

## **Review of Motor vehicles Standards Act 1989**

I would like to provide a range of questions and proposals for the Government's consideration in conducting the review. My specific areas of focus are the restrictions on importation of new and used vehicles (and the impact this has on prices of higher value vehicles) and the unnecessary, costly and redundant elements of the Australia Design Rules.

### **Restrictions on importation of new and used vehicles**

As the discussion paper acknowledges, there are very tight restrictions on the personal or commercial importation of new and used vehicles that would otherwise meet any reasonable standards in terms of performance, safety and environmental impact. These restrictions can only be seen for what they are – an attempt to protect local manufacturers.

That they have no role in terms of performance, safety and environmental impact can be seen in cases where the criteria for personal importation can be satisfied, the vehicles have no problem passing the various registration tests at a state or territory level.

What the discussion paper has not clearly identified is the perhaps unintended consequence of these restrictions. The restrictions have allowed high value vehicle distributors in Australia to use the barriers to trade to extract a huge surplus from Australia consumers.

The picture is quite stark when looking at the European high value makes of Porsche, BMW, Audi and Mercedes Benz. These vehicle makers have vehicles at various price points – some at lower price points that increasingly face competition from Japanese and Korean makers and others at the higher price points that do not face such competition.

Where the European makes face real unconstrained competition, they meet the market. Where there are no competitors and the import restrictions apply, the Australian distributors can extract a surplus from Australian buyers of high value vehicles.

The attached spreadsheet compares the prices of the same vehicles from these makers in the UK, Japanese, USA and Australian markets. It demonstrates the different effects of the import restrictions on higher value vehicles (much higher prices than in other markets) and the competitive effect on the prices of lower value vehicles (prices closer to other markets) in their ranges. Inevitably, critics of this evidence will argue that vehicles are delivered to different specifications in different markets. The exact price is not the point of the exercise, it is the difference in relative prices, which is significant. Different options and taxes (except for LCT) are insignificant.

The restrictions on importation of higher value vehicles have provided distributors of those vehicles with the ability to extract a huge surplus and the Government sees very little benefit of this surplus, apart from proportionally higher Luxury Car Tax revenue. Consumers bear the burden of this Government-protected market.

However, where a distributor of a high value vehicle faces no competition from other makers (because they do not have a competing product) and there are restrictions on parallel importation of new cars and of used cars, the distributors have a captive market. The price gouging that goes on at the higher end of the market is obscene.

The distributors have allowed in their more candid statements that they charge the higher prices because they can – because people are prepared to pay. What they have not acknowledged is that it is purely because of the Government restrictions that this situation can persist. If the restrictions were to be removed, prices would move just as they have in those areas of their product mix where there is real competition.

Competition does not have to come from competing products, it can also come from the ability to access the same products from elsewhere in the world – an avenue that is currently closed.

This situation is a problem because the charging of inefficient prices means that there is a resulting loss of efficiency in the Australian economy. Less expenditure into a protected market would mean more expenditure into more efficient areas of the economy and a resulting increase in productivity and national wealth.

The Government has suggested that one option it is considering is providing the ability for Australian consumers to purchase new vehicles direct from overseas. This is a worthwhile position to take as it puts the distributors on notice that competition will be introduced.

Naturally the rent seekers will fight to preserve their privileged position with all sorts of emotive and self-interested claptrap. The likely real outcome can be observed by their reaction to the introduction of competition in those parts of their product range that face real competition – they will move to meet the market.

The prospect of their customers being able to purchase a vehicle through a different channel will mean that distributors will move to ensure they retain access to sales by reducing their prices to a more reasonable level. It is unlikely that personal imports of vehicles that are available from Australian distributors will make up a significant proportion of sales in the medium to longer term. They may, however, be needed to force the distributors to move in the short term.

The option of parallel imports of new vehicles and of used vehicles at the higher value end is the policy position that is likely to have the largest positive economic impact for Australia.

While an unrestricted provision for importation of used vehicles could have the effect of increasing the age of the fleet, if the government requires imported vehicles to meet the UN standards, there is unlikely to be a significant influx of vehicles. The vehicles are more likely to be similarly priced in Australia and local delivery vehicles are likely to be a much more attractive option for Australia buyers.

If an imported vehicle meets the UN Standards, it should be sufficient to require, as is the case now, for an imported vehicle to convince the local registration authority that the vehicle still complies and is roadworthy.

## Australian Design Rules

While ADRs have played a role in the restrictions on personal importation of vehicles, they have played a stronger and more economic damaging role when applied to vehicles imported commercially.

The recent initiative to remove the requirement for rear mudguard extensions on motorcycles is a clear example of the ridiculous situation that has been allowed to persist and been promoted within the Department of Infrastructure and Regional Development.

Of course local vehicle manufacturers have promoted the ADRs as a means of reducing competition by making competitors configure their vehicles to Australia-specific rules, thus increasing their cost. It could be expected that lobbyists for these vested interests have pressured the bureaucrats to expand the reach of ADRs to their benefit – so perhaps there are different forces at work here.

But it is in the case of motorcycles where the situation is shown up for what it is. There are no local motorcycle manufacturers to protect, so no vested interests pressuring the bureaucrats. Elected officials are not tasking their department to mandate mudguard extensions. Many of the ADRs, such as the mudguard extension, have no safety, performance or environmental impact. They are dreamed up by, hopefully well meaning, but inevitably misguided officials.

This is red tape at its worst. No positive outcome in terms of safety, performance or environmental impact, significant cost to consumers and a drag on the economy.

The sooner Australia moves to adopt the vehicle standards that apply in other first world countries and removes all but the absolutely necessary Australia-specific requirements, the better.

There can be no reasonable argument that Australia should require vehicles to be built to different or higher standards than apply in Europe, USA or Japan. To do so forces Australian customers to bear a burden that they do not understand, and if they did, would reject.

## Discussion Paper Questions

### **Q. 7-3 Does a case still exist for Australian Government intervention in vehicle standards?**

The Australian Government should maintain its role as the authority on vehicle standards. This role should be rolled back to merely mandating which global standards will apply. It should involve removing all but the absolutely necessary Australia-specific standards, eg, for road trains.

This will provide the benefit of consistency across States and Territories which does not and is unlikely to otherwise exist. This is important because many vehicles are sold across state borders and inconsistent standard would pose consumers with uncertainty and unnecessary costs.

**Q. 7-4 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?**

It is preferable for there to be a consistent set of national standards. States should be able to enact subordinate provisions that are not covered by the UN or similar standards.

**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?**

Distributors are likely to claim that the impact will be disastrous, because they are trying to protect a valuable market position. It is clear that other jurisdictions are able to make a commercial return from participating in a truly competitive market.

Of course everyone would like to live in a world where their wealth was protected and increased by Government actions, but it is not where Australia should be.

The distributors will quickly move to meet the more competitive market. The speed at which prices move to reflect world prices is difficult to estimate, but if the Government moves to allow more open competition, the reaction will be quick.

Just as in other areas of the economy that face structural change, there will be winners and losers. The distinction in this area is that the losers have been significant winners over time not because of anything worthwhile they have done, it is purely because the Government has created a protected market for them.

**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?**

Moving to first world standards for the vast majority of imported vehicles and continuing the requirement for vehicles to pass local registration tests will remove the need for age or origin restrictions.

**Q. 7-21 Could consumer protection for personally imported new vehicles be left to consumer laws, and why/why not?**

Again, assuming imports must meet global standards, consumers should then be protected by consumer law.

**Q. 7-24 Do you agree that the concessional options could be grouped into risk categories to allow the possible consolidation of the scheme? If so, do you agree with the model proposed in this review?**

Restrictions should be wound back significantly. A risk-based approach is reasonable. The model proposed overstates the risk involved and implies a need for strong regulation. There is no evidence that such an interventionist approach is warranted or efficient.

**Q. 9-1 What transitional arrangements, including length of notice period, should be put in place to assist businesses to adjust to potential changes in the regulatory framework?**

The transition period should be as short as possible, preferably with immediate effect. To delay the implementation merely allows the rent seekers to continue to collect the rent.

Rory Brennan

Exchange rate	\$ 1.85		0.0105		1.143				Australia			
	United Kingdom UK£	AUD	Japan JPY	AUD	USA USD	AUD	USD ORC	AUD	AUD	LCT	wo LCT	
<b>Porsche</b>												
boxster	38,810	\$ 71,799	6,220,000	\$ 65,310	\$ 51,400	\$ 58,750	\$ 56,462	\$ 64,536	\$	114,171	\$ 11,000	\$ 103,171
boxster s	47,035	\$ 87,015	7,950,000	\$ 83,475	\$ 63,300	\$ 72,352	\$ 69,523	\$ 79,464	\$	142,176	\$ 16,000	\$ 126,176
911	73,509	\$ 135,992	12,550,000	\$ 131,775	\$ 84,300	\$ 96,355	\$ 92,570	\$ 105,808	\$	227,436	\$ 3,000	\$ 224,436
911 s	83,545	\$ 154,558	15,330,000	\$ 160,965	\$ 98,900	\$ 113,043	\$ 108,594	\$ 124,122	\$	265,866	\$ 44,000	\$ 221,866
911 turbo	120,588	\$ 223,088	21,280,000	\$ 223,440	\$ 151,100	\$ 172,707	\$ 165,883	\$ 189,604	\$	393,376	\$ 75,000	\$ 318,376
<b>Audi</b>												
a4	24,385	\$ 45,112	4,530,000	\$ 47,565	\$ 35,500	\$ 40,577	\$ 39,012	\$ 44,591	\$	61,307		\$ 61,307
s4	39,310	\$ 72,724	7,770,000	\$ 81,585	\$ 49,325	\$ 56,378	\$ 54,185	\$ 61,933	\$	119,456	\$ 11,949	\$ 107,507
s5	43,665	\$ 80,780	9,050,000	\$ 95,025	\$ 52,500	\$ 60,008	\$ 57,670	\$ 65,916	\$	131,426	\$ 14,580	\$ 116,846
RS4	56,545	\$ 104,608	12,700,000	\$ 133,350					\$	162,926	\$ 21,503	\$ 141,423
rs5	59,870	\$ 110,760	13,270,000	\$ 139,335	\$ 70,900	\$ 81,039	\$ 77,864	\$ 88,998	\$	169,751	\$ 23,003	\$ 146,748
a8	58,805	\$ 108,789	10,480,000	\$ 110,040	\$ 77,400	\$ 88,468	\$ 84,997	\$ 97,152	\$	210,939	\$ 28,942	\$ 181,997
<b>BMW</b>												
320i	26,565	\$ 49,145	4,830,000	\$ 50,715	\$ 32,950	\$ 37,662	\$ 36,213	\$ 41,392	\$	60,500		\$ 60,500
335i	37,750	\$ 69,838	7,710,000	\$ 80,955	\$ 43,750	\$ 50,006	\$ 48,066	\$ 54,940	\$	86,150		\$ 86,150
m3	56,175	\$ 103,924	11,040,000	\$ 115,920	\$ 62,000	\$ 70,866	\$ 68,096	\$ 77,833	\$	169,229	\$ 23,000	\$ 146,229
m4	56,635	\$ 104,775	11,260,000	\$ 118,230	\$ 64,200	\$ 73,381	\$ 70,510	\$ 80,593	\$	179,730	\$ 25,000	\$ 154,730
m5	73,940	\$ 136,789	15,530,000	\$ 163,065	\$ 93,600	\$ 106,985	\$ 102,777	\$ 117,474	\$	254,805	\$ 43,000	\$ 211,805
<b>Mercedes Benz</b>												
e350	40,410	\$ 74,759	8,999,000	\$ 94,490	\$ 51,950	\$ 59,379	\$ 57,066	\$ 65,226	\$	118,174	\$ 8,659	\$ 109,515
e250	34,670	\$ 64,140	5,990,000	\$ 62,895	\$ 51,400	\$ 58,750	\$ 56,462	\$ 64,536	\$	105,626	\$ 5,775	\$ 99,851
c63	57,275	\$ 105,959	12,548,000	\$ 131,754	\$ 65,625	\$ 75,009	\$ 72,074	\$ 82,381	\$	172,148	\$ 23,509	\$ 148,639
e63	72,585	\$ 134,282	15,377,000	\$ 161,459	\$ 92,770	\$ 106,036	\$ 101,866	\$ 116,433	\$	268,140	\$ 44,606	\$ 223,534
s500L	87,090	\$ 161,117	15,900,000	\$ 166,950	\$ 94,400	\$ 107,899	\$ 103,655	\$ 118,477	\$	329,335	\$ 58,060	\$ 271,275
s63	118,305	\$ 218,864	24,100,000	\$ 253,050	\$ 141,450	\$ 161,677	\$ 155,292	\$ 177,499	\$	408,419	\$ 75,437	\$ 332,982

Notes:

Foreign exchange rates as at 2 October 2014

Prices in the UK, Japan and Australia are 'on the road' or driveaway prices.

Prices for the USA are base vehicle cost - without tax, registration or third party insurance,

Estimate also provided for indicative driveaway prices in Virginia: Registration is \$50.75, sales tax is 4.5% of sales price, personal property tax is 5% of base vehicle price

Prices for Australia show driveaway price as well as the Luxury Car Tax element of price.

