AUSTRALIAN AUTOMOBILE ASSOCIATION

SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY

INTO

POST 2005 ASSISTANCE ARRANGEMENTS FOR THE AUTOMOTIVE MANUFACTURING SECTOR

May 2002

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EXECUTIVE SUMMARY

Assistance arrangements

Assistance is afforded the domestic automotive industry in various ways, including by tariffs on imports of motor vehicles and components, the Automotive Investment and Competitiveness Scheme (ACIS) and direct grants to individual firms.

Assistance to the industry increases the price of new and (indirectly) used cars. Other Government taxes and charges, such as the Luxury Car Tax and State Government stamp duty on vehicle registration and insurance premiums also add to the cost of buying a car.

The automotive industry remains one of Australia's highly assisted industries and the effective rate of assistance for passenger motor vehicles (PMVs) will still be over double the manufacturing average when tariffs are scheduled to fall to 10 per cent in 2005.

The submission does not address in any detail the likely impact of reduced assistance to the structure of the industry. However, we do note that over the past 20 years, the industry has managed to prosper - particularly through a focus on exports - despite declining tariff assistance.

In our view, if further assistance to the industry is deemed necessary – perhaps for regional employment reasons or to maintain Australia as a source of investment and R&D - it would be preferable if it were to be provided by a direct grant to the industry, or specific firms. Assistance in this form should be more transparent and targeted.

If assistance is provided, consideration must be given to making it conditional on vehicle manufacturers delivering world's best standards in fuel consumption, vehicle emissions and safety performance.

Industry structure, conduct and performance

Over the past decade, there have been significant improvements in the performance of the industry measured in terms of productivity, car 'quality' and export growth. These improvements have occurred against a backdrop of declining tariff protection.

There has been structural change within the industry. However, the change has been positive for the industry overall, Australian consumers and the Australian economy.

In fact, the resilience of the Australian economy, at the time of a global downturn in Japan, United States and Europe, can partly be attributable to declining protectionism in Australia, and the integration of Australian industries

with global operations. The decline in the value of the Australian dollar against our major trading partners over the past decade (which would be expected with reducing tariffs) has also helped the local car industry prosper.

The share of the Australian made vehicles has declined as a percentage of the total market, from about 50 per cent in 1992 to 31 per cent in 2002. This is a result of a number of factors, including declining tariff protection, the withdrawal from the Australian market of small car production and the growth in the 4WD market.

However, it needs to be recognised that a substantial number of imports are sourced from the parent companies of the four local manufacturers. For example, the number of imported vehicles from Toyota in 2001 exceeded the company's sales of locally manufactured cars and exports combined.

Local manufacturers are part of multi-national operations and are integrated into global trade. The destination of exports of locally manufactured vehicles is undoubtedly determined by the parent company as part of decisions to maximise global profitability.

Recommendation 1:

AAA recommends that the Productivity Commission report on the role which the parent companies of local manufacturers have in determining export market access.

Section 3.1.3

4WDs (and ATWs)

Four-wheel drive vehicles (4WDs) include the increasingly popular All Terrain Wagon (ATWs) which are subject to a tariff of 5 per cent. 4WDs, which are predominantly used on the road (rather than off-road), are securing an increasing share of the total market, and in 2001 they represented 18 per cent of the 4WD plus PMV market, compared to only 9 per cent in 1996.

The differential tariff between 4WDs and PMVs causes a number of distortions and buyers of PMVs are disadvantaged because the price of PMVs is higher than it would be if the same 5 per cent tariff applied.

Tariff options

Post-2005, there appear to be three realistic tariff options:

(1) retain tariffs at 10 per cent for some time after 2005;
(2) reduce tariffs to 5 per cent shortly after 2005; and
(3) reduce tariffs to zero at some time after 2005.

When tariffs are reduced to 10 per cent in 2005, the industry will have had almost 8 years notice of the Government's intention to reduce tariffs to this

level. And at 10 per cent, the level of assistance will still be over double that provided to manufacturing generally.

Recommendation 2:

AAA recommends that the Productivity Commission identify the impact on car prices and on the industry of retaining tariffs at 10 per cent beyond 2005.

Section 3.3.1

A reduction in PMV tariffs to 5 per cent would benefit motorists by reducing prices by around 3 per cent and stimulate sales by around 2.5 per cent. We can expect a similar (additional) effect on prices when tariffs are reduced from 15 per cent to 10 per cent in 2005. Given that the reductions in assistance to date have provided a stimulus to industry performance, a further reduction from 10 per cent to 5 per cent should achieve a similar outcome.

Tariffs at 5 per cent will also remove the distortions arising from the difference in tariffs between 4WDs (and ATWs) and PMVs.

Zero tariffs is another option, and this would be consistent with the Government's commitments to free and open trade by 2010.

Recommendation 3:

AAA considers that there are advantages of lower tariffs and recommends that the Productivity Commission quantify the benefits of reducing PMV and component tariffs to 5 per cent, and subsequently to zero, as part of the Government's APEC commitments for 2010.

Section 3.3.3

Automotive Competitiveness and Investment Scheme (ACIS)

Apart from tariff assistance, the industry benefits from ACIS, although its impact on consumers and the industry is unclear.

Recommendation 4:

AAA recommends that the Productivity Commission report on the beneficiaries of ACIS and to comment on the transparency of the scheme. Since the benefits of the scheme are provided by way of relief from import duty, the Commission should also report on the relative merits of alternative arrangements such as providing the industry, or individual firms, with a direct grant which is more transparent.

AAA also recommends that the Commission report details of revenue forgone under ACIS and total duty paid on automotive imports, and to estimate the level of assistance provided by ACIS and its impact on new car prices.

Section 3.4

Direct grants

The automotive industry is also assisted by direct grants to individual firms. For example, Mitsubishi has been the latest recipient of a grant from both the Commonwealth Government and the South Australian Government.

Recommendation 5:

AAA recommends that the Productivity Commission list all Government grants provided to local manufacturers since the previous Productivity Commission review of the industry, and to compare the level of assistance from grants with that provided by the tariff.

Section 3.5

Luxury Car Tax

The luxury car tax (LCT) of 25 per cent on vehicles priced above the luxury threshold of $55134 adds to the cost of a new (luxury) car. The LCT is a remnant of the old tax system and it creates a number of distortions. For example, the LCT acts as a disincentive to purchase a so-called luxury vehicle which generally has superior safety features (such as passenger and side airbags) and enhanced environmental performance.

Recommendation 6:

AAA recommends that the Productivity Commission review the implications of the LCT for the safety and environmental performance of the vehicle fleet and consider the option of removing the LCT altogether – possibly through a phasing-down approach similar to that in the United States – or at least increasing the threshold to more accurately reflect movements in new car prices.

Section 3.6

Other taxes and charges

There is a range of other taxes and charges, such as GST and stamp duty on registration and insurance, which add to the price of a new car.

Recommendation 7:

AAA recommends that the Productivity Commission identify the extent to which additional taxes and charges, including GST, add to the cost of buying a new car, and the distortions arising from the application of stamp duty.

Section 3.7

Specialist and Enthusiast Vehicle Scheme

The car industry also benefits from reduced competition which is provided by way of the Specialist and Enthusiast Vehicle Scheme. While there may be

benefits of freeing up the flow of used imports, the experience of used imports in New Zealand has not been as great as first reported, partly because the vast majority of imported used vehicles has been of cars between 5 and 8 years of age.

Recommendation 8:

AAA recommends that the Productivity Commission consider whether a reasonable flow of near new, used vehicles - say up to 3 years of age – would increase buyer choice and be beneficial to the age and quality of the Australian vehicle parc, and whether such vehicles should be subject to the same value based tariff as applied to new vehicles, rather than a $12,000 special duty.

Section 3.8

Vehicle safety

Lower tariffs, taxes and charges will stimulate sales of newer cars which are generally safer than older cars.

Results from the New Car Assessment Program (NCAP), of which AAA is a partner, show that significant safety improvements have taken place over the years, including for large/medium cars which are manufactured locally. However, NCAP crash tests are expensive and the manufacturers are already undertaking tests themselves, although they do not publicly release the results.

Recommendation 9:

AAA recommends that the Productivity Commission consider whether Government and manufacturers should make crash test results publicly available, possibly as a minimum condition for ADR compliance since the Government assists local manufacturers.

The Commission should also consider whether the Federal Government should mandate the labelling of NCAP results on all new vehicles, similar to fuel consumption labels which are now a requirement on all new vehicles.

Section 4.1

There is other evidence which shows that newer cars are generally safer than older cars and that there is a general and significant improvement in vehicle crashworthiness - as measured by the probability of severe injury given crash involvement – with increasing year of manufacture. Also, the increased risk of serious injury to a driver of an older model car can be up to 6 times greater than for a comparable current model.

If imported cars were more affordable in Australia, the safety features which are available in vehicles in the United Kingdom, for example, are more likely to be included in the same vehicles imported to Australia.

Environmental performance of vehicles

Tariff reductions and lower taxes and charges will reduce car prices and stimulate new car sales. This stimulus will reduce the age of the car parc and improve the environmental performance of the fleet because newer cars are, in general, 'cleaner' than older cars.

New emission standards are being progressively introduced in Australia which will have a positive impact on air quality. However, Australia, is still well behind Europe in the implementation of so-called Euro standards. For example, Euro 3 came into effect in Europe in 2000, but this standard will not be introduced in Australia until 2005. As a result, some imported cars will not be able to run on the high sulphur fuel in Australia as it adversely affects the performance of many emission control systems (such as exhaust treatment systems and on-board diagnostics).

Recommendation 10:

In order to realise the benefits of tighter emission standards for PMVs vehicles much earlier than 2005, the Government could provide incentives for the early introduction of Euro 3 and Euro 4 compatible fuels and vehicles ahead of the legislated dates. AAA recommends that the Productivity Commission report on the desirability of such an initiative.

Section 5.2

Just as vehicle manufacturers refuse to make publicly available their crash test results, the same is also true for emission test results. Manufacturers are required to certify that their vehicles comply with the relevant ADR safety and emissions requirements. Unfortunately, manufacturers are not prepared to make such information available. This should be a minimum requirement considering the Government assistance which manufacturers enjoy.

Recommendation 11:

AAA recommends that the Productivity Commission report on the desirability of requiring Government and manufacturers to make emission test results publicly available, possibly as a minimum condition for ADR compliance since the Government assists local manufacturers.

Section 5.2

Fuel consumption targets

Fuel economy is a significant environmental issue. Legislation in Europe demands that vehicle CO_2 emissions must be down to the level of 140 grams/km by 2008 – this commitment corresponds to a fuel efficiency of about 5.8 litres/100km for petrol powered vehicles and 5.3 litres/100 km for diesel powered vehicles.

There appears to have been little or no progress by the industry in setting fuel efficiency targets for National Average Fuel Consumption (NAFC) which the Commonwealth expected would yield 15 per cent improvement over business-

as-usual by 2010. In *Safeguarding the Future*, the Commonwealth committed itself to developing options for challenging but realistic fuel efficiency targets for the Commonwealth car fleet (which, we understand is comprised largely of locally manufactured vehicles) from 2003, but little, if any progress seems to have been made.

Recommendation 12:

AAA recommends that the Productivity Commission report on progress achieved in setting fuel consumption targets for the Australian industry and the Commonwealth car fleet.

Section 5.3

Hybrid vehicles

There are currently two hybrid vehicles on the Australian market, the Toyota Prius and the Honda Insight. Unfortunately, these vehicles sell at a significant premium to the equivalent petrol-powered models, although there are significant environmental benefits of hybrid vehicles. For example, the fuel consumption of the Toyota Prius is 3.4 litres/100km.

Recommendation 13:

AAA recommends that the Productivity Commission report on the desirability of preferential tariff treatment for hybrid vehicles and/or a new policy framework, including grants to local manufacturers, which would encourage sales of such vehicles.

Section 5.4

On-board diagnostics

Euro 3 emission standards will offer environmental gains partly because of its requirement for on-board diagnostics (OBD). The OBD system, which is a kind of ‘green box’ technology similar in concept to the safety related ‘black box’ in aircraft, monitors the performance of emissions related vehicle systems to ensure that the car is as clean as possible at all times.

There is a concern that with the introduction of OBD, access to the crucial diagnostic data required for vehicle inspection and repair will become limited to approved car dealerships.

Recommendation 14:

AAA considers that unrestricted and standardised access to OBD systems is vital to ensure that consumers have the widest possible choice in maintaining and repairing their cars. AAA recommends that the Productivity Commission consider recommending legislation to ensure uniformity of information format, descriptions, access and performance.

Section 5.5

Intelligent Transport Systems (ITS)

Intelligent Transport Systems (ITS) is the application of modern computer and communication technologies to transport systems. ITS has the potential to improve safety, security and the environmental performance of vehicles.

On the safety front, ITS solutions include automatic crash notification, adaptive cruise control, fatigue detection, alcohol interlocks, collision warning and collision radar. In the environmental area, ITS solutions include car navigation, driver information systems, exhaust monitoring and hybrid power.

There are reasons why consumers are sometimes not prepared to buy cars with ITS technologies, such as airbags, which enhance the safety of vehicles. And manufacturers may not fit them as standard equipment for reasons of price and competitive position. However, there is an argument for Government intervention, perhaps by requiring manufacturers to fit passenger and side airbags as standard, or offering fiscal incentives, since improved safety outcomes will benefit the whole community.

Recommendation 15:

AAA recommends that the Productivity Commission analyse the range of vehicles sold in Australia where airbags are optional, to identify the cost of the air bag option, and to examine the costs and benefits of requiring locally manufactured vehicles to fit driver and passenger airbags as standard equipment. The Commission should also consider the option of requiring Government to implement more stringent safety ADRs, possibly as a *quid pro quo* for Government assistance to the local industry.

Section 6

Government has a role to intervene in the market and promote the adoption of new ITS solutions because of the societal benefits. This could take a number of forms, through legislation, provision of information or fiscal incentives. The Government could also take a lead in demonstrating the benefits of new vehicle technology towards solving a number of transport problems relating to safety, the environment and security.

Recommendation 16:

AAA recommends that the Productivity Commission identify the role which Government could play in ensuring the early adoption of ITS vehicle technologies which have the potential to improve safety, environmental and theft outcomes associated with the motor car.

Section 6

POST 2005 ASSISTANCE ARRANGEMENTS FOR THE AUTOMOTIVE MANUFACTURING SECTOR

1. INTRODUCTION

Australian Automobile Association (AAA) represents over 6 million motorists through its State and Territory motoring Clubs and Associations. AAA's mission statement is to promote the interests of Australian motorists.

In the context of the present inquiry, AAA's objective is to ensure motorists have access to vehicles which are internationally competitive in terms of price (and affordability), as well as in safety and environmental performance.

In the present submission we:

- comment on current automotive assistance arrangements;
- discuss the benefits to the motorist of reduced tariff protection in terms of access to lower priced vehicles, and of vehicles with improved standards of safety, environmental and technical performance;
- identify issues which we would like to see covered in the Productivity Commission's Position Paper to be released towards the end of June; and
- outline some recommendations for change.

In Section 2, we provide a brief background on the history of protection for the car industry and AAA's views on past inquiries into the automotive industry.

In Section 3, the various assistance arrangements afforded the industry and the industry's performance are discussed and reviewed. The costs and benefits of different tariff levels are also identified.

The focus of Sections 4 is on the safety levels of new cars. A comparison is made between the safety of new cars and old cars.

In Section 5, we review the environmental performance of new vehicles and the significance of new emission standards for air quality.

The importance of Intelligent Transport Systems such as immobilisers to counter vehicle theft, and other systems which will enhance safety and reduce vehicle emissions, is addressed in Section 6.

Some concluding remarks are made in Section 7.

2. BACKGROUND

The motor vehicle industry has been subject to a number of Government inquiries over the past twenty years, and since the 1985 Passenger Motor Vehicle Manufacturing Plan (the 'Button Plan'), there has been a significant rationalisation of the industry. This has been in response to global consolidation of vehicle manufacturing operations, increased competition from imports, and domestic macroeconomic and industry specific measures.

The last review of the industry occurred in 1997 when the Government announced revised automotive assistance arrangements to the year 2005. Since that time, the Government has introduced A New Tax System which resulted in the removal of the 22 per cent wholesale sales tax on cars in July 2000 and its replacement with a 10 per cent GST. The net effect of this change was to make new cars cheaper, and this has been beneficial for the industry and consumers. GST input tax credits for new business vehicles, which were initially to be introduced over three years, were brought forward in May 2001, so that full input tax credits were available immediately.

In a submission to the Industry Commission Inquiry into the Automotive Industry, 1990, AAA stated that *'tariff protection should be progressively wound back, initially to the levels applying to manufacturing more generally and before the end of the decade'.*

Since that time, there has been a progressive winding back of tariff protection, although in 2005, assistance for passenger motor vehicles (PMVs) will still be well over double that applying to manufacturing more generally.

In a submission to the Productivity Commission Inquiry into the Automotive Industry, 1996, AAA *'supported the objective of reduced tariffs to reduce motor vehicle costs and to give consumers access to quality affordable vehicles which meet high environmental and safety standards, while at the same time ensuring that the rate of industry adjustment is commensurate with the maintenance of a viable and internationally competitive vehicle and component manufacturing industry in Australia'.*

In the past six years, tariffs have been reduced from 25 per cent to 15 per cent, and AAA's objective of consumer access to safer and cleaner cars, and the maintenance of a viable local car manufacturing industry has largely been achieved.

3. ASSISTANCE ARRANGEMENTS

Assistance is afforded the automotive sector largely by way of the 1997 Automotive Action Agenda which includes:

- a tariff policy on imported passenger motor vehicles and components of 15 per cent, but scheduled to reduce to 10 per cent on 1 January 2005;

- the Automotive Competitiveness Investment Scheme (ACIS) which is directed towards encouraging investment and innovation in the automotive industry in the context of trade liberalisation; and

- a four-year Automotive Market Access and Development Strategy.

Assistance to the industry is also provided by direct grants from Federal and State Governments to individual car manufacturers. The Commonwealth Government also gives preferential treatment to locally manufactured vehicles when purchasing vehicles for its fleet.

Other taxes and charges which add to the cost of new and used cars and which are imposed on consumers include:

- a Federal Government Luxury Car Tax; and

- State Government charges such as stamp duty applied to the purchase price of new vehicles, transfer of ownership, and insurance premiums.

In addition, the importation of used vehicles is restricted to ‘specialist’ and ‘enthusiast’ vehicles under the new Specialist and Enthusiast Vehicle Scheme (which replaced the Low Volume Scheme).

The various assistance arrangements, taxes and charges inevitably lead to higher priced vehicles for motorists. Higher prices discourage the purchase of newer cars which are, in general, safer and more environmentally friendly, or ‘cleaner’, than older cars.

It could also be argued that the local industry is also assisted by the later introduction of vehicle emissions standards in Australia – Australia is currently 5 years behind Europe - and the failure of Government to negotiate fuel consumption targets for the fleet (including the Commonwealth car fleet which largely comprises locally manufactured vehicles). European fuel consumption targets have been voluntarily agreed by manufacturers, including in Japan and Korea, and they are much tighter than any target being contemplated by the Australian car industry.

3.1 Tariffs and industry performance

According to the Productivity Commission, the passenger motor vehicle (PMV) industry remains one of Australia’s most highly assisted industries,

although its assistance has declined significantly since the mid-80's. PMV tariffs were reduced gradually from 35 per cent in 1992, to 15 per cent in January 2000. When the nominal tariff rate is scheduled to fall to 10 per cent in 2005, the *effective* rate of tariff assistance for PMV will then be around 10 per cent – still well over double the manufacturing average of 4.3 per cent.[1]

The Productivity Commission reported in 1997 that in 2000, when tariffs have fallen to 15 per cent, consumers will still be paying an average of about $2100 more when they purchase a new PMV because of assistance to the automotive industry.[2]

There has been an improvement in the competitiveness of PMV assembly operations and an integration with the global automotive industry over the past decade. According to the Department of Industry, Tourism and Resources (DITR), labour productivity has increased from under 11 vehicles built per employee in 1991, to almost 18 in 2000. There has also been a steady improvement in the quality of vehicles manufactured.[3]

According to the DITR source, value added is forecast to grow by almost 3 per cent per year in the years to 2006-07. In addition, economic consultants, Econtech, forecasts export growth of 4 per cent each year between 2001-02 and 2003-04, increasing to 11 per cent in the following three years, continuing the very strong export performance of this industry.[4]

Recent export performance has been a success story for the industry. The Federal Camber of Automotive Industries report that in 1997 the industry set a collective target to achieve exports of $6 billion by 2005. The industry is well on track to achieve this target, with exports having grown from $2.72 billion in 1997 to $4.94 billion in 2001. It is likely that total automotive exports will exceed $5 billion in 2002.[5]

Export growth is broadly based with many car manufacturers, component producers and other suppliers to the industry all contributing:

- Holden, Mitsubishi and Toyota export cars to the Middle-East in substantial and growing volumes;
- Mitsubishi is achieving resurgent growth in the USA and there is the increasing likelihood that Holden will export the Monaro to the USA;
- all three companies are developing new markets and seeking out additional opportunities;

[1] Productivity Commission, Trade & Assistance Review 2000-01.
[2] Industry Commission, 'The Automotive Industry' Report No 58, 1997, Volume 1, page 329.
[3] Department of Industry, Tourism and Resources, Industry Outlook 2002, Background Paper prepared for the Outlook 2002 Conference.
[4] Department of Industry, Tourism and Resources, *op. cit.*, page 10.
[5] Department of Industry, Tourism and Resources, *op.cit*., page 12.

- component companies, such as Robert Bosch Australia, Pacifica, Air International, Castalloy, Pilkington Automotive and Schefenacker Vision Systems Australia, have become major exporters; and

- some companies such as Pacifica, Air International and Schefenacker have established international operations which draw upon Australian technology and subcomponents.

Forecast sales of new vehicles are predicted to be around 775,000 – 800,000 this year and could conceivably be the second highest on record. The record for new vehicle sales in Australia – 807,669 – was reached in 1998.

It is important to recognise that these positive performance indicators for the industry have all occurred against a backdrop of declining tariff protection and structural adjustment by the industry. It is clear that the local industry has not only survived, but prospered under the competitive pressures being exerted through reduced protection. And it is worth remembering the continual calls from the local car firms over the past two decades for protection and the dire predictions for the automotive industry if it were not provided. The disastrous outcomes have not eventuated.

Certainly there has been structural change within the industry. However, the change has been positive for the industry overall, Australian consumers and the Australian economy. Employment in the industry has been falling since the mid-70s, but with the removal from production of the last small car in 1999, the growth in exports and a small rise in employment in the year ended 2000 to 44,228 employees, that decline may now have ended.[6]

In fact, the resilience of the Australian economy, at the time of a global downturn in Japan, United States and Europe, can partly be attributable to declining protectionism in Australia, and the integration of Australian industries with global operations. The decline in the value of the Australian dollar against our major trading partners over the past decade (which would be expected with reducing tariffs) has also helped the local car industry prosper.

3.1.1 Car prices and affordability

Car prices in Australia have risen substantially over the last two decades, driven by domestic inflation and the long term decline in the value of the Australian dollar. However, especially since the mid 1990s, car prices have been relatively stable as:

- exchange rates deteriorated less than earlier against countries from which Australia sources vehicles and components; and

- the effect of the 2.5 percentage point tariff reductions for PMVs, which started in 1989, continued through until 2000.

[6] ABS, Cat 8221.0, 1999-2000, ANZSIC classes 2813, 2819 and 2811.

The introduction of the GST in July 2000 also brought some relief to upward movements in car prices, with the AIA/AAIR recommended retail price (RRP) index falling by 6 percent. However, some of this reduction was quickly negated by the relatively weak exchange rate at the time.[7]

Based on average weekly total earnings for full time adults, affordability of cars has improved significantly since the mid 1990s. By the December quarter 2001, RRP had risen by 16 per cent from the December quarter 1993, compared with an increase of 38 per cent for earnings.

Car "quality" has also improved over the past two decades as evidenced by the fact that the CPI motor vehicle index increased by 87 per cent between December 1984 and December 2001, yet the RRP increased by 127 per cent over the same period[8] (see Section 3.6.1 for further details).

3.1.2 Production, exports and imports

On the production side of the Australian car industry, FAPM reports that 'consolidation of the domestic manufacturing industry has brought with it a focus on the production of medium and large passenger motor vehicles, where there has traditionally been a greater consumer preference and low import competition'.[9]

This is a key point, because it highlights the fact that most imports do not compete directly with locally manufactured vehicles, although of course there is a degree of substitution between them.

This is reflected to some extent in the fact that the share of Australian made vehicles as a percentage of the total market has declined from around 50 per cent in 1992 to 31 per cent in 2002. However, according to market forecasts, this share is expected to increase to around 35 per cent over the next five (5) years with the recent decisions by Ford and Holden to extend their locally made ranges to include 'crossover' vehicles.[10]

The declining share of the local market has been largely a result of withdrawal from the Australian market of small car production over the past few years, declining tariff protection and the obviously high market share which the local makes had when quotas preserved the domestic share of the market until 1988.

The growth in the 4WD market would also have contributed to this trend.

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[7] Australian Automotive Intelligence Report, August 2000, page 21.

[8] Australian Automotive Intelligence Report, April 2002, page 75; calculations based upon data from ABS, consumer price index, cat. 6401.0 and average weekly earnings, cat. 6302.0 and the AIA/AAIR car price index.

[9] Department of Industry, Tourism and Resources, *op.cit*., page 11.

[10] Australian Automotive Intelligence Report, April 2002, page 70.

In the large car segment market, the Australian share has been largely maintained.

However, it needs to be emphasised that the four local car manufacturing firms do not simply manufacture vehicles for the local market – they are also substantial exporters and importers - they are integrated into global operations. Three of the four local manufacturers are substantial exporters while all four are substantial importers (see Table 1).

Table 1: Sales by the 4 car manufacturers by source and market (2001)

	Toyota	Mitsubishi	Ford	Holden
Sales of locally made	38486	24381	72944	102113
Exports	65250	19123	5284	28784
Imports	105114	43376	33786	63466

Source: VFACTS sales data; export data collected for Australian Automotive Intelligence Report, February 2002

As can be see from Table 1, imports from Toyota exceed total sales of locally made cars *plus* exports. Australia is Toyota's second largest export destination from Japan.

It should also be recognised that imported vehicle sales by the four local manufacturers represent 46 per cent of total imports.[11]

The parent companies of the local manufacturers also produce All Terrain Wagons (ATWs) which are four-wheel-drive (4WD) and imported to Australia at tariffs of 5 per cent. ATW sales by the four local manufacturers, which compete with PMVs, totalled 47,986 in 2001 and represented 41 per cent of total ATW sales.

Holden and Ford will make 'crossover' vehicles in Australia from 2003 which will compete with larger imported ATWs (see section 3.2).

3.1.3 Export market access

As noted earlier, Australian car manufacturers have been successful in securing export markets in the Middle-East and the USA. However, as all Australian car manufacturers are subsidiaries of global conglomerates, decisions on market access and distribution depend not on Australian interests, but those of the multi-national corporation.

Recently, tariffs in India have fallen dramatically, but Australian manufacturers do not appear to have been targeting a market which would seem to suit our

[11] AAIR, *pers. comm.*

operations. Advice from motoring organisations in India indicate that they are seeking robust vehicles which can last on poorly maintained roads, rather than vehicles made for city application. The Australian made vehicle would seem to suit such circumstances.

Similarly, the Chinese market should provide significant opportunities.

AAA calls on the Productivity Commission to report on the role which the parent companies of local manufacturers have in determining export market access.

3.2 Tariffs, Four-wheel drive vehicles and All Terrain Wagons

Four-wheel drive vehicles (4WDs), include:

- All Terrain Wagons (ATWs) such as Toyota RAV4, Mercedes-Benz M Class, Ford Escape, Honda CR-V, Subaru Forester and Nissan Pathfinder which are principally used for passenger and on-road use and are all imported; and

- 4WD pickups and cab chassis which are bought principally for commercial use as goods carrying vehicles.

Vehicles in both categories are subject to a tariff of 5 per cent. In the discussion which follows, we will refer to ATWs in terms of 4WDs, since that is how they are commonly referred to.

As noted above, Ford and Holden have announced that they will produce 'crossover' vehicles and it is expected that the majority of these 'crossover' vehicles will be 4WD wagons and will compete against the larger imported 4WDs. The Holden program includes a 4WD dual cab ute, while both the Ford and Holden programs could include two wheel drive variants.

Production of Holden 'crossover' vehicles is expected to start in 2003 and for Ford in 2004. The nature of the vehicles means that they will largely be competing against imported vehicles which enter at a 5 per cent tariff duty.

Although most 4WDs are now used predominantly on the road, they were originally regarded as off-road vehicles and a lower tariff rate was deemed appropriate given the extensive use off-road by the farming, tourism and mining industries and the fact that they did not compete directly with locally made vehicles.

However, since the last significant review of tariff arrangements for off-road vehicles in the mid 1980s, an array of smaller and lighter models have been released. Consequently, the 4WD sector has been experiencing high growth with sales of 4WDs increasing from 50,269 units in 1996 to 116,236 in 2001.[12]

[12] VFACTS sales data.

The 4WD segment accounted for 18 per cent of the total PMV plus 4WD market in 2001, compared to only 9 per cent in 1996.

As noted above, 4WDs are currently subject to a tariff of 5 per cent (as are light commercial vehicles). This compares with a current rate of 15 per cent for passenger motor vehicles (PMVs), reducing to 10 per cent in 2005.

The differential tariff is likely to cause a number of distortions. Purchasers of PMVs are disadvantaged vis-a-vis purchasers of 4WDs because the price of PMVs is higher than it would be if the 5 per cent tariff applied to them. To the extent that 4WDs are a substitute for locally produced PMVs, local manufacturers are also disadvantaged when buyers opt to purchase (relatively cheaper) imported 4WDs.

There are also major implications for the safety and environmental performance of the fleet. For example, the fuel consumption of 4WDs is much higher than that of PMVs and this in turn makes it difficult to achieve improvements in the fuel economy of the fleet. The fuel consumption of a number of 4WDs and PMVs is shown in Table 2.[13]

Table 2: Fuel consumption of 4WDs and PMVs (city cycle)

4WD	**(litres/100km)**	
	Mitsubishi Pajero	14.5
	Nissan Pathfinder	13.5
	Holden Jackaroo	15.0
	Ford Explorer	14.0
PMV		
	Toyota Camry	10.5
	Mitsubishi Magna	10-11
	Holden Commodore	10-11

Source: www.greenhouse.gov.au/fuelguide

From a safety perspective, the risk of injury is much higher in crashes involving 4WDs and PMVs than those involving PMVs only. The risk of injury is also much higher for pedestrians involved in crashes with 4WDs. The effect of impacts between different vehicle types (and vehicle mass) and pedestrians is referred to as one of 'compatibility'. These issues of safety and the environment will be addressed in more detail later in the submission.

[13] The figures are averages for the vehicle variant range and will vary slightly according to vehicle specifications. Fuel consumption figures are not readily available for the highway cycle for 4WDs nor for diesel-powered models.

3.3 Tariff options for PMVs

There are essentially three realistic options for tariffs on PMVs and components post-2005:

(1) retain tariffs at 10 per cent for some time after 2005;
(2) reduce tariffs to 5 per cent shortly after 2005; and
(3) reduce tariffs to zero at some time after 2005.

3.3.1 Tariffs at 10 per cent

When tariffs are reduced by five percentage points to 10 per cent in 2005, the industry will have had almost eight (8) years notice of the Government's intention to reduce tariffs to this level. And, as noted earlier, the *effective* rate of tariff assistance for PMV will then be around 10 per cent – still well over double the manufacturing average.

In the eight (8) years between 1992 and 2000, tariffs were reduced by 20 percentage points, yet the industry performed well in this period.

There is no reason to expect a much smaller percentage point reduction to have any adverse effect on the industry.

One avenue for reducing the distortions due to different tariff treatment between PMVs and 4WDs would be to increase the tariff on ATWs (which include 4WDs) to 10 per cent. However, such a move would result in an increase in the price of such vehicles and increase the levels of assistance applying to manufacturing more generally.

Retention of tariffs at 10 per cent post 2005 would also be inconsistent with the Government's policy thrust of reducing protection as part of its APEC commitments to free and open trade by 2010.

AAA calls on the Productivity Commission to identify the impact on car prices and on the industry of retaining tariffs at 10 per cent beyond 2005.

3.3.2 Tariffs at 5 per cent

It is worth remembering that a tariff of 5 per cent was recommended by the Industry Commission in 1997 when the car industry was last reviewed. The recommendation was that the tariff should be progressively reduced to this level by 2004.

Tariffs at 5 per cent have a number of advantages for consumers. Since tariffs are a tax on cars, lower tariffs will reduce the price, stimulate vehicle sales (including of course locally manufactured vehicles) and help to reduce the age of the Australian PMV car parc. A younger car parc will be safer and cleaner,

because of the safety and environmental improvements which have been introduced in new vehicles over the past few years.

In Sections 4 and 5 (below) we will present evidence supporting the fact that newer cars are generally safer and 'cleaner' than older cars.

A reduction in PMV tariffs to 5 per cent would benefit motorists by reducing prices by around 3 per cent and stimulate sales by around 2.5 per cent.[14] We can expect a similar (additional) effect on prices when tariffs are reduced from 15 per cent to 10 per cent in 2005. Given that the reductions in assistance to date have provided a stimulus to industry performance, a further reduction from 10 per cent to 5 per cent should achieve a similar outcome.

In order to get to 5 per cent, phasing arrangements might be considered, but it would seem unnecessary, as a 5 percentage point reduction is small (particularly by comparison with exchange rate movements which can have a protective effect on the local industry).[15] However, if 5 per cent is the target, it would seem appropriate for this level to be set only after tariffs have been reduced to 10 per cent in 2005 as scheduled. Obviously there would be consumer benefits if the reduction were implemented quickly, perhaps in 2006, although in this case, it would be desirable that manufacturers were given advance notice to allow time to adjust and factor in model changes.

There are two additional advantages of reducing tariffs to 5 per cent - it would:

- correct the distortions arising from a lower tariff rate on 4WDs; and

- result in assistance to the car industry being comparable to assistance afforded manufacturing more generally (and it would be consistent with AAA's recommendation for assistance over 10 years ago).

After analysis of the issues, the Government may consider that a reduction in PMV tariffs to 5 per cent will have an adverse impact on the structure and performance of the local industry and it may wish to respond accordingly. However, if the Government believes that assistance is needed to preserve employment – perhaps in particular regions - or support particular local firms, consideration should be given to providing assistance in a direct way, so that it is transparent and open to scrutiny.

3.3.3 Zero tariffs

We do not propose to review the benefits of zero tariffs in this submission, as a move to this level is really a secondary step after automotive tariffs have

[14] Based on price elasticity of demand estimates of –0.8 as per the transport elasticity database on the BTRE website http://www.dotars.gov.au/btre

[15] Between December 1992 and December 2001, the A$ depreciated against the Japanese Yen by 26 per cent which, in the absence of other changes, would have increased the cost of buying Yen denominated product by 26 per cent. *Source:* Australian Automotive Intelligence, April 2002, page 77.

been lowered to those applying to manufacturing more generally. However, we note that the Government has committed itself to free and open trade with APEC by 2010. Should the Government decide to move on zero tariffs in the longer-term as part of these commitments, consideration should be given to reducing tariffs across the board, including within the automotive sector.

It is also worth noting that Holden has acknowledged that the elimination of tariffs is an important goal. The company observed in the previous inquiry into the automotive industry that the provision of assistance to the industry entails costs to other producers and consumers which in the long-term outweigh the benefits of assistance to the automotive industry.[16]

AAA considers that there are advantages of lower tariffs and calls on the Productivity Commission to quantify the benefits of reducing PMV and component tariffs to 5 per cent, and subsequently to zero, as part of the Government's APEC commitments for 2010.

3.4 Automotive Competitiveness and Investment Scheme (ACIS)

The automotive industry also receives assistance through ACIS. This scheme replaced the PMV Export Facilitation Scheme in 1997 and allows eligible firms to use transferable credits to reduce the customs duty payable on eligible imports. The benefits are limited to 5 per cent of sales for individual firms in any one year and the import duty forgone is capped at $2 billion over the five-year period from 2001 when the scheme is due to terminate.

ACIS contributes to the disparity of assistance between the automotive industry and other industries. However, since ACIS does involve duty forgone, presumably the scheme has a beneficial effect on new car prices. However, since the benefits of the scheme (for manufacturers) rely on the existence of tariffs, the benefits will decline as tariffs are reduced. The net impact of the scheme is not clear.

AAA calls on the Productivity Commission to report on the beneficiaries of ACIS and to comment on the transparency of the scheme. Since the benefits of the scheme are provided by way of relief from import duty, the Commission should also report on the relative merits of alternative arrangements such as providing the industry, or individual firms, with a direct grant which is more transparent.

AAA also calls on the Commission to report details of revenue forgone under ACIS and total duty paid on automotive imports, and to estimate the level of assistance provided by ACIS and its impact on new car prices.

[16] Industry Commission, The Automotive Industry, Report No 58, May 1997, Volume 1page 233, page 258.

3.5 Direct Government assistance to car manufacturers

A number of grants have been provided to individual firms recently and are discussed in the Productivity Commission Annual Report Series.[17] These grants are reported here partly for the record, but also to highlight the assistance provided to the automotive sector.

In December 2000, General Motors Holden announced that it would build a new engine plant in Victoria. The Victorian Government offered a special package to secure the initial $400 million investment but the amount of the assistance has not been revealed. This lack of transparency is inappropriate.

In March 2001, the South Australian Government provided a State-funded loan package to Mitsubishi to the value of $20 million. The loan is interest free, and the need to repay it is contingent on certain export market and job creation targets being met. In the event that these targets are reached, only half of the loan is required to be repaid.

In 2001, the Commonwealth Government provided Mitsubishi with a grant of $500,000 to assist the company to develop feasibility plans for future production in Australia. The grant was to be matched by the South Australian Government and Mitsubishi.

More recently, the Commonwealth Government has provided Mitsubishi with a grant of $35 million and the South Australian Government is adding a further $50 million to assist Mitsubishi in the introduction of the replacement for the Magna range from 2005 and, it is believed, the establishment of a research and development centre in Adelaide.

AAA calls on the Productivity Commission to list all Government grants provided to local manufacturers since the previous Productivity Commission review of the industry, and to compare the level of assistance from grants with that provided by the tariff.

3.6 Luxury car tax

A Luxury Car Tax (LCT) applies to the purchase of so-called luxury vehicles. The LCT is a tax of 25 per cent levied on all cars priced above the LCT threshold (in 2000-01) of $55134.

The LCT is really a remnant of the old tax system when luxury items such as jewellery, furs, watches, clocks, cameras, tape recorders, video recorders, televisions and radios were taxed at higher rates of sales tax. These items were described as luxuries or non-essential. The GST was intended to remove such anomalies in the tax system by applying uniform rates of tax across all goods and services. The introduction of the GST removed the

[17] Productivity Commission, Trade & Assistance Review 2000-01, pp12-13.

anomaly with respect to these items, but not for so-called luxury cars which should not be regarded as non-essential.

Just like the differential tariff on 4WDs (and ATWs), the LCT is likely to create a number of distortions.

The LCT provides a disincentive to motorists wanting to purchase a so-called luxury vehicle which has high levels of safety and environmental performance. Luxury tax is payable on the GST-exclusive value above the threshold. For example on a BMW 325i priced at $68000, a buyer is liable to an LCT of almost $3000.[18]

As much as it is possible to compare different marques, the Ford Falcon XR6 is a 'similar' locally made car which is not subject to the LCT - it is priced at around $41000. Both the BMW and the Ford are 6 cylinder vehicles, of similar mass, and with seating capacity for 5 persons.[19]

Yet both city and highway fuel consumption of the BMW (which admittedly has lower power than the Ford) is significantly lower (see Table 3).

Table 3: Comparison of fuel economy between BMW 325i and Ford XR6

	(litres/100km)	
	City cycle	Highway cycle
BMW 325I	10.4	6.3
Ford XR6	12.5	8.5

Source: http://carpoint.ninemsn.com.au

On the safety front, the difference between the vehicles is also stark. In the BMW, the following features are standard: front side (thorax) airbags; front side (thorax) airbag – door mounted; front head airbags/side curtain; rear side (thorax) airbags; rear side (thorax) airbag – door mounted. These features are not available in the Ford XR6. We mention airbags, in particular, because typically, a driver's airbag is known to reduce the risk of serious injury by half.

Although there is a significant price difference between the two vehicles – and it should be noted that the Ford has a driver's and front passenger's airbag (as does the BMW), the question which needs to be asked is why should buyers be penalised by a LCT for purchasing a safer and cleaner vehicle?

Another distortion arising from the LCT is that some manufacturers may also price their vehicles at just below the threshold, but at the same time remove

[18] $(68100-55134)*10/11=$11696*0.25=$2924

[19] The comparison of the two cars has been taken from http://carpoint.ninemsn.com.au. This is a website where the features of any two cars can be readily compared.

safety and other features which may otherwise have been included. For example, extra airbags, or a more sophisticated engine, may not be included because they would add to the cost of the vehicle. This is not in the motorists' (or the community's) best interests.

3.6.1 Luxury car tax threshold

The impact of the LCT has been compounded by the threshold failing to keep pace with the movements in actual car prices.

Indexation of the LCT threshold is based upon the ABS consumer price index, motor vehicle index (CPIMV). However, because price movements are adjusted for 'quality' changes in the calculation of the CPI, the CPIMV effectively only measures the change in price of a 'static car' - that is a car which does not change in size, specifications and other quality attributes over time.

Consequently, the significant improvements in car 'quality' over recent decades have not been reflected in the LCT threshold, because the CPIMV discounts price changes for these 'quality' changes. The improvements to car specifications over this time have included:

- safety related improvements, including advances in seat belt design, addition of air bags, power assisted disc brakes, improved body structures and better driveability;

- fuel economy related improvements including electronic fuel injection, electronic engine management, engine design and use of light weight materials; and

- comfort related specifications such as air conditioning and audio systems.

Chart 1 gives some insight into how the CPIMV and thus the LCT threshold have lagged the movement in car prices.

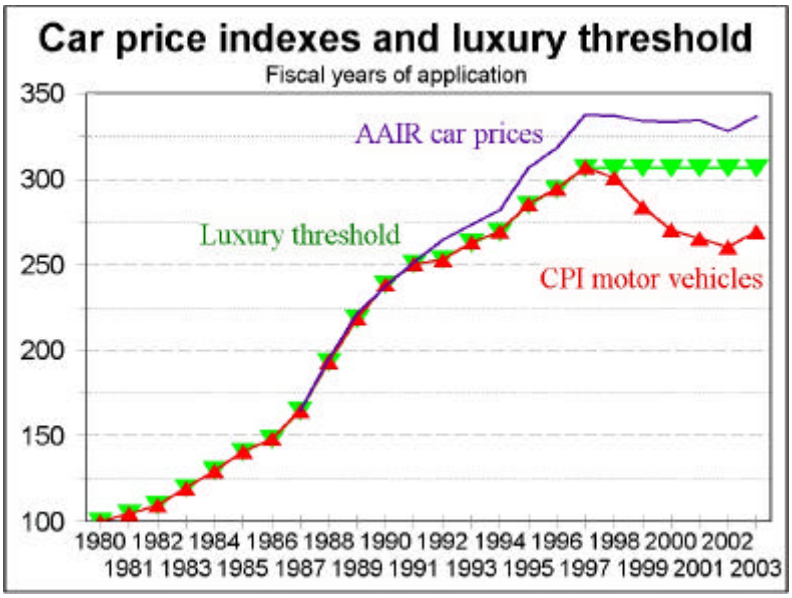
The Chart shows movements in the following three series:

- the CPIMV, which is used to index the LCT threshold (1979=100);

- the LCT threshold for the fiscal year ended June; and

- the Automotive Industry Authority/Australian Automotive Intelligence Report car price index, commencing from the 1987 fiscal year (and set at the same index value for the CPIMV in that year).

Chart1



The comparison of the three series shows that since the AIA/AAIR index has been available, the AIA/AAIR index, which is based upon the recommended retail prices (RRP) of cars, increased more rapidly than the CPIMV and thus the LCT threshold, especially between 1990 and 1997.

Since 1997, the AIA/AAIR index has remained above the LCT threshold, and the CPIMV (which has declined markedly).

The reason for the disparity between the AIA/AAIR index and the CPIMV is due to the fact that the former captures quality improvements in vehicles, whereas the latter discounts them.

Except for the short term variations in vehicle discounting, the large gap that has evolved between the AIA/AAIR index and the CPIMV since 1997 has been because car prices have been relatively stable and improved specifications on vehicles has resulted in the CPIMV falling significantly.

The net effect of this is that the LCT threshold has remained at the same value since the fiscal year ended June 1997 and will remain so through the next fiscal year to June 2003.

Furthermore, based on some simple price projections and the current form of indexation of the LCT threshold, it is likely to be about 15 years before the threshold rises again. However, we estimate that the AIA/AAIR index would rise by a further 35 percent over that period, markedly widening the gap between the indexes.

Another insight into the movement of car prices relative to the LCT threshold is shown in Table 4 which compares movements in actual prices of the Ford

Falcon GL and Forte sedan prices[20] from 1979-80 to 2001-02 with the luxury threshold at the time.

Table 4: Comparison of Ford Falcon price with luxury threshold

Fiscal year	1979-80	1989-90	1999-00	2001-02
Ford Falcon Price ($)	7974	22926	30690	32515
Threshold ($)	18000	42901	55134	55134
Per cent of threshold	44.3	53.4	55.7	58.1

Source: Australian Automotive Intelligence

It is worth noting that the United States has commenced phasing-out its luxury car tax. From January 1997, the tax was applied to cars costing more than US$36000 (except electric vehicles) and the tax rate was lowered from 10 per cent to 8 per cent. The rate has been progressively lowered by one percentage point each year since then. This year, the tax is 3 per cent of the car's purchase price which exceeds US$40000. In 2003 the tax will be eliminated.

AAA calls on the Productivity Commission to review the implications of the LCT for the safety and environmental performance of the vehicle fleet and consider the option of removing the LCT altogether – possibly through a phasing-down approach similar to that in the United States – or at least increasing the threshold to more accurately reflect movements in new car prices.

3.7 State Government charges

State Governments impose a range of motor vehicle taxes, licence fees and duties which vary by jurisdiction. In most States, stamp duty is imposed on the purchase of new vehicles, the transfer of vehicles and on insurance premiums. The stamp duty is imposed on the GST inclusive price, so the charges are a 'tax on a tax'.

As far as stamp duty is concerned, in South Australia, it is 11% on all car insurance premiums and $60 on compulsory third party (CTP) insurance. The rate in Victoria is 10% for both. In Queensland, stamp duty is 5% on comprehensive insurance and 10 cents on CTP.

Stamp duty on vehicle registration and transfer of ownership varies according to the value of the vehicle (2%-6.5% across Australia). Each time the ownership of a car is transferred, stamp duty is payable and therefore this has a cumulative effect on price over the life of the vehicle.

[20] Lowest priced model with automatic transmission at December.

The complete range of what are referred to as (1) insurance duty; (2) motor vehicle registration duty; and (3) surcharge/levy on motor vehicle third party vehicle insurance, are set out in a NSW Treasury publication comparing interstate motor vehicle taxes and charges. The information can be found on the website www.treasury.nsw.gov.au/pubs

These various charges all add to the cost of buying a car. We consider that the stamp duty is another remnant of the 'old tax system' and ought to have been removed with the introduction of the GST.

The removal of stamp duty would overcome the problem of it being a 'tax on a tax' and it would reduce the on-road cost of purchasing a vehicle. Lower taxes would therefore encourage vehicle replacement and lead to a safer, cleaner vehicle car parc.

AAA calls on the Productivity Commission to identify the extent to which additional taxes and charges, including GST, add to the cost of buying a new car, and the distortions arising from the application of stamp duty.

3.8 The Specialist and Enthusiast Vehicle Scheme

The importation of used vehicles is restricted to 'specialist' and 'enthusiast' vehicles under the Specialist and Enthusiast Vehicle Scheme. While the issue is not a significant one in the context of the present Inquiry, the Commission does raise it when seeking information as part of the Inquiry process. The specific question asked is: "Is there a need to amend the $12000 specific tariff on second hand vehicles?"

AAA has previously identified the benefits associated with the availability of used imported vehicles in the Australian market and expressed reservations about the imposition of the $12,000 special tariff on such vehicles.

The benefits of freeing up the flow of used imports and the reason for the limited concern we had about the impact of such vehicles on the market was based on the following:

- used car imports were small in number relative to both new and used car sales and were unlikely, therefore, to disrupt the local industry;
- used car imports would be more affordable for some buyers, enabling them to upgrade to a more recent model which would be safer, cleaner and with more features;
- used car imports would also allow the choice of a wider range of cars, especially of models not imported to Australia when new; and
- used car imports had to meet ADRs in existence at time of manufacture.

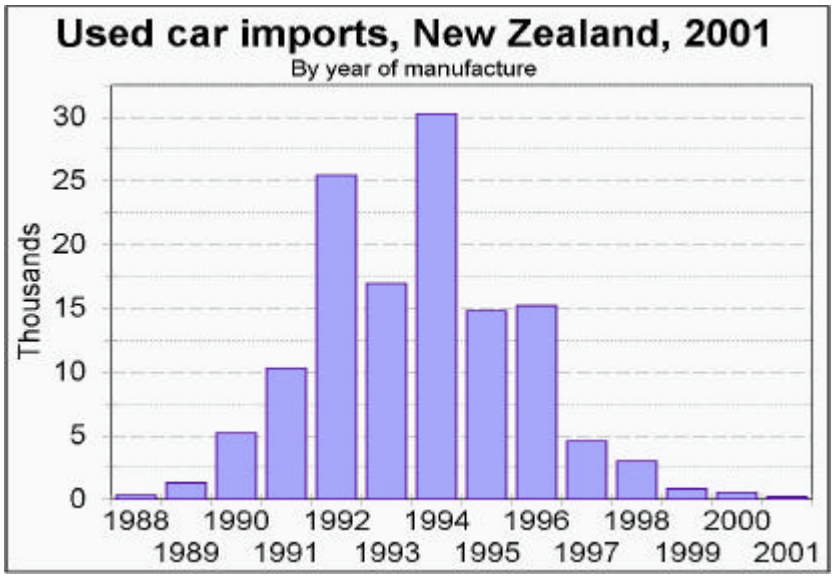
The early experience of New Zealand in allowing mass import of used cars tended to support the AAA stance, as it appeared that:

- the import of used cars had resulted in the removal of many aged vehicles from the car parc;
- many New Zealanders appeared to have been satisfied with their purchases; and
- the unavailability of replacement parts proved to the exception rather than the general rule (although tampering with odometers has proved harder to police).

More recent experience, particularly in relation to safety and environmental performance has changed the perception of the success of the New Zealand situation to some degree, because:

- the mass import of used vehicles depressed the price of used cars of similar age;
- at least partly as a result of these lower residual values for used cars, sales of new cars slumped, and over the last decade have typically been about two thirds of the levels of the early to mid 1980s (and prior to significant volumes of used imports); and
- the vast majority of used vehicles imported into New Zealand has been of cars between 5 and 8 years of age (see Chart 2).

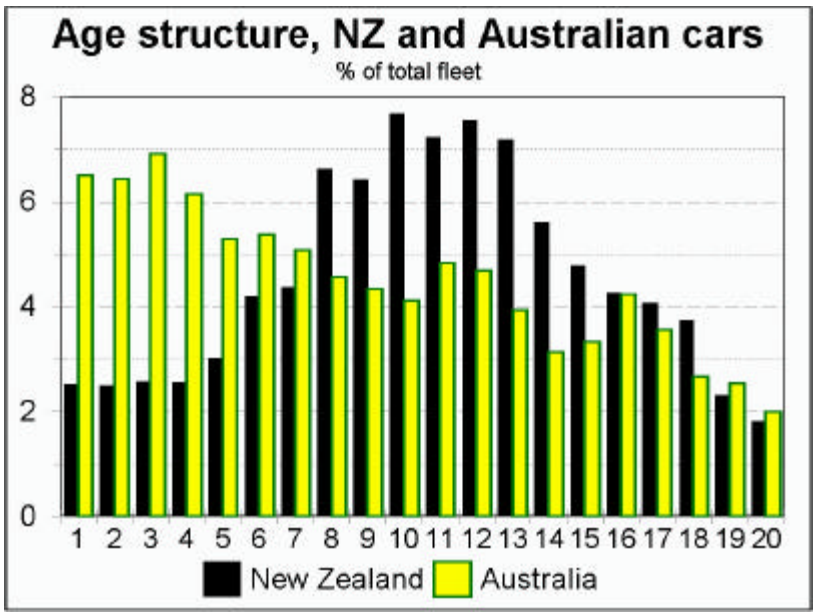
Chart 2



The result of these used imports substituting for new car sales has been that the New Zealand vehicle parc has a much smaller proportion of cars under 5 years of age than do Australia and most other developed countries (see Chart 3).

Since older vehicles are in general, not as safe or as 'clean' as newer vehicles, significant numbers of imported vehicles greater than 5 years old are likely to degrade the safety of the vehicle parc and could inhibit improvements in fuel efficiency and vehicle emissions of the national fleet.

Chart 3



For the present, the new Specialist and Enthusiast Vehicle Scheme provides scope for the import of some vehicles under controlled conditions, vehicles which are likely to also be of relatively recent manufacture.

AAA calls on the Productivity Commission to consider whether a reasonable flow of near new, used vehicles - say up to 3 years of age – would increase buyer choice and be beneficial to the age and quality of the Australian vehicle parc, and whether such vehicles should be subject to the same value based tariff as applied to new vehicles, rather than a $12,000 special duty.

In the future, with the harmonisation of vehicle standards throughout the world, it may be possible to liberalise the arrangements for importing used vehicles by allowing the import of vehicles which have been manufactured to the standards required by Australian Design Rules at their time of import. This would allow freer choice for buyers without a deleterious impact on the quality of the national vehicle fleet but, because of the restricted availability of relatively new cars in Japanese and other markets, volume would be low.

4. VEHICLE SAFETY

Lower tariffs, taxes and charges will stimulate sales of newer cars which are generally safer than older cars.

Road safety is a major public policy issue in Australia. Two simple statistics illustrate the point: (1) road crashes cost the Australian community $15 billion per annum;[21] and (2) in 2001, 1756 people were killed on Australia's roads.

The Federal Government has initiated a National Road Safety Strategy (NRSS) to dramatically reduce death and injury on Australia's roads. Part of the Strategy involves a Plan to improve vehicle compatibility and occupant protection. Possible measures which are referenced in the NRSS Action Plan 2001 and 2002 include developing Australian Design Rules (ADRs) for passenger vehicle compatibility (this issue was mentioned in relation to 4WD in section 3.2, above) and promoting crashworthiness ratings of vehicles from the Australian New Car Assessment Program (ANCAP). Both these measures are supported by AAA.

4.1 ANCAP

AAA is a partner in ANCAP which is a vehicle crash test program. ANCAP results are designed to be used to compare the crash protection provided by vehicles in crashes causing serious or fatal injury and to give consumers consistent information on the occupant protection level of vehicles in serious front and side crashes. Crash testing for consumer information is also carried out in Japan, Korea, Europe and the USA.

The safety rating of new cars is represented by stars – the more stars the better. A five star rating is regarded as excellent, 4 stars is good, 3 stars is acceptable, 2 stars is marginal and one star is poor. The star ratings can be found on the AAA's website www.aaa.asn.au/NCAP

The safety of new cars is improving. For example, in the large/medium segment of the market a number of improvements can been demonstrated for locally manufactured vehicles over the past few years (see Table 5).

For example, it can be seen that the Ford Falcon has improved from 2 stars for the 94-98 models, to 3 stars for the 1998 models onwards, with dual front airbags now standard in the later models.

Holden Commodore has improved from 1 star for the 95-97 models, to 3 stars for the models from 1997 onwards with a driver airbag now standard.

Mitsubishi Magna has improved from 2 stars for the 96-99 models, to 3 stars for the models from 2000 onwards with a driver airbag now standard.

[21] Bureau of Transport Economics, Road Crash Costs in Australia, Report 102, 2000

Toyota Camry has improved from 2 stars for the 97-99 models, to 3 stars for the models from 2000 onwards with a driver airbag now standard.

Table 5: ANCAP star ratings of selected locally manufactured and imported large and medium size vehicles

Make and Model	Year	Rating	Airbags
FORD FALCON FORD FALCON AU FORD FALCON AU II	94 to 98 98 to 00 Mid 00 on	★★ ★★★ ★★★	Driver airbag Driver airbag Dual front airbags
HOLDEN COMMODORE HOLDEN COMMODORE VT HOLDEN COMMODORE VX	95 to 97 97 to 00 00 on	★ ★★★ ★★★	- Driver airbag Driver airbag
MITSUBISHI MAGNA MITSUBISHI MAGNA	96 to 99 Aug 00 on	★★ ★★★	- Driver airbag
TOYOTA CAMRY TOYOTA CAMRY TOYOTA CAMRY(US)	97 on 00 on 97 on 00	★★ ★★★ ★★★★	- Driver airbag Dual front airbags
MERCEDES BENZ E-CLASS (E)	99 on	★★★★	Dual front, Side and Head
RENAULT LAGUNA (LHD)	01 on	★★★★★	Dual front, Side and Head
VW PASSAT (E)	01 on	★★★★	Dual Front and Side airbags
VOLVO S80 (E)	00 on	★★★★	Dual front, Side and Head

Note: The protocols for testing were tightened post-November 1999. Pre-Nov 1999, offset and full frontal tests were conducted. Post-Nov1999, offset and side impact tests are conducted.

Source: Australian Automobile Association website www.aaa.asn.au/NCAP

This evidence lends weight to our argument that newer cars are generally safer than older cars. And if car prices are reduced, through a reduction in tariffs and other Government taxes and charges, new car sales are expected to be stimulated with a consequent reduction in the age of the vehicle fleet and improvements in the safety of the fleet.

While the safety improvements for locally manufactured vehicles is welcome, more could be achieved. Table 5 identifies a number of imported vehicles in the large/medium segment of the market which have achieved 4 and 5 star ratings.

However, it should be mentioned that the Holden Ute and the Falcon Ute, which are both made in Australia, have achieved a 4 star rating. It is also worth noting that both these vehicles are regarded as light commercial vehicles (LCVs), and the tariff for this class of vehicle is 5 per cent.

AAA publicises NCAP information (and recent print media advertisements by Renault also include reference to the EuroNCAP[22] 5 star rating). However, crash tests are expensive, and to some extent duplicate tests which manufacturers undertake themselves. In fact, manufacturers are required to provide information to the Federal Government showing that their test results ensure compliance with the relevant safety Australian Design Rule (ADR69).

AAA calls on the Productivity Commission to consider whether Government and manufacturers should make crash test results publicly available, possibly as a minimum condition for ADR compliance since the Government assists local manufacturers.

The Commission should also consider whether the Federal Government should mandate the labelling of NCAP results on all new vehicles, similar to fuel consumption labels which are now a requirement on all new vehicles.

4.2 Safety features in Australian and imported cars

As noted earlier, there is a number of imported cars in the large medium market which have achieved a safety rating of 4 stars. There are also vehicles manufactured overseas with many safety features fitted to vehicles which are standard, yet they are either not available, or only optional when imported to Australia (see Table 6).

For example, in the Mazda 323 and the Mazda 626 in Australia, side airbags and ABS brakes are not included, yet they are standard on the same vehicle in the United Kingdom. And only one airbag is standard on the 323 in Australia, yet two (2) are standard in the UK version.

For the Toyota Corolla in Australia, a driver airbag is standard and the passenger side airbag is optional, side airbags are not available and ABS brakes are optional. In the United Kingdom, the same model has driver and passenger airbags as standard, as well as side airbags and ABS.

The reason for these differences is likely to be one of price. If imported cars were more affordable in Australia, the safety features which are available in vehicles in the United Kingdom are more likely to be included in the same vehicles imported to Australia.

[22] European NCAP (EuroNCAP) testing procedures are substantially the same as Australian NCAP testing procedures.

Table 6: Comparison of Safety Features Fitted to Vehicles Sold in Australia and Overseas

Model	Australia					United Kingdom				
	Front AB	Side AB	ABS	SB Pretensioners	Centre Rear 3 point SB	Front AB	Side AB	ABS	SB Pretensioners	Centre Rear 3 point SB
Alfa Romeo 147 2.0L	2	S	S	S	S	2	S	S	?	S
Chrysler Neon SE	2	X	X	X	S	2	S	S	X	S
Chrysler Voyager SE	2	S	S	S	?	2	S	S	?	S
Citroen Xsara 1.6	2	X	O	S	S	2	S	S	S	S
Citroen C5 SX 2.0L	2	S	S	S	S	2	S	S	S	S
Daewoo Matiz 0.8L	2	X	X	X	X	?	?	?	?	?
Daewoo Leganza 2.2L	D	X	O	?	?	?	?	S	?	?
Holden/Opal Astra City	2	X	X	S	S	2	O	O	S	S
Holden/Opal Barina 3 Door	2	X	X	S	S	2	O	O	S	S
Holden/Opal Vectra GL	1	X	S	S	S	2	S	S	S	S
Honda Civic 5 Door	2	X	S	S	S	2	S	S	S	S
Honda CRV 2.4L	2	X	S	S	S	2	S	S	S	S
Mazda 323 1.6L	1	X	X	S	X	2	S	S	?	?
Mazda 626 2.0L	2	X	X	X	X	2	S	S	?	?
Subaru Impreza GX	2	X	S	?	S	2	X	S	S	S
Subaru Liberty GX	2	X	S	S	S	2	S	S	S	S
Toyota Corolla	D	X	O	D	?	2	S	S	S	S
Toyota Celica	2	O	O	S	?	2	S	S	S	?
Toyota Echo	D	X	O	S	?	1	X	S	S	X
Volkswagen Golf 1.6L	2	X	S	S	S	2	S	S	S	X
Volkswagen Passat 1.8L	2	S	S	S	S	2	S	S	S	X

Note:
1 = Drivers side only
2 = Driver and Passenger
D = Drivers side standard, passenger side optional
S = Standard equipment
O = Optional extra
? = not clear from web site
X = not included

= Higher overseas standard
= Same overseas and local standard
= Lower overseas standard
= Unclear

Source: Manufacturers web sites in Australia and United Kingdom
Date: April 2002

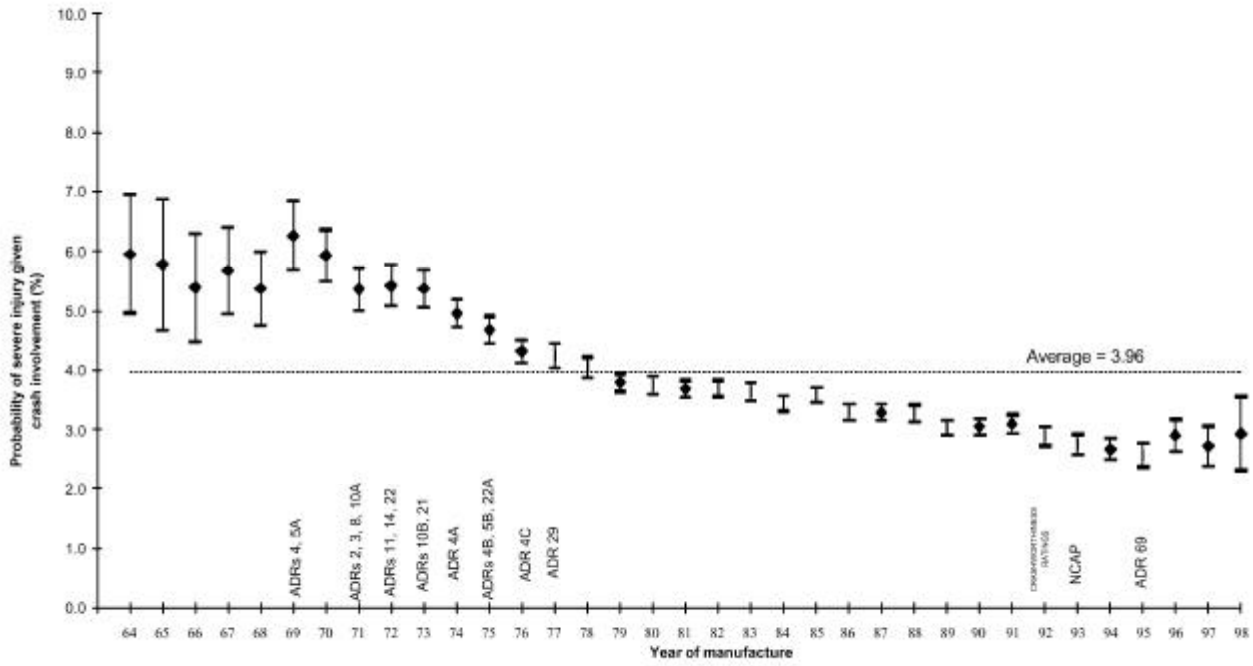
4.3 Crashworthiness, injury and vehicle age

A recent study by the Monash University Accident Research Centre (MUARC)[23] shows a general and significant improvement in vehicle crashworthiness - as measured by the probability of severe injury given crash involvement – with increasing year of manufacture (see Table 7).

As noted in the report, 'little improvement can be seen in the years 1964 to 1969, followed by rapid improvement over the period 1970 to 1978, with a plateau from 1979 to 1984'. It is also reported that 'there is visual evidence of a decreasing trend in the period after 1984 with vehicles manufactured over the period 1991 to 1997 being statistically significantly safer on average than those manufactured before 1986'.

The research report also notes that drivers of vehicles could be expected to have benefited from the implementation of a number of Australian Design Rules (ADRs) for vehicle safety. The years of implementation of various ADRs are also shown in Table 7.

Table 7: Crashworthiness by year of manufacture (with 95% confidence limits)



Source: Vehicle Crashworthiness And Aggressivity Ratings And Crashworthiness By Year Of Vehicle Manufacture: Victoria And NSW Crashes During 1987-98 Queensland Crashes During 1991-98, Report No. 171, Monash University Accident Research Centre, July 2000

There have also been improvements in head injury criteria and chest compression in large cars in just four years between 1993 and 1997 (see Table 8).

[23] Newstead, Cameron and Le, Vehicle Crashworthiness and Aggressivity Ratings by Year of Vehicle Manufacture, MUARC, July 2000. The project was part-funded by NRMA, RACV and RACWA which are Constituents of AAA.

Table 8: Head Injury Criteria and chest compression improvement (large car) – 1993-1997

Year	Driver HIC	Chest (mm)	Pass HIC	Chest (mm)
1993	1690	52	2410	45
1995	1170	41	1110	44
1997	441	38	710	44

Source: Australian NCAP

The results of NCAP tests show the progressive improvements in Head Injury Criteria (HIC) and chest compression for a large car as vehicle crashworthiness evolved. The large change in the 1997 results are predominantly due to the fitment of driver's airbags. A HIC of 1500 will result in a life threatening injury. Chest compression of 55mm will result in fatal injury.

One further set of results again highlights the safety performance of newer cars compared to older cars (see Table 9). NCAP style tests were conducted at the RTA Crash Lab in 2000 for four (4) old cars from the late 70's-early 80's and their more recent model counterparts.

The results revealed that 'newer cars were safer than older models in the event of a similar collision'. The VT Commodore (97-99 model) was almost six times safer than the 1977 Holden Kingswood, the Mitsubishi Magna (96-99 model) was nearly one and a half times safer than the 1977 Sigma, the 1995 Toyota Corolla was two and a half times safer than the 1980 model, and the 1998 Ford Falcon was almost twice as safe as the 1978 model.

Table 9: Comparison of risk of injury in old versus new cars

Vehicle model	Risk of serious injury to driver	Increased risk in older car
1977 Kingswood VT Commodore*	73% 13%	5.62 times
1977 Sigma Magna (96-99 model)	29% 20%	1.45 times
1980 Corolla 1995 Corolla	64% 25%	2.56 times
1978 Falcon Falcon* (1998)	23% 13%	1.77 times

* with driver's airbag
Source: Royal Auto, RACV, August 2000

All of the above results confirm that newer cars are generally safer. Reducing the cost of new cars will assist in transferring these safety benefits to a greater number of motorists and help to reduce the cost of road trauma to the community.

5. ENVIRONMENTAL PERFORMANCE OF VEHICLES

Tariff reductions and lower taxes and charges will reduce car prices and stimulate new car sales. This stimulus will reduce the age of the car parc and improve the environmental performance of the fleet because newer cars are, in general, ‘cleaner‘ than older cars.

5.1 Age of the car parc

The age of Australia’s total vehicle fleet and PMVs is quite old compared to other developed countries. In 2001, the average age of the fleet and PMVs was 10.5 years and 10.1 years respectively (see Table 10).

Table 10: Average age of the vehicle fleet

Year	PMV	Total Fleet
		years
1971		6.1
1976		6.5
1979		7.1
1982		7.6
1985		8.0
1988		9.1
1991		9.8
1993		10.1
1995		10.5
1996		10.6
1997	10.5	10.7
1998	10.4	10.7
1999	10.3	10.6
2000	*	*
2001	10.1	10.5

* No census in 2000

Source: Motor Vehicle Census (Cat 9309.0), Australian Bureau of Statistics, 1972 to 2001.

As can be seen from the figures of Table 10, the average age of PMV has been declining slowly since 1997. This slightly younger PMV car parc should translate into overall improved environmental performance, particularly since newer cars are increasingly required to meet more stringent emissions standards.

5.2 Emission standards

Euro 1, 2, 3 and 4 are acronyms commonly used throughout Europe to define both current and future regulated vehicle emission levels and fuels. Euro 1, 2 and 3 have been in force in Europe for some time, and Euro 1 came into force in Australia in January 2001. Euro 2 commences in January 2002.

The anticipated years for introduction of each new Euro level, both in Europe and Australia is shown in Table 11.

Table 11: Timetable for introducing EU emissions standards (new petrol engine cars)

Levels	European introduction	Australian introduction	Difference (years)
Euro 2	1996	2002	6
Euro 3	2000	2005	5
Euro 4	2005	2008*	3

- under discussion

Australian Design Rule (ADR) 79/01 implements the new Euro 3 and Euro 4 emission standards for light vehicles. As can be seen from Table 11, Euro 3 will not come into effect in Australia until 2005. By contrast, Euro 3 for new model trucks (which are all imported) and which operate on diesel, LPG and natural gas, came into effect in 2002, and for all vehicles from 2003.

While Australia currently lags behind Europe in the introduction of more rigorous vehicle emission standards, it is certainly catching up. Incorporation of the European standards into Australian legislation is a positive sign for the environment and, while it is happening slowly, the higher emission reduction standards are taking hold.

The progressive introduction of Euro standards will have a marked impact on air pollution. Since 1976, emissions of HC, NO_x and CO have reduced dramatically and the introduction of Euro 3 in 2005 and Euro 4 in 2008 will result in further reductions (see Table 12).

Table 12: Summary of exhaust emission requirements for petrol driven passenger vehicles

Pollutant	Absolute emission limits, grams per vehicle kilometre					
	ADR27A (1976)	ADR37/00 (1986)	ADR37/01 (1997-9)	Euro 2* (2003-4)	Euro 3 (2005-6)	Euro 4
Carbon monoxide	24.2	9.3	2.1	2.2	2.3	1.0
Oxides of nitrogen	1.9	1.93	0.63	0.22	0.15	0.08
Hydrocarbons	2.1	0.93	0.26	0.28	0.2	0.1

* For Euro 2 there is a combined limit for HC and NO_x, split figures assume a ratio of 55:45 (HC:NO_X).

In some parts of Europe the threshold values of the Euro 4 level for harmful vehicle emissions are already lower than emissions measured in ambient air levels. The required threshold levels of emissions from Euro 4 cars are so low that the German Environmental Protection Agency in Berlin, normally quite critical, has certified the standard as delivering an air *purifying* effect.

Significantly, the Euro 4 standard is seen as achievable for the modern European spark-ignition (SI) engine. In Germany in 2000, 65 per cent of all newly registered vehicles with SI engines met the threshold values for Euro 4, or the comparable D2 standard.

A number of Euro 3-capable European cars have arrived in Australia, however, some cannot be imported because they cannot use the relatively high sulphur fuel available in Australia and the on-board diagnostic (OBD) systems may not work effectively. Also some cars need to be down-tuned to accommodate lower octane fuel. Thus the full benefits of Euro 3 capable cars are not being realised.

Some manufacturers have stated that their vehicles, particularly the direct injection petrol engines, and diesels with advanced particulate traps/catalysts, will not meet future emission standards with high sulphur fuels. Achieving Euro 3 emissions standards (in 2005) will require the widespread availability (and acceptance) of low sulphur 95 RON fuel. Australia needs to have the appropriate low sulphur fuels available nationally before the cleaner vehicles are introduced.

There remains an opportunity, through incentives or reductions in barriers to trade, to assist companies that are prepared to provide improved technology and reduced emission vehicles to the market.

Mazda in the UK are reported to be planning to be the first manufacturer to offer a diesel model that meets the future Euro 4 levels. The 2.0 litre diesel common-rail could give Mazda a significant advantage in the much fought over UK company car market. Under the UK's CO_2 company car tax system being launched in April 2002, diesels will pay a 3 per cent supplement on their tax bill unless they meet Euro 4.[24]

In order to speed up the introduction of low sulphur diesel fuels, the Government announced in 1999 in *Measures for a Better Environment*, that from 2003, the excise on high sulphur diesel would be 1 cent/litre higher than excise on ultra low sulphur diesel (ULSD) and 2 cents/litre higher from 2004.

In order to realise the benefits of tighter emission standards for PMVs vehicles much earlier than 2005, the Government could provide incentives for the early introduction of Euro 3 and Euro 4 compatible fuels and vehicles ahead of the legislated dates. AAA calls on the Productivity Commission to report on the desirability of such an initiative.

Such incentives could be introduced through reduced tariffs on imported cars and parts (including new engine technology), lower excise for low sulphur and high octane fuels before the legislated dates (as opposed to higher excise for

[24] Information on the effect of the UK's company car tax scheme tax can be found at www.days.co.uk/contract.first.asp which includes a Tax Calculator for examples of how the system will affect models currently available.

'dirty' fuels), or subsidies to producers and importers of cleaner fuels as has been recommended by the Report of the Inquiry into Fuel Taxation.[25] Lower registration fees for Euro 3 capable cars is another option which should be considered by State Governments. The NSW Government is moving down this path, with differential rates of stamp duty for 'cleaner' vehicles.

Another issue which concerns AAA is the lack of publicly available information on the extent to which vehicles comply with the relevant emission ADRs. Unfortunately, manufacturers are not prepared to not make such information available. This should be a minimum requirement considering the Government assistance which manufacturers enjoy.

AAA calls on the Productivity Commission to report on the desirability of requiring Government and manufacturers to make emission test results publicly available, possibly as a minimum condition for ADR compliance since the Government assists local manufacturers.

5.3 Fuel consumption

Environmental performance can also be measured in terms of fuel economy. A key element of the Government's Climate Change Policy (*Safeguarding the Future*) announced in 1997, was the Environmental Strategy for the Motor Vehicle Industry. A number of reforms were announced at the time including a decision to negotiate with the automotive industry new targets for National Average Fuel Consumption (NAFC)[26] which were expected to yield improvements of 15 per cent against projections based on business-as-usual by 2010.

There has been very little progress in negotiations between Government and the industry, let alone progress in achieving the expected targets. The statement in 1997 that negotiations on the new NAFC targets (which were to include 4WDs and light commercial vehicles) were to be completed within 6 months.

The result is disappointing, particularly when seen against the assistance provided to the industry. According to the Industry Commission (as it was known at the time) consumers have paid an extra $13 billion for their vehicles because of assistance to the industry over the life of current assistance arrangements (1993-2000).[27]

As can be seen from the figures of Table 13, the improvement in NAFC over the 90's has been about 6 per cent, with the reduction coming about partly because of the increased share of imports of small cars with low fuel consumption, and also improvements in fuel consumption of locally manufactured vehicles. For example, fuel consumption of the most popular, best selling variants of two locally manufactured vehicles[28] has improved from 10.5 litres/100km in 1990 to 9.0 litres/100km in 2000 for the Holden

[25] Report of the Inquiry into Fuel Taxation (Trebeck Inquiry), March 2002.
[26] NAFC is calculated by first determining the weighted average city:highway drive cycles for each model, and then calculating sales-weighted averages for each model across the whole fleet.
[27] Industry Commission, 'The Automotive Industry', Report No 58, Volume 1, page 329 .
[28] Holden Commodore and Ford Falcon 6 cylinder automatic sedan.

Commodore (an improvement of 14%) and from 10.0 litres/100km to 9.4 litres/100km for the Ford Falcon (an improvement of 6%).[29]

A target of 15 per cent against business-as-usual, would see NAFC at 7.2 litres/100km by 2010 (see Chart 4). This is going to become increasingly difficult to achieve, particularly since 4WDs, which have much higher fuel consumption, are increasing their share of the total passenger vehicle fleet.

Table 13: National Average Fuel Consumption (NAFC) of new cars

Year	NAFC
1978	11.5
1979	10.9
1980	9.8
1981	9.7
1982	9.5
1983	9.25
1984	9.3
1985	9.2
1986	9.3
1987	9.4
1988	9.1
1989	9.2
1990	8.9
1991	8.8
1992	8.9
1993	8.9
1994	8.8
1995	8.76
1996	8.62
1997	8.47
1998	8.43
1999	8.40
2000	8.30*

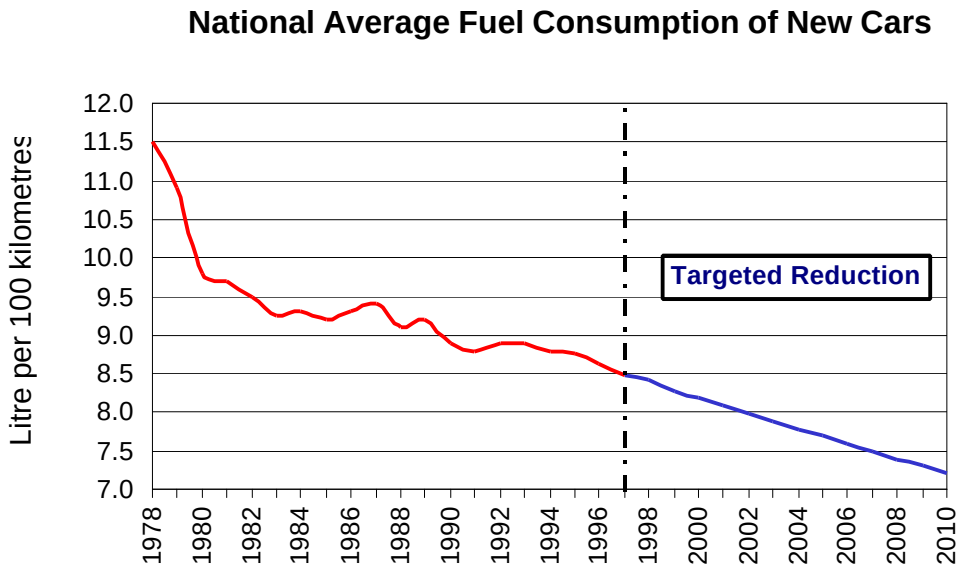
Source: Australian Greenhouse Office

The Australian target (if it can be called that) is very modest by international standards. European legislation now in place demands that vehicle CO_2 emissions must be down to the level of 140 grams/km by 2008. This target has also been agreed by the Japanese and Korean car manufacturers. This commitment corresponds to a fuel efficiency of about 5.8 litres/100km for petrol and 5.3 litres/100km for diesel.

The fact that vehicles manufactured in Australia do not meet the stricter fuel consumption targets now in place elsewhere around the world, means that such locally manufactured vehicles are not suitable for particular export markets.

[29] Fuel consumption calculated as a weighted average (55:45) of city/highway drive cycles.

Chart 4



Source: Fuel Consumption Guide, Australian Greenhouse Office

The trend in average fuel consumption is the result of several factors:

- the efficiency of engine technology;
- the power of the engines; and
- the average weight of new vehicles.

According to the Bureau of Transport and Regional Economics (BTRE), engine technology in Australia has resulted in a reduction in the amount of fuel required to move a vehicle of a given size by 1.3 per cent per year since the 1970s. However, at the same time, the average weight of new vehicles in Australia has increased substantially and the power has also trended upwards.[30]

There also appears to have been little or no progress in setting fuel efficiency targets for the Commonwealth car fleet (which, we understand is comprised of locally manufactured vehicles only). In *Safeguarding the Future*, the Commonwealth committed itself to developing options for challenging but realistic fuel efficiency targets from 2003.

AAA calls on the Productivity Commission to report on progress achieved in setting fuel consumption targets for the Australian industry and the Commonwealth car fleet.

5.4 Hybrid vehicles

There are currently two hybrid vehicles on the market in Australia which are imported – the Toyota Prius and Honda Insight. Both vehicles command a

[30] Bureau of Transport and Regional Economics, Information Sheet No 18: 'Fuel consumption by new passenger vehicles in Australia', 2002.

price premium of $20,000-$30,000 over what might be regarded as a comparable vehicle.

These vehicles, which are ‘cleaner’ than conventional vehicles - the Prius has fuel consumption of 3.4 litres/100km - attract the same rate of duty as other PMVs (and a higher duty than 4WDs which have higher fuel consumption).

The NSW Government intends to introduce differential rates of stamp duty for 'cleaner' vehicles, including hybrid vehicles in 2003. The details of the new arrangements are currently being finalised. Ideally, other State Government's will implement similar schemes.

AAA calls on the Productivity Commission to report on the desirability of preferential tariff treatment for hybrid vehicles and/or a new policy framework, including grants to local manufacturers, which would encourage sales of such vehicles.

5.5 On-board diagnostics (OBD)

Euro 3 will offer environmental gains partly because of its requirement for on-board diagnostics (OBD). The OBD system, which is a kind of ‘green box’ technology similar in concept to the safety related ‘black box’ in aircraft, monitors the performance of emissions related vehicle systems to ensure that the car is as clean as possible at all times. The system stores and detects codes which identify operational malfunction within the engine and emission control systems.

The purpose of OBD is to inform the driver when an emissions related system or component malfunctions or deteriorates beyond agreed thresholds.

There is a concern that with the introduction of OBD, access to the crucial diagnostic data required for vehicle inspection and repair will become limited to approved car dealerships.

With restricted access, road side assistance organisations (such as AAA Constituent Clubs) and independent garages, will be unable to repair a wide range of relatively simple faults. Maintenance repair costs would therefore increase.

It is important, therefore, that repair information required for diagnosis or repair of vehicles that is provided by the manufacturer to its authorised dealers/repairers is also made available to consumers.

There is still much work being undertaken in Europe to establish a common format, standard definitions, access requirements and the way in which manufacturers should provide such maintenance and repair information.

AAA considers that unrestricted and standardised access to OBD systems is vital to ensure that consumers have the widest possible choice in maintaining and repairing their cars. AAA calls on the Productivity Commission to consider the option of recommending legislation to ensure uniformity of information format, descriptions, access and performance.

6. INTELLIGENT TRANSPORT SYSTEMS

Intelligent Transport Systems (ITS) has been defined as:

"The application of modern computer and communication technologies to transport systems, to increase efficiency, reduce pollution and other environmental effects of transport and to increase the safety of the travelling public".[31]

A number of ITS solutions have been identified in the ITS Australia submission to the Productivity Commission, but it is worth identifying a number of them here which relate to safety and the environment, the two areas which we have focussed on in our submission.

On the safety front, ITS solutions include automatic crash notification, adaptive cruise control, fatigue detection, alcohol interlocks, collision warning and collision radar.

In the environmental area, ITS solutions include car navigation, driver information systems, exhaust monitoring and hybrid power.

Most of these technologies have been developed and are ready to be included as standard or optional equipment in vehicles today. Some technologies, such as vehicle navigation, are already available in the top of the range BMW in Australia. However, the decision of manufacturers of whether to include ITS technologies or not depends on cost, the time frame over which the investment is likely to be recouped by sales of sufficient volume, and the willingness of consumers to purchase vehicles which include various ITS technologies.

In many cases, consumers do not perceive, or are not aware of, the significant benefits of ITS. Earlier in this submission, we noted that driver airbags reduce the risk of a serious injury by 50 per cent. And head injuries are the major cause of death and injury in car crashes. The entire community should be aware of this.

Unfortunately, it is likely that some car buyers will choose features such as CD players or airconditioning rather than airbags when they weigh up the cost of alternative features when buying a new car. Passenger airbags are offered as optional in many cars, but the additional cost is often prohibitive for new car buyers.

AAA calls on the Productivity Commission to analyse the range of vehicles sold in Australia where airbags are optional, to identify the cost of the air bag option, and to examine the costs and benefits of requiring locally manufactured vehicles to fit driver and passenger airbags as standard equipment.
The Commission should also consider the option of requiring Government to implement more stringent safety ADRs, possibly as a *quid pro quo* for Government assistance to the local industry.

[31] ITS Australia, Intelligent Transport Solutions for Australia: Technical Report 1998.

Given the significant cost to the community of road trauma, there is a role for Government to intervene in circumstances where individuals fail to make a choice which is in the community's best interests. This intervention could be in the form of providing information about ITS solutions, offering fiscal incentives, legislating to make certain ITS technologies compulsory, or conducting demonstration projects.

Some State Governments have already acted by legislating to make alcohol interlocks compulsory for certain repeat drink-driving offenders.[32] This makes sense, at least when one considers that alcohol remains a factor in 27 per cent of fatal crashes nationally.

The Federal Government has played a role in providing information about the benefits of airbags through a publication prepared by the Federal Office of Road Safety and it has contributed financially towards pedestrian tests as part of NCAP. The Australian Transport Council has also endorsed ***e-transport***, *The National Strategy for Intelligent Transport Systems*, which includes 10 strategic goals

However, more could be done to reduce the $15 billion annual cost of road trauma. The Government could, for example, mandate the fitting of alcohol interlocks on all new vehicles. Although it is recognised that Australia could not go it alone – other manufacturers around the world would need to be part of this - there are forums, such as the United Nations World Forum for Harmonisation of Vehicle Regulations where such issues of global harmonisation are discussed and decisions made.

Another ITS solution where Government could provide information, offer incentives, or legislate is in the area of immobilisers. The inclusion of immobilisers as after market products, or as original equipment in vehicles would help to reduce the estimated $1 billion cost associated with the theft of around 139,000 motor vehicles in Australia every year.

The Federal Government could also consider providing assistance to demonstration projects such as the TAC SafeCar project. This project brings together the Monash University Accident Research Centre (MUARC), the Ford Motor Company of Australia, and the Transport Accident Commission (TAC) Victoria.

The project seeks to identify and test ITS technologies that have an impact on road safety, and to combine them into one vehicle. The ITS technologies included in the prototype SafeCar were chosen for their anticipated ability to reduce the chance of an accident, or the outcome severity if a crash does occur. The technologies included are (1) following distance warning; (2) daytime running lights; (3) route navigation; (4) emergency 'May Day'; (5) reverse collision warning; (6) seatbelt reminder; (7) intelligent speed adaptation; and (8) route navigation.

[32] In South Australia, alcohol interlocks have been introduced as an option available to offenders on licence suspensions of over 6 months, to enable them to resume driving after a minimum of 3 months.

AAA calls on the Productivity Commission to identify the role which Government could play in ensuring the early adoption of ITS vehicle technologies which have the potential to improve safety, environmental and theft outcomes associated with the motor car.

7. CONCLUSION

Although AAA is not recommending a particular tariff level which ought to be introduced beyond 2005, the thrust of this submission is that lower tariffs as well as lower taxes and charges will result in reduced new car prices, and that this will stimulate the sales of new cars which are generally safer and 'cleaner' than older cars.

Reducing tariffs from 10 per cent to 5 per cent will reduce car prices by around 3 per cent and stimulate sales by around 2.5 per cent. A tariff of 5 per cent will also remove the disparity between different levels of assistance applying to PMVs and 4WDs, which are a substitute for PMVs.

Raising the luxury car tax (LCT) threshold or removing the LCT will also stimulate sales of so-called luxury vehicles which have high levels of safety and environmental performance. Increased luxury car sales are likely to have a flow-on effect to sales of new cars generally.

There is considerable evidence to indicate that newer cars are safer and 'cleaner'.

On the safety front, the have been improvements in NCAP ratings for new cars and crashworthiness has improved. NCAP-style tests also show that newer cars are 2-6 times safer than comparable older models.

From an environmental perspective, the introduction of new ADRs over the past 20 years has seen emissions of CO, NO_x and HC being cut significantly and air quality improve. Greater improvements are expected with the introduction of new (Euro) standards in the future. However, incentives may be required to speed up the introduction of 'cleaner' fuels and vehicles.

The submission does not address in any detail the likely impact of reduced assistance to the structure and performance of the industry. However, we do note that over the past 20 years, the industry has managed to prosper - particularly through a focus on exports - despite declining tariff assistance.

In our view, if further assistance to the industry is deemed necessary, it would be preferable if it were to be provided by a direct grant to the industry, or specific firms. Assistance in this form would be more transparent and targeted.

Whatever the level of assistance, consideration should be given to making it conditional on vehicle manufacturers delivering improvements in fuel consumption and safety performance.