

Australian Consumers' Association

Submission to the Productivity Commission's Inquiry into Post 2005 Assistance Arrangements for the Automotive Manufacturing Sector

May 2002

The Australian Consumers' Association (ACA) is an independent body representing the interests of consumers. ACA derives its income from consumers through the provision of information and guidance and publishing CHOICE and other magazines, www.choice.com.au and CHOICE Books.

ACA's interest is solely that of the consumers of motor vehicles and related services. The key factors regarding motor vehicles for consumers are price, availability, safety and environmental performance.

Tariffs reduce consumer purchasing power and may lead to sub-optimal purchasing decisions. Tariffs may also create sub-optimal resource allocations reducing the potential of the economy to respond effectively and for good, broad and longer term investment decisions. Assistance to the Australian automotive industry cost Australian consumers around one billion dollars in year 2000¹.

During the latter half of the 20th Century attempts to build up local manufacturing and employment in the automotive manufacturing sector resulted in Australian consumers having access to only a limited range of vehicles of generally inferior quality and efficiency². Fortunately, through much of that period the Australian dollar was highly valued³ and motor vehicles were relatively affordable⁴. Technological change caused and is continuing to cause reduction in employment in this industry, like most others, and tariffs are unlikely to result in long term significant employment protection.

Through an easing in protection and other factors consumers now have access to a greater variety of motor vehicles and through this competition, and attention placed on quality in general, vehicles have significantly improved in quality.⁵

Locally assembled vehicles have always lagged most imported vehicles in quality and reliability, and ACA's annual reliability survey indicates that some local models still do. While this does not seem to affect their sales into large fleets, and they have attractions for other reasons, most private purchasers of new vehicles choose other better quality vehicles, both locally assembled and imported.⁶

¹ Parliamentary Library research paper 7, 1999-2000

² Well documented by previous inquiries and independent research.

³ AUD1=US\$1.12 mid-late 1970s; double the current value.

⁴ Average weekly earnings to buy a new Ford Falcon bottomed out at around 30 weeks in 1975 then started to rise again in 1985 to around double that figure now. ABS analysis.

⁵ CHOICE annual car reliability survey and others.

⁶ Private conversation with NRMA Technical Research Manager, March 2002.

Tariff-affected pricing still means that many consumers buy possibly inferior vehicles for their needs – that is, they choose vehicles that use more fuel or have worse emissions or poorer safety ratings because of their apparent value (eg size, power, perceived maintenance cost advantages).

Key factors of concern for and affecting consumers, for their environment and their health, are vehicle fuel consumption and emissions.⁷ Excess fuel consumption has an economic cost to Australia as well as to each car consumer and relates directly, of course, to greenhouse gas emissions. Australia is one of the world's worst greenhouse gas emitters⁸ and motor vehicles are a significant part of that problem⁹. The recent introduction of a fuel consumption labelling program for cars by the Australian Greenhouse Office is perhaps too little too late. Australia's fleet average fuel consumption has for long been about the world's worst¹⁰ since the United States made a major shift in car making and purchasing in the 1970's and 1980's (CAFE program).

Important drivers of this fuel consumption excess are the support for large, heavy, fuel inefficient local cars, a trend to even heavier, less efficient 4WD/All Terrain Vehicles, and the great average age of the Australian car fleet.¹¹

The fleet age is also a major contributor to a worse than necessary emissions situation¹², especially in traffic crowded cities. A great number of the Australian car fleet are still pre-1986 vehicles designed to run on leaded petrol and with poor or no emissions control systems. Together with their age and condition they are major polluters. Many post-1986 cars are well behind contemporary standards for emissions.

Why is the fleet so old and why do consumers not choose more efficient cars?

Price. Through a range of factors car affordability has dropped substantially in the last 30 years. The current value of the Australian dollar obviously puts a lot of upward pressure on all car prices, though not as much on locally assembled vehicles, and even less on those with a greater local content.

Of course this tends to make the local vehicles which mostly have the greatest weight and worst fuel consumption appear better value propositions to consumers than they would otherwise – that is, if imported cars were cheaper.

Apart from the dollar why are cars so expensive?

The tariff. The 15% tariff on a small/medium imported car (ie selling around \$19,990) increases the price to a consumer around \$2,600. Even a small car sold near the bottom end of the new car market (ie at \$13,990) is boosted around \$1,800 by the tariff. It is not hard to imagine the increased potential for

⁷ CHOICE, 6/98. The cost to society from vehicle emissions is 0.11 cents/km or \$167,000,000/year.

⁸ Highest per capita CO₂ emissions.

⁹ 50% of transport related CO₂.

¹⁰ ACIL for AGO, Australian fleet average trending down and now around 8.5L/100km. US fleet average for 1999 was around 8.4L/100km (28mpg).

¹¹ 11 years compared to around 7 years in Europe and the US. Brazil is only 9.9 years average.

¹² About 65% of NO_x and 80% of CO and HC emissions are attributable to older vehicles.

consumers to enter the new car market if such a vehicle was closer to \$12,000, or around \$17,400 for the first example.¹³

But the nominal price alone is not a sufficient guide to affordability. ACA has carried out some research comparing prices in four countries and calculated an index of affordability, using average earnings in each country. An affordability index of 1.0 means that it takes one year's gross earnings for the 'average' person to purchase the car. While there are some anomalies, and it is not always possible to get an exact model match for comparison, the trends are obvious and unquestionable. Cars are less affordable in Australia than in the US, the UK and Germany.¹⁴

In carrying out its analysis ACA was of course unable to compare some of the locally made cars which are effectively unique to Australia. Three local cars, the Mitsubishi Magna, Toyota Camry and Toyota Avalon are available elsewhere; the Toyotas are made in each of the markets surveyed and the US-sold Mitsubishi is from Adelaide.

Some examples:

A cheap imported Korean car, the Daewoo Lanos is available in all four markets. It's affordability index is 0.41 in Australia, similar to the UK; in the US the affordability is just 0.36 and in Germany just 0.32. Without a tariff the vehicle's affordability in Australia would be around 0.36 – the same as in the US.

The Holden Astra with 1.8L engine, essentially the entry level model in Australia, has an affordability index of 0.61 here, and 0.61 in the UK also, only 0.52 in Germany. Without the tariff in Australia it may have an index of 0.53. An important point in this particular comparison, and a number of others, is that the 1.8L Astra is not the main entry level model in the UK, there they have a 1.4L model and a 1.6L model, both of which are significantly cheaper than the 1.8L model. So in reality the affordability of the Vauxhall Astra for most UK buyers is more like the 0.52 it is in Germany because UK buyers are more likely to accept smaller engines¹⁵. Registration tax and fleet taxes increase sharply for cars with engines in excess of 1.4L in the UK.¹⁶

The popular Hyundai Accent, which has moved away from the focus of its predecessor, the Excel, on cheapest price marketing here, has an affordability index of 0.50, but in the US it is only 0.35 and in the UK 0.42, in Germany 0.40. Without tariff effect its index in Australia would be 0.44, still slightly dearer than the other markets.

ACA also made an analysis of the price structures to arrive at a *notional ex-factory price* in each market. This price is not claimed to be the actual base price of each model but an indicator of the inherent profitability of each model in each market.

¹³ Simple calculations assuming 8% dealer markup and 4% distributor markup in each case.

¹⁴ See attached table, full spreadsheet analysis available. Prices used are list prices taken from independent websites including www.autobytel.com, www.autobytel.co.uk, www.autobytel.com.au, www.yahoo.de, www.cars.com. Earnings data from US Bureau of Statistics, ABS, UK Inland Revenue, Destatis (Statistische Bundesamt).

¹⁵ Analysis of market offerings in each country and reflected in fleet fuel consumption data.

¹⁶ *Which?* magazine car buying guide 2001.

For the above three vehicles, selling into price sensitive parts of the market, the notional ex-factory price (except for the Daewoo in the UK) is much lower for the vehicles sold into Australia than in the other markets.

With more up-market cars the notional ex-factory price for the vehicles sold into Australia is around the same as that for the other markets. These vehicles are sold on their merits, it might be said, regardless of price.

For instance, the Lexus GS300 has a notional ex-factory price for vehicles sold in Australia around 30-50% higher than that in the other markets. The affordability index for that car in Australia is more than twice that in all the other markets surveyed.

Lastly, turning to the locally assembled vehicles, the Mitsubishi Magna, sold in the US as the Diamante, is in fact slightly more affordable here than in the US (0.91 vs 0.99) though of course it is not targeted as a regular family car in the US and is not competitive with such cars there.

The Toyota Avalon assembled in Australia and the US is, as for the Magna, slightly more affordable here (0.93 vs 1.0). The 4 cylinder Toyota Camry is substantially more expensive here (0.96) than in the US (0.73) a bit more than the UK (0.85), where it is regarded as an upmarket "executive" car, only a little more than in Germany (0.90).

The V6 Toyota Camry is more expensive here than in the US (1.03 vs 0.92), but more affordable than in the UK (1.12) where it is seen as an extravagance and similar to Germany (1.01).

The Australian Consumers' Association believes that the tariff should be wound down as planned and then abolished altogether. The federal government's share of the price of a \$19,990 car is around \$3,900 with the tariff and GST. This is a hefty slug on would-be car buyers that is a significant impediment to consumers obtaining cleaner, safer cars.

There are significant and increasing costs to the community, including, of course, the federal government, through road trauma and the adverse health effects of vehicle emissions. The federal government should review the vehicle tax system so as to capture more of its revenue from CO₂ emissions/fuel use or other-emissions taxes and charges rather than the tariffs on car imports (and the 15% extra GST the tariff leads to) in the interests of the medium term benefits of reduced injuries and deaths and potentially lower health costs.

ACA believes that All Terrain Vehicles (ATVs) should have the same tariff as passenger cars, that is, zero. At the same time ACA is concerned about the proliferation of heavy ATVs for general motoring use and encourages federal and state governments to introduce more disincentives for their purchase and use, such as weight, fuel or emissions taxes as suggested above.

Australian Consumers' Association Productivity Commission Submission
Automotive Industry Assistance
New Vehicle Price Comparisons
May 2002

Australian Model	Australian Price AUD	US Price US\$	UK Price GBP	German Price EUR	Notional ex-factory price for AU model in AUD	Notional ex-factory price for US model in AUD	Notional ex-factory price for UK model in AUD	Notional ex-factory price for German model in AUD	Affordability in AU	Affordability in US	Affordability in UK	Affordability in Germany	Affordability in AU with no tariff
Audi A3 1.6 5 SP Manual 1.6L 5 dr hatchback	35400		14623	18100	23300		29600	23000	1.05		0.64	0.55	0.91
Audi A4 1.8 Avant Turbo 5 SP Automatic 1.8L 5 dr station wagon	58600	24900	19828	27550	39640	41300	40260	35089	1.73	0.96	0.87	0.84	1.51
BMW 316Ti Compact 5 speed manual 1.8L 3 dr hatchback	41750		16283	23400	27770		33000	29780	1.24		0.71	0.71	1.07
BMW 330 Ci Coupe 5 speed manual 3.0L	94650	34990	27688	35100	65000	58300	56360	44746	2.80	1.35	1.21	1.07	2.44
Chrysler PT Cruiser Classic 5 speed manual 2.0L 5dr Mini MPV	35200	16400	15013	21050	23400	27400	27450	26370	1.04	0.63	0.66	0.64	0.91
Daewoo Lanos SE 5 speed manual 1.5L 3dr hatchback	13990	9199	9495	10500	9000	15000	16800	12580	0.41	0.36	0.42	0.32	0.36
Ford Escape XLT 4 speed Automatic 3.0L 5dr All Terrain Vehicle	39090	23700	20988	30675	29320	39360	38200	38390	1.16	0.92	0.92	0.94	1.10
Holden Astra City 5 SP Manual 1.8L 5 dr hatchback	20490		14013	17150	12800		28450	21780	0.61		0.61	0.52	0.53
Holden Vectra GL 5 SP Manual 2.2L 4 dr sedan	25490	15235	14613	25250	20500	25470	29600	32150	0.75	0.59	0.64	0.77	0.75
Honda Civic Gli 5 speed Manual 1.7L 4 dr sedan	23950	13010	12478	17844	16000	21400	22370	21970	0.71	0.50	0.55	0.54	0.62

Notional ex-factory price = list price – GST/VAT/SalesTax - 8% dealer markup – 4% distributor markup – tariff/customs duty – transport cost.

Affordability index = list price/average annual earnings

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Honda CR-V 5 speed manual 2.4L 5 dr All Terrain Vehicle	31990	19200	16040	24005	23800	31800	28990	29850	0.95	0.74	0.70	0.73	0.90
Hyundai Accent GL 5 speed Manual 1.5L 5 dr hatchback	16990	8999	9497	13390	11100	14660	16820	16275	0.50	0.35	0.42	0.41	0.44
Hyundai Sonata V6 GL SP Manual 2.7L 4 dr Sedan	27990	16999	17517	21490	18840	28100	31740	26630	0.83	0.66	0.77	0.66	0.72
Jaguar S-Type V6 5 SP Automatic 3.0L 4 dr sedan	88000	43675	26700	45450	60200	72900	54525	57780	2.60	1.69	1.17	1.39	2.26
Kia Rio 5 SP Manual 1.5L 5 dr hatchback	13990	10385	9013	12270	9000	16975	15890	14820	0.41	0.40	0.39	0.37	0.36
Land Rover Freelander Wagon ES 5 SP Automatic 2.5L 5 dr All Terrain Vehicle	44950	24975	24415	28295	30000	41400	49840	35840	1.33	0.96	1.07	0.86	1.16
Lexus GS300 5 SP Automatic 3.0L 4 dr sedan	106050	38605	28468	41500	73800	64380	52110	52200	3.14	1.49	1.25	1.27	2.73
Mazda 626 Classic 5 SP Manual 2.0L 5 dr hatchback	31380		14013	20650	21200		25210	25600	0.93		0.61	0.63	0.81
Mazda 626 Eclipse 5 SP Manual 2.0L 4 dr sedan	29985	18785		21150	20210	31090		26240	0.89	0.73		0.65	0.77
Mercedes C-Class C 240 Classic 5 SP Automatic 2.6L 4 dr sedan	73500	30550	24558	33918	50100	50740	49960	43230	2.17	1.18	1.08	1.03	1.89

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Mercedes M-Class ML 320 5 SP Automatic 3.2L 5 dr All Terrain Vehicle	68900	36300	31593	42688	51480	60400	64360	54450	2.04	1.40	1.38	1.30	1.94
Mini Cooper 5 SP Manual 1.6L 3 dr hatchback	32650	16300	11618	16400	21380	26915	23610	20620	0.97	0.63	0.51	0.50	0.84
Mitsubishi Magna V6 SI 4 SP Automatic 3.5L 4 dr sedan	30890	25687			24880	42350			0.91	0.99			0.91
Mitsubishi Pajero GLS 5 SP Automatic 3.5L 5 dr All Terrain Vehicle	54990	35897	35013	42990	41530	59835	64305	54910	1.63	1.39	1.53	1.31	1.55
Nissan Maxima ST 4 SP Automatic 3.0L 4 dr sedan	40290	25449	25900	38990	27500	42280	47345	49000	1.19	0.98	1.13	1.19	1.04
Nissan Pathfinder TI 4 SP Automatic 3.3L 5 dr All Terrain Vehicle	47490	27649		41290	35750	45980		52000	1.41	1.07		1.26	1.34
Saab 9-5 Linear 5 SP Manual 2.3L 4 dr sedan	66900	33995	22595	31100	45480	56600	45890	39500	1.98	1.31	0.99	0.95	1.72
Subaru Impreza GX 5 SP Manual 2.0L 4 dr sedan	25990		15768	19690	16687		31400	24300	0.77	0.00	0.69	0.60	0.67
Subaru Impreza RS 5 SP Manual 2.5L 4 dr sedan	32990	18995			22400	31450			0.98	0.73			0.85
Subaru Outback 5 SP Manual 2.5L 5 dr station wagon	38180	26295	22613	31040	26050	43700	41270	38800	1.13	1.02	0.99	0.95	0.98

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Toyota Avalon Conquest 4 SP Automatic 3.0L 4 dr sedan	31490	25845			25300	42940			0.93	1.00			0.93
Toyota Camry Conquest '02 4 dr Sedan 4 SP Automatic 2.2L	32290	18970	19513	29850	25950	31720	36020	37890	0.96	0.73	0.85	0.91	0.96
Toyota Camry V6 Conquest '02 4 dr Sedan 4 SP Automatic 3.0L	34950	23700	25513	33460	28100	39660	47190	42500	1.03	0.92	1.12	1.02	1.03
Toyota Corolla Ascent Sedan Manual	19990	12568	11130	18300	13180	20990	21990	22600	0.59	0.49	0.49	0.56	0.51
Volkswagen GOLF S '02 5 dr Hatchback 5 SP Manual 1.6L	25990		12815	16325	16690		25940	20730	0.77		0.56	0.50	0.67
Volkswagen GOLF S '02 5 dr Hatchback 5 SP Manual 2.0L	28400	15250		17450	18390	25140		22170	0.84	0.59		0.53	0.73
Volkswagen Passat V6 4Motion 5 SP Automatic 2.8L 4 dr sedan	68300	24250	21940	32175	46470	40250	44630	41000	2.02	0.94	0.96	0.98	1.76
Volvo S40 2.0 5 SP Automatic 1.9L 4 dr sedan	41950	23900	17073	23500	27900	39620	34640	29800	1.24	0.92	0.75	0.72	1.08

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