



Submission

by the

**Royal Automobile Club of Victoria
(RACV) Ltd**

to

Productivity Commission

on

*Post 2005 Assistance Arrangements for the
Automotive Manufacturing Sector*

May 2002

1. RACV perspective

The RACV is the Victorian automobile club. With a membership of over 1.4 million motorists, on average the RACV has a member in over 65% of all Victorian households.

Given that the motorist is the end consumer and primary customer for all imported and locally manufactured motor vehicles in Australia, the RACV has a keen interest in the subject of assistance arrangements for the automotive manufacturing sector, from the perspective of Victorian motorists. RACV believes that Australian consumers should have access to world quality vehicles at lowest feasible prices, be able to maintain and service them, and ensure that they have the least possible negative impacts on road safety and the environment.

2. Issues to be addressed

Given the Commission's intention to prepare an initial Position Paper in June 2002, we will prepare a substantive submission in response to that Position Paper. Therefore, this preliminary submission will be confined to a discussion of issues which RACV believes should be addressed by the Commission in preparing its Position Paper. These issues, consistent with the general aims outlined in Section 1 above, include:

- Industry assistance
- Vehicle safety
- Fuel quality and vehicle emissions
- Fuel efficient and hybrid vehicles
- Introduction of Intelligent Transport Systems (ITS)

3 Industry assistance

The passenger motor vehicle (PMV) manufacturing industry remains one of the most highly assisted industries in Australia, although assistance has declined consistently following the commencement of the Passenger Motor Vehicle Manufacturing Plan (the Button Plan) in 1985. Currently there is a 15% tariff on imported PMV's, and a 5% import tariff on four-wheel drive vehicles. The tariff on PMV's is scheduled to reduce to 10 per cent in 2005 – a substantial reduction on what it was, but still be over twice that of other manufacturing sectors in Australia.

A reduction in tariffs further from 10% to the manufacturing average (Approximately 5.0%) has the potential to reduce prices of imported new cars by 6-7% - clearly a benefit to consumers.

The RACV recommends that the Productivity Commission facilitate public debate on this issue by discussing the pros and cons of the following options:

- (a) Reducing the tariff on imported passenger motor vehicles from the current 15% to 10% in 2005, and remaining at 10% thereafter,
- (b) Reducing the tariff on imported passenger motor vehicles from the current 15% to 10% in 2005, followed by a staged reduction after 2005 to a 5% tariff level, the same as imported four-wheel drives,

- (c) Reducing the tariff on imported passenger motor vehicles from the current 15% to 10% in 2005, followed by a staged reduction to zero tariff sometime beyond 2005,
- (d) Abandoning the commitment to reduce tariffs to 10% in 2005, but remaining at 15%, or
- (e) Aligning the tariff for four wheel drives to that of passenger motor vehicles, within options (a) to (d) above.

4. Vehicle safety

Cost is a significant factor for the sale of new and safer vehicles to consumers. It has been shown that consumers will forgo some safety features or purchase a different model once price becomes a consideration. There are examples within Australia that some imported vehicles have had safety features removed in order to reduce the cost to Australian consumers and be in a better position to meet the local competition of lower prices cars. Reduced tariffs and improved Australian Design Rules (ADR's) could limit the benefits of this practice and provide cheaper and safer motor vehicles to Australian consumers.

The RACV recommends that the Productivity Commission recognize that cars and four wheel drives imported into Australia are sometimes less safe than those produced in the countries of manufacture. The Commission should consider whether Australia should formally move to a situation where vehicles imported into Australia must conform with either a European, American, or Japanese safety standard, and that Australian Design Rules (ADR's) be progressively phased out. This would have a benefit for consumers, in that importers would not have to go to the cost of modifying cars solely for the Australian market.

5. Fuel quality and vehicle emissions

Australian fuel quality and emission standards are well behind those of Europe. These standards need to be brought forward so that we can import and use the cleanest vehicles and environmentally friendly vehicles sooner rather than later. Many imported motor vehicles need to be 'detuned' to be able to accept Australian fuels.

The RACV recommends that the Productivity Commission examine the implications of Australian fuel quality being less than that available elsewhere, noting that the Australian Petroleum Refining Industry is progressively moving to remedy this situation. This will enable the importation of a wider range of vehicles with consequent consumer benefit, as well as reducing the cost of having to modify some imported vehicles to accommodate Australia's poor quality fuel. There would be environmental benefits as a result.

6. Fuel-efficient and Hybrid vehicles

Worldwide there is a strong movement toward making fuel-efficient and hybrid vehicles more affordable. For example in Iceland there are tax exemptions for such vehicles and in America some cities allow these vehicles to use transit lanes, while the NSW Government is investigating a "green" car scheme, with stamp duty savings to buyers of petrol-electric hybrid vehicles.

Although tariff reductions on fuel-efficient and hybrid vehicles could go some way to making these vehicle more price competitive to local consumers, this may provide short-term benefit only.

The RACV recommends that the Productivity Commission consider the environmental and consumer benefits of encouraging the sale and use of fuel-efficient and hybrid vehicles. However, we suggest that any support for these vehicles should be explicit, and recognize that any such technological gain is likely to be short lived, as other technological advances become available. Therefore assistance, if any, should be targeted and not reflected in differential tariffs.

7. Introduction of Intelligent Transport Systems (ITS)

Intelligent Transport Systems have the potential to improve safety and environmental performance of vehicles. Examples which are relevant to this Inquiry include on-board diagnostics, engine management systems, route navigation, Mayday systems, and a range of other telematics equipment. As with most technological advances, cost is a limiting factor in its gaining support by consumers. A reduction in tariffs, which would flow through to lower cost of this technology would enable Australian industry to keep up with its European and US counterparts in adopting this technology.

The RACV recommends that the Productivity Commission consider how best to implement the same philosophy as outlined in Section 6, namely that the benefits of technology should be brought on stream as soon as possible, but in a targeted and explicit way.

8. Vertical Integration

To the extent that manufacturers control, or “vertically integrate” various aspects of vehicle manufacture, distribution, parts supply, copyright of parts, access to on-board engine management software, and other aspects, there is reduced scope for third party providers to service vehicles and/or produce parts, and this has a potentially negative effect on the ability to maintain a vehicle in optimum condition, at a reasonable price. This aspect potentially affects safety, air quality, cost of motoring, and access of Australian manufacturers to markets.

The RACV recommends that the Commission include in its investigations a review of the extent and consumer implications of “vertical integration” within the automotive industry.

9. Supply of Skills

The RACV recommends that the Commission include in its investigations a review of skill levels in the industry, particularly the motor vehicle repair and service industry. Providing quality new vehicles at a reasonable price is one thing, being able to maintain them is another. There is some evidence of a crisis in skills, and (related to the previous point) having access to such skills, and we suggest that the Commission could usefully include this topic in its deliberations.