less able to support their local communities.

There are 13,500 people employed in Holden dealers across Australia. Employment would be impacted through a reduction in sales people and a substantial reduction in training positions offered by dealerships, with fewer apprentices being skilled up on leading edge technology.

New car dealerships are significant and respected employers in their local communities, often as a result of decades of investment into their businesses. Holden dealers have been stable and good employers, with extensive records of community engagement and contributions, including sporting club sponsorships and donations for local events.

### **Responses to Direct Questions in the Review**

#### **Q 7-1**

#### **What are the benefits or costs of refining the risk based approach to the regulation of vehicles entering the Australia market?**

The MVSA needs to be considered in conjunction with other legislation and codes of practice when looking at vehicles entering the Australian market. For example:

- there is a Consumer Product Safety Standard for vehicle jack safety
- there is a Code of Practice for underbody temperature to prevent cars starting bushfires
- some vehicles will not run properly on Australian fuel, which is dirtier by comparison to Europe; and

- many of the new vehicle to vehicle (V2V) safety systems, which are not in compliance with Australia, will not work in Australia and may contravene the Radiocommunications Act.

Large scale private imports, if allowed, will mostly come from Japan as they are a right hand drive market like Australia. The automotive industry is concerned that the next generation vehicle to vehicle (V2V) and vehicle to infrastructure (V2I) safety systems from Japan will not work in Australia, and moreover, the radio transmitters in these vehicles may cause harmful interference to other licensed spectrum users.

The Japanese dedicated short-range communication (DSRC) systems operate in the 5.8GHz band. This is used in Japan for toll collection as well as V2I communication for traffic congestion, parking etc. These systems may interfere with our freeway toll collection systems if not turned off.

Additionally, Japanese Cooperative Intelligent Transport Systems (C-ITS) operating in the 700 MHz band will most likely interfere with new services in the “Digital Dividend” band in Australia. The Japanese V2V band (715 – 725 MHz) occupies part of the band that Telstra recently purchased from the Australian Communications and Media Authority (ACMA) for \$1.3 billion for next generation mobile applications.

#### **Q 7-3, 7-4, 7-5**

**Does a case still exist for Australian Government intervention in vehicle standards? Could the Australian Vehicle Standards Rules be used as an alternative to the national standards? If so, what would be the necessary approach to minimise the regulatory burden, industry compliance costs and inconsistent application across states and territories?**

**Are there non-regulatory ways of achieving the same policy objectives of road safety, environment, security, and adequate consumer choice?**

Holden considers that a case exists for Australian Government intervention in vehicle standards. It is important that Australia has one set of rules for all states to work from. Even the small amount of non-uniformity between current state in-service regulations causes significant workload.

With approximately only 1.1 million new vehicle sales per year, Australia is already a small national market. There will be less chance of achieving improved safety outcomes with individual state regulations. If this were to remain, states with lower standards would have an economic advantage over other states if vehicles were preferentially imported on an individual basis through that state.

In a global market, the best safety and efficiency outcome is achieved by being a fast follower of UN-ECE regulations.

## Q 7-6, 7-7

**What other legislative ‘fixes’ to the Act do you consider necessary?**

**What examples of duplication between the Act and other key pieces of legislation could potentially be removed?**

DIRD needs more discretion in decision making. Under UN Regulations, an ECE Technical Service can ensure the intent of a regulation is met where new technology or design is not adequately covered by the wording of the regulation. DIRD takes a more administrative role and does not provide this technical service. To decrease duplication, anomalies between states should be removed. Examples include:

- Window tinting
  - Victoria and some other states allow heavy tinting of the front windows which is not allowed in the ADRs. Drivers complying in one state may get booked in another state
  - ADR 8 allows unlimited tinting of the windows rear of the B-Pillar, but the states require a minimum of 35% light transmissibility.
- Towing couplings
  - Tasmania requires certified D-shackles whereas other states do not. This has been the subject of significant media attention due to concerns that drivers complying in one state may get booked in another state.
- Temporary Spare Wheels
  - Some states do not allow different tyre sizes on the same axle creating uncertainty for users of temporary spare wheels.
- Bull Bars
  - Some states require compliance with the Australian standard, some do not. Drivers complying in one state have been booked in another state.

Interaction and overlap with other legislation and administrations, such as Australian Consumer Law and the ACCC, is also a significant issue. Examples include:

- ISOFIX child restraints have only recently been approved for use, in September 2014, despite the ADR being in place since March 2012.
- The need to link emission standards (eg. Euro 5 and Euro 6); first world emissions standards cannot be expected to be achieved on third world fuel.

The need to link future safety systems to the radio-communication regulations will be a significant issue for the industry. ACMA regulations will be required for C-ITS. It will not be possible to legislate for the new C-ITS safety systems without ACMA allocating the necessary spectrum.

#### **Q 7-10**

##### **What regulatory services under the Act could be delivered through private sector or other organisations?**

To decrease regulatory services provided under the MVSA, it may be more effective to make more use of ECE Technical Services, particularly for low volume imports.

#### **Q 7-11, 7-12**

##### **What regulatory mechanisms should be in place to ensure that motor vehicles are effectively recalled when safety concerns arise?**

##### **What costs and benefits do you see from providing a legislated role for the vehicle safety standards regulator in vehicle safety recalls?**

FCAI members have a Code of Practice that outlines how members will meet their obligations under the Australian Consumer Law (ACL).

#### **Q 7-13**

##### **Are there any specific local requirements for light vehicles that would prevent full harmonisation with UN regulations for light vehicles?**

Of the specific local requirements that would prevent full harmonisation with UN Regulations for light vehicles, top tether child restraint anchorage requirements (ADRs 3 and 34) are the biggest impediment for full harmonisation.

National supporting regulations also need to be harmonized to ensure vehicle categories, masses, dimensions and tolerances are compatible with ECE regulations (eg. ADR and ECE have different definitions for Passenger Mass, Tare Mass).

EU has a Masses and Dimensions regulation which supports the ECE regulations. Australia needs to align its Masses and Dimensions regulations (ADR Definitions and ADR43) with this to fully harmonise with ECE. The following issues in particular cause problems:

1. For ADR a passenger is 68kg + 13.6kg luggage, for ECE the numbers are 68kg + 7kg. This means that a fully laden 5 passenger sedan is 33kg heavier for ADR than for ECE, plus ADR includes all options >2.3kg which ECE does not. Australia's Tare Mass definition also includes the weight of all options, whether they are fitted or not.
2. ECE has a 3% allowable tolerance for actual mass and dimensions. In Australia we have no defined tolerances, which has caused problems in the past with ACCC weighing actual cars and comparing them to the specifications. Production cars can vary by  $\pm 15$ kg just from day to day build variations (eg. paint and deadener thickness).

## Q7-14

**How much business compliance cost savings could be made through the above options to harmonise Australian standards with the UN Regulations and the acceptance of evidence of compliance with those standards?**

The discussion paper states at page 38:

*In areas where Australian standards development and technology is ahead of the international regulations (such as side impact protection), this would allow Australia to be early adopters of home grown technologies to accelerate the safety and environmental performance of our vehicle fleet.*

This will not be applicable in the light vehicle area. With the loss of the local automotive manufacturing industry, home grown OEM technologies for light vehicles will be rare. By global standards, Australia will become a low volume importer with little or no ability to lead the world in vehicle design. At best, Australia can become a fast follower. Opening up the market to higher volumes of second hand imports would reduce the number of new car sales and lower adoption rates of latest safety technologies.

As a small player in a global market, Australia cannot lead Europe in the application of regulations. In most cases the vehicles will simply not be available, leading to a worse safety outcome. The best safety outcome will be achieved by Australia being a fast follower of UN-ECE regulations. Significant savings could be achieved if current ADRs were fully harmonised with UN Regulations, however there would still need to be consideration of how the audit process would work.

There are still unique Australian requirements that exist under Codes of Practice but are not ADRs. Examples include:

- exhaust shields to prevent bushfires
- specific transmitter frequencies (but mostly aligned with Europe) for remote keys
- V2V safety systems; we should not allow manufacturers to diminish safety levels by switching off future safety systems in order to meet ACMA regulations.

Often EU approvals (not ECE approvals) are the only mechanisms available for emission and fuel economy certification. There needs to be an ability to accept these as complete evidence without applying the ADR selection of fleet criteria and zero mass tolerance.

## Q7-15

### **Would there be any increased cost to consumers for a vehicle that complies with UN Regulations not required for Australian conditions (such as cold start) as opposed to the current hybrid compliance arrangement?**

There should not be an increased cost to consumers for a vehicle that complies with UN Regulations that are not required for Australia, unless the extra requirements were made mandatory.

However, authenticity of imports would need to be determined. To ensure that second-hand and/or parallel new imports were safe, reliable vehicles and that they conformed to UN Regulations, there would need to be regulated assessment and testing in place. A regime should be in place to ensure compliance and guarantee provenance. This presumably would be costly and time consuming. There is not currently a system in place which inspects the private importation of vehicles when it comes to the structural integrity of the vehicle, inadequate repairs, if the car has been stolen or re-birthed and if odometer tampering has occurred.

Any introduction of a grey import scheme would also require provision of very clear and transparent guidelines and charges of the importation and compliance process, so that consumers are fully aware of the process and costs (including customs, quarantine and any other import charges and duties) applicable to getting a vehicle from an overseas dealer, to being a registered motor vehicle in their driveway.

There would also need to be comprehensive guidelines and procedures on potential issues that can arise through the customs, quarantine and duty payment process (eg. seed decontamination) and how to resolve them, plus associated costs.

There would need to be a significant investment in the implementation of new regulations and systems which adequately assess second hand or parallel new vehicles on arrival in Australia. Once the vehicles have arrived onshore, the consumer is likely to have already paid for the purchase, potentially resulting in a substantial amount of money spent on a vehicle that may be found to be an unsafe or illegitimate product. The protection of consumers cannot be guaranteed in these scenarios, unless there are identical checks on the safety and authenticity of the car, its parts and history at the vehicle's place of origin. An inspection system would need to be planned, costed and implemented, which is likely to be a more expensive and impractical exercise, as opposed to keeping the existing, effective MVSA. Costs of an inspection system would presumably be passed on to the individual importer/consumer and if so, this should be pointed out.

#### **Q7-16**

**Is there benefit in providing for the approval of modules of design/assembly of a vehicle? How could this be done to ensure the certification is valid for a range of later added componentry and bodies?**

With regard to approval of modules of design/assembly of a vehicle, there are practical difficulties at the architecture level, however regulatory burden could be reduced significantly by simplifying the treatment of variants. As a current example, if Holden adds a sunroof to a model and gives it a new variant name, the new variant is required to be recertified, even though the addition of the sunroof makes no difference to ADR compliance. This creates extra work for both the manufacturer and for DIRD.

#### **Q7-17**

**What risks would a regulatory framework need to address if barriers were reduced on vehicle imports?**

If barriers are reduced on vehicle imports, the MVSA policy objectives of community and consumer protection will not be met unless issues of service, warranty, recalls and non-compatible safety systems are addressed.

It is highly likely that individual brands will not take responsibility for vehicles which have been imported outside of their officially established import and distribution channels.

As previously described, Japanese C-ITS systems will not work in Australia. If imported in large numbers the government is highly unlikely to achieve “vision zero” road fatality numbers. Also, if imported in large numbers, grey import Japanese vehicles have the potential to interfere with freeway tolling systems and Telstra’s next generation mobile communications systems.

Until Australia has cleaner fuels, there should not be encouragement of higher importation volumes of diesel passenger cars. It is widely acknowledged that a high concentration of diesel engines is bad for urban air quality, particularly NOx and particulates.

#### **Q 7-18**

**What impact would second-hand vehicle imports and personal imports of new vehicles have on the automotive sector in the short, medium and long term?**

Although some people are asserting that consumers will be able to access cheaper vehicles if the current barriers to imports were removed, Holden believes it poses far more problems for the consumer and the Australian market, than benefit.

Buying directly from overseas, the risk profile would shift from the brand, dealer and auction house, to the consumer.

If second-hand and/or the parallel importation of new vehicles is allowed, new car sales will decrease, therefore having an inevitable impact on dealers across Australia. Once sales decrease, profit will decrease. And once profit decreases, the number of jobs in the industry will eventually reduce.

Also, dealers will be burdened with significant costs of investment in order to provide new specialised diagnostic tools/equipment for a flood of imports not currently sold in Australia, if they do in fact decide that this investment is worth the money.

A leading Western Australian Holden dealer and Motor Vehicle Industry advisor to the WA Government, Mr Doug Kerr, has commented that the Australian vehicle market is regarded a world best practice bench mark, which has been made possible by a balance between the value of a three year old vehicle, as a trade on a same brand new replacement vehicle. This has historically been at a trade in value of approximately 55% and is a highly sensitive balance which creates the unique Australian market that exists today, which encourages a regular turnover into new vehicles. Fiddling with this balance will be detrimental to new vehicle sales. Large volumes of additional second hand vehicles into the market will affect the established three year resale value, reducing it well below 55% and substantially increasing the outlay for buyers trading into new replacement vehicles, leading to severe dislocation and negative impact on the new vehicle market.

Increased grey imports would impact the resale value of the Australian fleet, with thousands of dollars' worth of value likely being wiped off many popular vehicle models currently sitting in Australian driveways.

The New Zealand experience of grey imports is well documented by the FCAI submission and Pegasus Economics report. Holden strongly urges the Government not to pursue this model.

The original intent of the New Zealand policy to open up the market to second hand Japanese imports was to decrease the age of the New Zealand fleet from what prior to the policy was a very old fleet. This is a completely opposite scenario to the current Australian fleet, which is relatively new by global comparison. Japanese imports achieved an initial lowering of the New Zealand fleet age but once the policy became well established, it has inhibited the volume of new car sales, resulting in an older average age fleet by global comparison, which has plateaued and is unlikely to catch up unless the flow of second hand imports into New Zealand is constrained. Australia should not repeat this experience, especially now that high levels of affordability of new vehicles continues to decrease the average age of the Australian fleet.

It would be detrimental to Australian consumers to expose them to the downfalls of the New Zealand model.

It is well known and documented that the high volume grey import business is rife with poorer standard vehicles, including unrepairable cars, unsafe cars, rebirthed cars and

even some incidences of vehicles that have been exposed to radiation following the 2011 Japan earthquake.

It is also well known and documented that winding back of odometers is rife in the grey import market, so consumers don't have the true provenance of the vehicle to start with, which leads to safety being severely impaired.

Holden is aware of difficult experiences many people have had in getting vehicles that were built for the Japanese market, being serviced and repaired in markets outside of Japan. This also includes the sourcing of parts, where there can be lengthy delays due to non-availability.

There are also incidences of vehicle features which are designed specific to Japan but are different in other markets, even though the vehicle make and model may appear the same. This can also apply for vehicles in the UK/European market. Examples include differences in cooling systems/radiator size, towing capacity, incompatible navigation systems and digital radio tuning frequencies.

Many vehicles supplied to the Australian market through authorised brands are specifically engineered for Australian conditions, resulting in often obscured differences such as:

- Radiators
- Suspension
- Engines and ECUs
- On-board electrics
- Dust protection
- EMC compliance
- Heating/cooling systems
- Infotainment systems (Radio frequencies are different e.g. AM 9kHz spacing instead of 10kHz)

An average consumer would presumably be oblivious to most of these type differences, as they are generally subtle or hidden. Some out of sight differences can often be significant, such as suspension specifications and consequent durability for Australian driving and towing conditions.

New or second-hand vehicles would most likely be sourced from right-hand-drive countries such as Japan and UK. These markets can differ greatly from Australia and it is quite possible that there could be imported models which are not sold in Australia at all. In this case, independent service centres may not be able to guarantee identification of problems with these vehicles, especially as technologies and vehicle operating systems become more complex. There would likely exist a lack of specialist diagnostic tools and equipment across all Australian service centres, being too costly for a service centre to obtain.

Parts for irregular vehicles would likely be very expensive and more difficult to source, assuming that the correct parts are ordered in the first place considering a service centre may not have been able to accurately identify the problem through lack of proper diagnostic equipment and technical data. If a service centre was to substitute by using local parts on an irregular, grey import vehicle, the safety implications could be catastrophic.

#### **Q 7-19**

##### **Could constraints around a vehicle's age and country of origin effectively manage the safety, environmental and theft risk to the community?**

Vehicle age constraints will not guarantee safety. For example, very few countries have regulations like Australia that prevent the use of entertainment screens, now a common feature of new vehicles, whilst driving. Direct imports may not lock out entertainment visible to the driver when the vehicle is being driven.

Many imported vehicles will not have NCAP ratings, which makes it more difficult to assess levels of safety.

V2V and V2I safety systems from Japan will not work in Australia, denying the customer of improved safety benefits and if imported in large numbers, denying the Australian community of the full safety benefits.

#### **Q 7-21**

##### **Could consumer protection for personally imported new vehicles be left to consumer laws, and why/why not?**

Consumer protection for personally imported vehicles should not be left to consumer laws. Under Australian Consumer Law, the importer is the responsible party for product liability. Under personal imports, the consumer is the importer and therefore would bear all the risk of defects and product liability.

If personal imports of new or second hand vehicles are allowed, then the consumer will carry all the risk, such as:

- No try before you buy
- Defects or not fit for purpose
- Risk associated with aftersales service
- Difficulty sourcing spare parts
- Very limited or no ability to be identified for safety recalls.

**Q 7-27**

**Could the regulation of the Registered Automotive Workshops and the New Low Volume Manufacturers be combined under a new legislative framework (as illustrated in Figure 3)?**

Consolidation of concessional schemes into risk categories is a more flexible way of dealing with low volume imports. The needs of OEMs to import evaluations and show cars would still need to be accommodated.

Holden reiterates, it does not support the relaxation of current regulations and taxes applying to the importation of second-hand vehicles. Nor does Holden support the parallel importation of new vehicles.

***Option 8 – Reduce / Consolidate Concessional Arrangements***

Holden acknowledges there will be cost associated with compliance against ADR's or UN Regulations if harmonised. Although there may be a belief that relaxing import regulations will result in decreased compliance cost, it is more likely to shift cost to deal with the cost of unintended consequences under such a move. These are likely to not only be cost borne by Government but also direct cost to already established businesses.

As a consequence of the highly competitive and affordable market for new vehicles in Australia, the age of Australia's vehicle fleet is low by global standards. Most importantly, there is no doubt this is a major contributor in lowering vehicle road deaths and the associated substantial trauma related cost to the community. \$280 million of regulatory cost, when spread across the whole industry, may indeed be regarded as a small price to pay when compared to the billions of dollars that are incurred as a consequence of road trauma.

Meddling with the current import regulation structure and allowing more second hand vehicles on our roads for sake of decreasing some regulatory cost, may in fact be a larger price to pay if the constantly improving road toll figures go into reverse.

George Svigos  
Executive Director – Corporate Affairs  
GM Holden Ltd