8 May 2002

Automotive Industry Inquiry
Productivity Commission
PO Box 80
Belconnen ACT 2616

Insurance Australia Group (formerly NRMA Insurance Limited) submission to Post 2005 Assistance Arrangements for the Automotive Manufacturing Sector Inquiry

Insurance Australia Group welcomes the opportunity to lodge a submission to the Post 2005 Assistance Arrangements for the Automotive Manufacturing Sector.

Insurance Australia Group (IAG) is the largest Australian general insurance group with more than 7 million policies in force, accounting for approximately 20% of total premium underwritten by the private sector in Australia.

Nationally, IAG are market leaders in the provision of privately underwritten comprehensive and compulsory third party insurance.

IAG requests the Inquiry give consideration to the following matters:

1. **Australia should have a robust and healthy domestic vehicle manufacturing industry**

   IAG believes it is in the interests of Australian consumers, insurers and employees that global vehicle manufacturers invest in facilities to design, engineer, manufacture and service vehicles in Australia.

The Australian domestic vehicle manufacturing industry provides employment and facilitates the development of a range of vehicles tailored for Australian conditions and for Australian consumers. It also provides a technological base and expertise which enables Australia to engage in the global information economy. The technological spin-offs arising from automotive research and development are being applied in fields beyond the market for vehicle sales, including magnesium casting and plastic mouldings.

Australian-made vehicles are not simply assembled from overseas component sets. Local content (between 50 and 90 percent depending upon model) amounts to billions of dollars circulating within the Australian economy. The value added by Australian component suppliers is reflected by $1.68 billion in exports to the global automotive industry in 2001 (Australian Automotive Industry Monthly, April 2002).

2. **Developments within the automotive industry in the past decade have proven that the vehicle manufacturing sector can thrive even while tariff protection is being reduced**

Past industry assistance reviews have focussed on the level of support that might be necessary to ensure a healthy vehicle manufacturing industry in Australia.

IAG submits that it is in the interests of consumers that tariffs be reduced, in order that purchase prices can be reduced. The rate of reduction should encourage economies of scale and exert reasonable pressure on the automotive industry to meet world's best practice in design, engineering, manufacturing and aftersales service.

3. **All vehicles should attract the same tariff**

In recent years, motoring consumers have been buying four wheel drives and light commercial vehicles in record numbers for use as passenger vehicles.

Sales have increased so much that FCAI's VFACTS categories have been expanded to recognise light, medium and heavy four-wheel-drive vehicles that are designed and sold as passenger vehicles.

It is no longer practical to differentiate between vehicle designs in terms of intended usage as commercial or passenger transport. Tariff rates favouring relatively heavy and inefficient 4X4 and LCVs are at odds with the Federal Government's 2010 target to reduce average fuel consumption by 15 percent.

4. Vehicle pricing is not what it appears to be, due to offsets available to vehicle companies

In considering the recommended retail prices of vehicles in the context of overseas markets, IAG points out that the prices of vehicles at the lower end of the market do not always reflect the true cost of manufacturing, marketing and distribution in Australia and overseas. IAG is concerned that many vehicle manufactures choose to establish loss-making price structures for their new vehicles, in pursuit of increased market share.

These losses appear to be subsidised from either:

- duty credits from the Automotive Competitiveness and Investment Scheme (formerly export facilitation scheme)

- super profits arising from captive markets for replacement parts sales. Inflated parts prices are paid by motoring consumers in the course of servicing and repairs.

Inflated body repair cost have to be passed on to consumers in the form of increased insurance premiums, making insurance unaffordable on older model vehicles. Most body repairs are funded through insurance. IAG spends nearly $500million on body parts each year.

5. When comparing the prices of vehicles in world markets, the Inquiry should consider ownership costs as well as the recommended retail prices of vehicles.

Vehicle ownerships costs can be divided into running costs (fuel, tyres, service, repairs) and standing costs (depreciation, insurance, registration and interest). Insurance is typically the second largest standing cost associated with motor vehicle ownership, after depreciation. IAG submits that it is beneficial to the community if insurance is affordable for as many motorists as possible.

Insurance premiums largely reflect the cost of parts and repairs. Locally produced passenger vehicles are normally cheaper to insure than imported passenger vehicles because locally produced replacement parts are generally less expensive than for imported vehicles. Locally-made parts are not subject to variables such as exchange rates.

Low parts prices assist in keeping insurance premiums affordable and therefore ownership costs low. The low operating costs of vehicles produced in Australia provide competitive benchmarks for vehicle importers.

In a recent study of parts prices, IAG found that the prices of imported parts have increased by almost ten percent since 2000 while the prices of locally made parts have only increased by around two percent. IAG insurance premiums have been adjusted to reflect this difference.

6. Pricing of Premiums

It is important to the wider community that insurance remain affordable. An industry which relies on overseas parts will ultimately see a rise in insurance premiums, and therefore the costs of running a motor vehicle. This will negatively affect those least able to afford the premium increases, exacerbating existing social inequalities.

In conclusion, IAG would like to see:

a) a healthy local vehicle industry;

b) tariffs on all imported vehicles equalised in the near- to medium-term; and

c) the removal of cross-subsidies which distort the prices of vehicles, vehicle parts, and ultimately vehicle insurance

Please do not hesitate to contact me directly on (02) 9292 8593 should you wish to discuss any of the issues raised in the submission.

Yours Sincerely

David Wellfare

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