

Review of the *Motor Vehicle Standards Act 1989*

Dear Sir/Madam,

Please find attached my submission in response to the Review of the *Motor Vehicle Standards Act 1989* – Options Discussion Paper 2014.

Thank you for this opportunity to provide input into this process.

Yours sincerely,

J. Thompson.

Review of the *Motor Vehicle Standards Act 1989*

1. Introduction

This submission begins by outlining some of the key issues surrounding the current regulatory environment which places significant restrictions on the importation of motor vehicles (new and used) and the impacts the current regime has for Australian consumers, most business, average vehicle fleet age, vehicle safety and emission outcomes.

The paper then outlines the options which would effectively address these significant issues, and create greater alignment and transparency between stated and intended policy objectives and actual outcomes in respect to the regulatory environment.

2. Policy and Outcomes

A regulatory regime should be intended and designed to minimise costs (financial and non-financial) to consumers and to the wider community. A regulatory environment should not be designed and/or maintained which results in significant unintended consequences and imposes significant additional costs on consumers, business and the community, and works against stated and intended policy objectives.

In this case, the regulatory environment and burden should be minimised in order to achieve efficient and effective vehicle fleet safety and emission outcomes (on average) across Australia's entire passenger vehicle fleet (i.e. new and used cars).

As noted in the Options Discussion Paper 2014, the current regulatory environment,

*“...imposes restrictions on the personal importation of new imported motor vehicles into Australia”. This is because a vehicle can only be supplied to the Australian market if it is fitted with an Identification Plate. However for a vehicle to be fitted with such a plate, it must undergo an Identification Plate Approval (IPA) process, which requires full demonstration of compliance to applicable Australian Design Rules, requiring expensive and destructive testing. In most cases, this testing can only be fully demonstrated by a mainstream manufacturer.*¹

Essentially what this means is that only international car manufacturers can import new passenger motor vehicles into Australia. In addition, there are significant restrictions on the importation of second hand vehicles into Australia.

These significant barriers and restrictions to the importation of new and second hand vehicles in Australia effectively reduce the sources of supply (and substitution) and therefore competition in the overall car market in Australia.

1. Department of Infrastructure and Regional Development, 2014 Review of the *Motor Vehicle Standards Act 1989* – Options Paper, p.17.

These policy outcomes are economically irrational and as outlined below have significant adverse impacts on Australian consumers and business which purchase and lease motor vehicles. In addition, these adverse impacts also work against current stated policy objectives, including vehicle safety and emission standards. This is apparent by benchmarking the average age of the entire Australian car fleet against comparable nations, including the United Kingdom and Japan.

2.1. Impact of Current Regulatory Environment on Competition (new and second hand cars)

The Australian car market is heavily protected against competition.² As mentioned, the current regulatory environment effectively means that only international car manufacturers can import new motor vehicles into Australia. The restrictions on the importation of second hand vehicles also acts as a barrier to competition.

There is clearly a relationship between the price of cars in the new and used car market. If the price of new cars is higher (than they could otherwise be through increased sources and volume of supply) this also impacts on the price of used cars in that market and vice versa.

These barriers to importation (on new and second hand vehicles) clearly act to lessen competition which contributes to artificially high prices for cars in the Australian car market.³ Any thorough analysis which compares car prices in Australia with comparable overseas markets, including UK, Europe, USA, Canada, South Africa, Japan etc. can lead to only one conclusion. On average Australian's pay significantly more for new and second hand motor vehicles than other comparable markets.

The additional cost of new cars alone in Australia has been estimated to be over \$2.5 billion per annum.⁴ This is a very significant cost burden of the current regulatory environment.

Therefore, unless a stated and intended policy objective for the current regulatory environment is to reduce competition for international car manufacturers who import vehicles into Australia, and to have higher car prices for new and second hand vehicles than could otherwise be, then it is clear that the current regulatory environment needs to be significantly changed, if not repealed.

2.2 Impact of Current Regulatory Environment on Average Car Fleet Age

The average fleet age of Australian vehicles is significantly higher than other comparable markets, including the UK and Japan. Compared to the UK and Japan, the average car in Australia is approximately 2.5 years older (i.e. 25% older). This is a very significant difference.

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2. Oliver Marc Hartwich and Rebecca Gill, *Price Drivers: Five Case Studies in How Government is Making Australia Unaffordable*, Centre for Independent Studies Monograph 2011 p. 7.
 3. Oliver Marc Hartwich and Rebecca Gill, *Price Drivers: Five Case Studies in How Government is Making Australia Unaffordable*, Centre for Independent Studies Monograph 2011 p. 7-10.
 4. Submission 174 to the 2013 public consultation process by Peter Smith.

It can be very strongly argued that due to significantly higher car prices in Australia, that the average fleet age is much higher than it could otherwise be (when compared to the UK and Japan).

Under the current regulatory environment average fleet age has essentially been stagnant at around 10 years since 1988. It is clear the current regulatory environment has failed to make significant or sustained improvements in reducing the average age of Australia's entire car fleet.

2.3 Impact of Current Regulatory Environment on Vehicle Safety and Emissions

As stated above, on average vehicles in Australia are around 25% older than other comparable markets such as UK and Japan. It can be argued that this is a negative unintended policy outcome of the current regulatory regime.

Given the rate of technological change and the benefits that can be derived from such change, including in relation to vehicle safety and emission standards, Australia should be aiming to achieve a lower average age for its car fleet (i.e. more comparable with UK and Japan).

By maintaining a relatively high average fleet age, Australia is not benefiting as much as it could (across Australia's entire car fleet) from improved safety standards and lower emissions. Lowering the average of a vehicle fleet is a very effective way of achieving better passenger vehicle safety and emission outcomes.

Overall, if an important policy objective of the current regulatory regime is to contribute to vehicle safety and emission standards, (which needs to be assessed on the entire fleet, not just on new cars) clearly the current regime by reference to average vehicle fleet age is not particularly effective.

2.4 Safety "No Brainer" – A Further Impact of the Current Regulatory Environment on Safety

Younger drivers (i.e. between 16 and 24 years of age) are over-represented in:

- motor vehicle accidents;
- motor vehicle accidents resulting in injuries; and
- motor vehicle accident fatalities.

The following excerpts summarise some of the key issues in relation to this high risk group and the impact that the current regulatory environment has (unintentionally of course) on making a contribution to these negative outcomes.

“According to data compiled by the Roads and Traffic Authority (RTA), young ...drivers are involved in almost 30% of fatal crashes and 29% of all motor vehicle crashes. This is despite they constitute only 16% of all licence holders.”⁵

“Furthermore, young people under the age of 20 years represents only 5% of all license holders and yet they are involved in approximately 15% of all motor vehicle crashes resulting in death or injury.”⁶

“It has been demonstrated that the young driver group has the most crashes and most severe injury crash outcomes of any other age group. Furthermore, the vehicles that young drivers crash have the poorest average crashworthiness compared to vehicles driven by other age groups. Market research indicates that purchase price is a highly influential factor for consumers purchasing a vehicle...”⁷

“The closed used fleet structure of the Australian vehicle market and the influence that purchase price plays in vehicle choice are among several issues that should be considered when developing strategies to optimise the vehicle choice of young drivers.”⁸

It is clear that the price of cars is a significant limitation to many more young drivers being able to access relatively new safety technology in motor vehicles. Key vehicle safety technologies include:

- Traction control and electronic stability control;
- Anti-lock braking systems;
- Brake assist;
- Blind-spot warning;
- Adaptive cruise control;
- Multiple air bags;
- Improved vehicle crumple zone design; and
- Stronger occupant compartment design etc.

By increasing sources of supply (and substitutes) invariably it would be expected that the retail prices of motor vehicles (new and used) would (on average) be lower and these features would be more widely available to younger drivers.

If a motor vehicle regulatory environment is significantly intended to increase and improve vehicle safety, it is a safety ‘no brainer’ that lowering prices through increased competition would make newer and safer vehicles more affordable to young drivers (under 25 years of age).

5. Parliament of New South Wales - *Report on Young Driver Safety and Education Programs* p. xi Report No. 1/54 November 2008. page xi

6. http://hsc.csu.edu.au/pdhpe/options/young/4019/1-2-4/hoyp1_2_4.htm

7. Michelle Whelan, Jim Scully & Stuart Newstead -Monash University Accident Research Centre – *Vehicle Safety and Young Drivers*. November 2009. p. 68.

8. Michelle Whelan, Jim Scully & Stuart Newstead -Monash University Accident Research Centre – *Vehicle Safety and Young Drivers*. November 2009 p.70.

A truly risk based approach to vehicle safety would ensure that the benefits of making 'safer' vehicles more accessible to the highest risk group of motorists could be realised through increased competition. This is certainly not achieved by maintaining policies which (whether intended or not) reduce competition through heavy restrictions on the importation of new and second hand motor vehicles and which effectively (noting the demise of local car manufacturing) favour the economic interests of international car manufacturers at the expense of the wider Australian community.

2.5 Costing the Economic Costs of the Current Regulatory Environment

As outlined there are significant economic costs of the current regulatory environment. Consistent with the Council of Australian Governments – Best Practice Regulation – *A Guide For Ministerial Councils and National Standard Setting Bodies*, October 2007, “a regulatory impact statement should provide an adequate analysis of costs... which includes;

- Increases in expenditure by governments to establish and/or maintain regulation and enforcement regimes;
- Increased costs on business and the broader community from higher input costs and regulatory compliance costs;
- Increased costs on consumers from higher prices for goods and services; and
- Externalities or spillover effects on other parties...For example, environmental costs such as air pollution...”⁹

Accordingly, the additional incremental costs that should be estimated and added to the overall costs of the current regulatory environment, include:

- the additional costs to consumers (individuals, businesses and governments/ taxpayers etc.) due to higher new car prices (when compared to other countries). This has been estimated to be over \$2.5 billion per annum;¹⁰
- the additional costs to consumers due to higher prices for second hand car prices (when compared to other countries);
- the additional economic costs due to worst passenger safety outcomes (including for younger drivers) due to higher average vehicle fleet age (i.e. 25% older than UK and Japan). As noted in the options paper the total community cost of road trauma is around \$27 billion per annum.¹¹ Therefore, a very conservative five percent 'improvement' in passenger safety outcomes would equate to \$1.4 billion per annum); and
- the additional health and environmental costs due to higher average vehicle fleet age (i.e. 25% older than UK and Japan) and therefore higher emissions etc. “The total economic cost associated with motor vehicle related emissions resulting in

9. Council of Australian Governments – Best Practice Regulation, A Guide for Ministerial Councils and National Standard Setting Bodies, October 2007.

10. Submission 174 to the 2013 public consultation process by Peter Smith.

11. Department of Infrastructure and Regional Development, 2014 Review of the *Motor Vehicle Standards Act 1989* – Options Paper

premature mortality has been estimated to be between \$1.1 billion and \$2.6 billion. The estimated economic cost of morbidity has been estimated to be between \$0.4 billion and \$1.2 billion. The combined central estimate of these costs is \$2.7 billion per annum.”¹² A very conservative five percent improvement in these outcomes would equate to around \$0.14 billion per annum.

These costs are in addition to the \$281 million identified as compliance costs in the options paper. Therefore at a minimum, it would be reasonable to estimate that the combination of all of these costs in relation to the current regulatory environment would be over \$4 billion per annum.

2.6 Summary of Issues of Current Regulatory Environment

Based on comparable empirical evidence the current regulatory environment contributes to major adverse consequences (compared to what could otherwise be achieved), including:

- Significantly limiting sources of supply and substitutes (new and used cars);
- Significantly higher car prices in Australia (new and used) when compared to UK, Japan, Europe, USA, Canada etc.;
- Older average car fleet (compared to UK and Japan etc.), which on average across Australia’s entire car fleet unintentionally contributes to:
 - Lower safety standards;
 - Higher vehicle emissions;
- Reduces the access to “newer and safer” vehicles for the highest risk group of motorists (i.e. drivers 16-24 years of age);
- Less consumer choice (new and used cars); and
- Longer wait times (from customer order to delivery) for various high demand (relative to supply) vehicles.

3. Recommendations

Noting the significant limitations and consequences of the current regulatory environment, including the negative policy outcomes discussed above, in order to better align the regulatory environment with stated and intended policy outcomes, the following recommendations are made:

- ***Remove the current restrictions on the importation of new vehicles;*** and
- ***Relax the restrictions on personal importation of second hand vehicles.***

3.1 Removing current restrictions on the importation of new vehicles

As noted in the options paper the risks associated with importation of new vehicles is a relatively low risk. Therefore recognising safety standards and certifications from the country of origin would be an entirely appropriate policy response (instead of specific

12. Bureau of Transport and Regional Economics (2005). *Health impacts of transport emissions in Australia: Economic Costs*. Working Paper no.63, Bureau of Transport and Regional Economics.

Australian Design Rules). This could include Australia accepting (for example) European Community Whole Vehicle Type Approval (ECWVTA), vehicle type approval from the United Kingdom's Vehicle Certification Agency (VCA) or Japanese vehicle Type Approval Certificates (TAC) etc.

The likelihood of one internationally acceptable standard being recognised by all countries manufacturing cars is very unlikely (at least in the foreseeable future). If Australia waited for such a comprehensive international agreement to be reached (at best many years from now - if ever) the current restrictions on the importation of new vehicles will continue to serve the interests of international car manufacturers at the expense of Australian consumers etc.

Therefore in the meantime, Australia should accept current vehicle type approval certification from the relevant country/region of origin. In fully recognising and accepting other countries vehicle type approval (e.g. EU, UK, Japan, North America etc), this would include removing the requirement for specific testing of vehicles (against ADRs etc.) which represent a significant and unnecessary cost and regulatory burden. It is technological innovation combined with increased access to these advancements that improves vehicle safety and emissions (on average across the entire Australian car fleet - new and used) not redundant and specific Australian Design Rules for passenger vehicles.

Australian Design Rules for passenger vehicles should be scrapped. They are unnecessary and contribute to significant negative outcomes.

3.2 Relax the restrictions on the personal importation of second hand passenger vehicles

Noting the increased inherent risks associated with the importation of second hand vehicles, these risks could be appropriately mitigated by limiting:

- the age of vehicles that could be privately imported; and
- the country of origin.

Safety and emission standards could be provided for by only allowing the private importation of motor vehicles of passenger vehicles that are less than 10 years old (from date of manufacture) and limiting the imports from countries with appropriate safety and emission standards, including the United Kingdom, European Union nations, Japan and North America etc.

This option to relax restrictions on the importation of second hand passenger vehicles could be further enhanced (if considered necessary) by limiting personal imports of used cars from certain right hand drive jurisdictions.

If it was considered that the risks associated with imported used motor vehicles were still too high, a reasonable compromise for the regulatory environment for the personal importation of second hand motor vehicles could include allowing the importation of:

- cars less than 6 years of age from the date of manufacture (noting that the average fleet age of Australian cars is currently 10 years old); and
- only allowing cars from right hand drive jurisdictions, including the United Kingdom, the Republic of Ireland, Japan and New Zealand. In the future this could be potentially expanded to other right hand drive countries as overall safety and emission standards increase in these countries to acceptable levels.

Such a regulatory environment could be further enhanced (if considered necessary) by a motor vehicle inspection (e.g. similar to a State/territory motor vehicle road safety inspection) carried out at the time of importation.

3.3 Summary of Recommendations

- **Remove the current restrictions on the importation of new vehicles** and recognise the safety standards and certification processes (for vehicle safety and emissions etc.) from the vehicles country of origin/manufacture; this would include;
 - Abolishing specific Australian Design rules (Abolish ADR's); and
 - Recognising passenger vehicle certification and testing from other regions, including Europe, the United Kingdom, Japan, USA etc. This could include Australia accepting (for example) European Community Whole Vehicle Type Approval (ECWVTA), vehicle type approval from the United Kingdom's Vehicle Certification Agency (VCA) or Japanese vehicle Type Approval Certificates (TAC) etc.
- **Relax the restrictions on personal importation of second hand vehicles**, and to balance the greater inherent risk of importation of used vehicles put in place limitations on the age of vehicles that can be imported and (where necessary) limitations on country of origin. These limitations could include:
 - Only allowing the importation of second hand passenger vehicles less than 6 years of age from the date of manufacture (noting that the average fleet age of Australian cars is currently 10 years);
 - Only allowing cars from right hand drive jurisdictions, including the United Kingdom, the Republic of Ireland, Japan and New Zealand etc. In the future this could be potentially expanded to other right hand drive countries as overall safety and emission standards increase in these countries to acceptable levels; and
 - Implement "Blue Slip or Pink slip style" (e.g as per NSW) vehicle inspection at time of importation.

3.4 Summary of Benefits of Recommendations

- Increased sources of supply (new and used cars);
- Increased competition (new and used cars);
- Reduced prices (on average);

- Increased consumer choice (for makes and models not currently available in Australia etc.);
- Reduce Australia's current average fleet age, which will also lead to
 - Improved average safety standards across Australia's car fleet (new and used vehicles), including for the highest risk category of motorists (ages 16 to 25) and,
 - Improved emission outcomes (on average across Australia's entire car fleet); and
- Possibly increased economic activity by creating/enhancing opportunities for business (other than international car manufacturers) to import new and used vehicles and associated spare parts into Australia.

4. Other Impacts of Removing limitations to Importation of New Cars and Relaxing Limitations on the Personal Importation of Second and Cars

Apart from the significant benefits that would flow to Australia consumers, taxpayers and the vast majority of Australian business, it is also appropriate to analyse the impact of such changes on the car industry.

Undoubtedly there will be those in the car industry (including, multi-national car manufacturers) that want to maintain the status quo and maximise economic rent seeking at the expense of Australian consumers and wider community. This is a strong indicator that the current regulatory regime supports them to maximise profits at the expense of consumers and other businesses etc. (relative to other comparable countries).

Car manufacturers are not altruistic they act out of commercial self-interest.

4.1 Overview of Other Industry Impacts

To analyse the other likely impacts on the industry one needs to look at the individual elements.

The industry in Australia consists of a number of elements, including:

- **International car manufacturers**, who import cars into the Australian market and sell through their established distribution channels;
- **Locally based car manufacturers**;
- **Locally based automotive part manufacturers**;
- **New car dealers** (includes new and used car departments, spare parts and vehicle servicing etc.); and
- **Second Hand Car dealers** etc.

4.1.1 International car manufacturers

Undoubtedly, the proposed changes outlined in this submission will mostly impact international car manufacturers who sell cars in the Australian marketplace. This is what

would be reasonably (and desirably) expected from the adoption of such changes. It has been clearly demonstrated that (on average) international car companies have been charging Australian consumers and business significantly more than other comparable countries. Under the proposed changes, international car manufacturers (on average) would face increased competition in the Australian market, therefore the wholesale prices they charge (on average) will need to reduce to be more in line with car prices in other comparable countries. This is an entirely desirable outcome for Australian consumers, business, taxpayers and the economy overall.

It should be also noted that international car manufacturers also engage in significant transferring pricing which assists them in transferring locally derived profits to lower tax environments.

Notwithstanding the above, why would Australia maintain a regulatory environment which effectively and significantly reduces the competition that international car manufacturers face in this country and impose significant additional costs on consumers, business and taxpayers?

4.1.2 Locally Based Car Manufacturing (Ford, General Motors Holden and Toyota)

The locally based manufacturing operations of these international car companies have been in decline for well over a decade. They have all announced that they will cease local vehicle manufacturing by 2016 (Ford) and 2017 (Holden and Toyota). Notwithstanding these publically announced timeframes, it is very likely that they will cease manufacturing operations before this. Sales of locally produced cars have continued to decline after these announcements to cease local vehicle manufacturing. This is not a trend these companies will want to continue for up to three years.

The Chief Executive of Ford Australia when announcing Ford would shed 300 employees earlier than expected in response to declining demand, was quoted as saying:

*"...Ford would continue to match production with demand." "If you are looking for a guarantee there are no guarantees."*¹³

Overall, what this means is that locally based car manufacturing operations should not be a consideration in reviewing and setting the regulatory environment potentially for the next decade or more. Australian consumers, business and taxpayers should no longer continue to subsidise failed business operations. This would be an inefficient and ineffective allocation of resources and therefore is not economically defensible. Furthermore, it would be indefensible to base changes to the regulatory environment or the timeframe of implementation of changes by reference to these local manufacturing operations.

13. Matthew Dunckley, Australian Financial Review, 6 March 2014 – *Ford May Shut Earlier Than 2016*.

4.1.3 Locally Based Automotive Part Manufacturers

Noting the announcements of Ford, Holden and Toyota some locally based automotive part manufacturers have significant issues to address. They can either cease operations when locally based manufacturers no longer have sufficient demand for their products, or they can link into global automotive supply chains and/or diversify into other areas of manufacturing.

Whilst this is a difficult time for a number of these manufacturers, given the business decisions of Ford, Holden and Toyota, these manufacturers will either succeed or fail in the future notwithstanding changes to the regulatory environment (including import restrictions on new or second hand motor vehicles).

As mentioned above, it is likely that locally based passenger vehicle manufacturing operations will cease before previously announced dates. Alternatively, their overall production levels will be at such low levels that their demand for locally manufactured auto parts will not be sufficient to maintain the viability of some local car part manufacturers (which will invariably deliver the same outcome).

If the Federal Government considers it appropriate to provide transitional support to local automotive part manufacturers (in addition to what is already available through industry assistance programs) this should be done through direct and transparent competitive based grants. It should not be done through maintaining costly and ineffective restrictions on the importation of passenger motor vehicles which produce many negative and distortionary impacts across the economy and society.

4.1.4 New Car Dealers (new cars)

In the current environment new car dealers are essentially price takers. They have very little capacity to negotiate with international car manufacturers who supply new cars to them through Australian distribution channels. This view is consistent with the observation by Mr Richard Dudley, the Chief Executive of the Australian Motor Industry Federation who was quoted as saying,

*“the vast majority of our groups are price-takers, not price makers.”*¹⁴

However if restrictions on the importation of new cars were significantly relaxed, new car dealers could choose to continue to stay in their restrictive arrangements with international car manufacturers and their Australian based operations or they could source vehicles from other overseas markets.

Effectively what is likely to happen is that innovative and competitive car dealers will have more flexibility in sourcing new vehicles if import restrictions were significantly reduced. Whilst there could be some industry consolidation, international car manufacturers will need to maintain Australian distribution channels therefore they will need to ensure that there are viable car dealers who can sell motor vehicles, spare parts and carry out vehicle servicing

14. Craig Duff, Herald Sun as quoted on www.carsguide.com.au 5 July 2011, *AMIF will focus on carbon tax debate*.

etc. Ultimately car dealers would have more capacity (than they do now) to negotiate with international car manufacturers.

Also as noted by the Australian Automotive Dealers Association (AADA);

“...shifting to adopt international design standards, will open the door to a direct comparison of prices and Dealers will be able to ensure prices paid to manufacturers are no longer distorted by unique Australian rules, which add cost.”¹⁵

As further noted on the AADA’s website,

“the Assistant infrastructure minister, The Hon Jamie Briggs MP has indicated the Government’s ambitions to remove restrictions... Dealers nervous about the implications of such a decision should take heed that this inevitable change will not spell the end of the business model they’re accustomed to. In cases where there is a major difference in price between vehicles sold here and overseas, manufacturers will have to adjust to the changed rules.... The substantial monetary investment that is required to purchase a new car will mean most consumers prefer to visit the physical dealership premises and the onus will be on manufacturers to adjust prices to ensure they remain competitive.”¹⁶

Notwithstanding these issues, the Government does not actively implement policies to protect other retailers in other markets like David Jones, Myer, JB Hifi, Harvey Norman, Big W etc. (and nor should it) so why would any government implement or maintain policies which protect car retailers from competition?

4.1.5 Second Hand Car Dealers

It is possible that the used car dealers who are running marginally viable businesses now (due to relatively low volumes and/ or profits margins) will need to be consolidated or go out of business. However it should be noted that relaxing the limitations on the importation of used cars could also create greater flexibility and opportunities for used car dealers to more freely import used cars from various overseas markets. Ultimately, those used car dealers who are innovative and competitive and running a successful business will continue.

Overall it is possible that there will be some consolidation of used car dealers under a relaxed and more flexible import regime, but there would also be increased sources of supply. This would give used car dealers greater flexibility in sourcing more vehicles and at different prices.

Again, is it the role of government policy to protect business from competition?

15. www.aada.asn.au/we-are-being-heard

16. www.aada.asn.au/we-are-being-heard

5. Timeframe for Implementation of New Regulatory Regime

In order to implement a new regulatory regime, it would be reasonable to expect that it would take from 12 to 18 months. The implementation of the goods and services tax and associated reforms was implemented in approximately this timeframe and had Australia wide economic and social impacts.

Due to continued declining demand for their locally manufactured cars, it is very likely that locally based vehicle manufacturing operations will cease before the previous announced dates. Accordingly, there is no reasonable basis to delay the implementation of a new streamlined, truly risk based and relaxed regulatory environment. Protectionist policies have not worked and the maintenance of these policies results in significant negative outcomes, which are direct costs of the current regulatory regime and which should be quantified as explicit costs of the current regulatory environment.

In a global market place where Australian living standards are significantly influenced by international trade, it is economically irrational that a country like Australia would continue with protectionist policies (whether intended or unintended). A country like Australia needs to continue to be a leader in the adoption of freer international trade.

Furthermore, the safety imperative (including for younger drivers) means that further delay in the implementation of relaxed import restrictions on new and second hand passenger motor vehicles will hold back improvements in accessibility to 'safer' vehicles than at present (noting car price, particularly for young drivers is a key determinant in accessing improved vehicle safety features).

A truly risk based approach to vehicle safety would ensure that the benefits of making 'safer' vehicles more accessible to the highest risk group of motorists could be realised through increased competition. This is certainly not achieved by maintaining policies which (whether intended or not) reduce competition through heavy restrictions on the importation of new and second hand motor vehicles and which effectively (noting the demise of local car manufacturing) favour the economic interests of international car manufacturers at the expense of the wider Australian community.

In this context, it is reasonable to argue that maintenance of the current regulatory environment will contribute to more deaths and serious injuries than could be achieved through the early adoption of a truly risk based approach to regulation (and not one that contributes to industry protection).

Based on these factors it would be reasonable to aim for an implementation date of 1 July 2016 for a new regulatory regime. Any further delay would be unnecessary and indefensible on economic or passenger vehicle safety grounds.

6. Conclusion

The current regulatory environment reduces the competition that international car manufacturers face in Australia both through restrictions on the importation of new and second hand passenger vehicles.

If the Australian Government maintains the current regime it will effectively be protecting international car companies from competition at the expense of Australian consumers, business and taxpayers (noting the imminent demise of local car manufacturing). This would be politically, economically and socially indefensible.

Furthermore if the current regulatory regime is essentially maintained (including specific Australian Design Rules) all of the costs of this regime should be calculated when costing the regulatory burden, not just the \$281 million of “compliance costs” identified in the options paper. The additional incremental costs that should be estimated and added to the overall costs, includes:

- the additional costs to consumers due to higher new car prices (when compared to other countries);
- the additional costs to consumers due to higher prices for second hand car prices (when compared to other countries);
- the additional economic costs due to worst passenger safety outcomes (including for younger drivers) due to higher average vehicle fleet age (i.e. 25% older than UK and Japan); and
- The additional health and environmental costs due to higher average vehicle fleet age (i.e. 25% older than UK and Japan) and therefore higher emissions leading to worse health outcomes (morbidity and premature mortality).

Unless an intended policy objective of the current or future regulatory environment is to limit/reduce competition in the Australian car market (new and used cars) and to paradoxically contribute to higher average vehicle ages when compared to countries like UK and Japan etc.) and therefore worst safety and emission outcomes than could otherwise be achieved, the option to significantly reduce limitations on vehicle importations is the only defensible outcome on economic, social and political grounds.

Accordingly, Australia should:

- **Remove the current restrictions on the importation of new vehicles** and recognise the safety standards and certification processes (for vehicle safety and emissions etc.) from the vehicles country of origin/manufacture; this would include;
 - **Abolishing specific Australian Design rules** (Abolish ADR’s); and
 - **Recognising passenger vehicle certification and testing from other regions**, including Europe, the United Kingdom, Japan, USA etc. This could include Australia accepting (for example) European Community Whole Vehicle Type Approval (ECWVTA), vehicle type approval from the United Kingdom’s Vehicle

Certification Agency (VCA) or Japanese vehicle Type Approval Certificates (TAC) etc. When (and if) an internationally set of standards was accepted and adopted by all major passenger vehicle manufacturing countries Australia could then adopt these. However to wait for this would be foolish and only serve the interests of international car manufactures – not Australia’s broader economic interests. Therefore in the meantime Australia should simply accept current vehicle type approval from the European Union, UK, Japan etc.

- ***Relax the restrictions on personal importation of second hand vehicles***, and to balance the greater inherent risk of importation of used vehicles put in place limitations on the age of vehicles that can be imported and (where necessary) limitations on country of origin. These limitations would include:
 - **Only allowing the importation of second hand passenger vehicles less than 6 years of age** from the date of manufacture (noting that the average fleet age of Australian cars is currently 10 years old);
 - **Only allowing cars from right hand drive jurisdictions**, including the United Kingdom, the Republic of Ireland, Japan and New Zealand. In the future this could be potentially expanded to other right hand drive countries as overall safety and emission standards increase in these countries to acceptable levels; and
 - **Implement “Blue slip or Pink slip style” (e.g as per NSW) vehicle inspection** at time of importation.

The implementation of such changes would effectively and efficiently create greater alignment and transparency between stated and intended policy objectives and actual outcomes in respect to the regulatory environment.

These changes could all reasonably be implemented by 1 July 2016.