



Submission

by the

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

*to the
Productivity Commission's Position Paper
on the
Post 2005 Assistance Arrangements for the
Automotive Manufacturing Sector*

August 2002

1. RACV Perspective

The Royal Automobile Club of Victoria (RACV) welcomes the opportunity to make this submission to the Productivity Commission's Review of the Post 2005 Assistance Arrangements for the Automotive Manufacturing Sector.

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.

RACV made an initial submission to this inquiry in May 2002. This supplementary submission is made in response to the Productivity Commission's Position Paper of June 2002. It draws out specific areas where RACV believes that improvements can be made in particular. It also gives support to several of the specific recommendations and findings in the Commission's paper.

2. Key Areas

In response to the Productivity Commission's position paper RACV highlights the following areas which we believe can add value to the current debate on assistance for the Australian automotive manufacturing industry. These include:

- Vehicle safety
- Fuel quality and vehicle emissions
- Fuel efficient and hybrid vehicles
- Introduction of Intelligent Transport Systems (ITS)
- Vertical Integration
- Supply of Skilled labour
- Overall Industry assistance

3. 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 of imported vehicles having safety features removed in order to reduce the cost to Australian consumers and be in a better position to match the lower prices of locally produced vehicles. Reduced tariffs combined with improved Australian Design Rules (ADR's) to come into line with international standards would limit the benefits of this practice and provide cheaper and safer motor vehicles to Australian consumers.

The RACV again recommends that the Productivity Commission recognize that cars and four wheel drives imported into Australia are sometimes less safe than those produced and available for use in the countries of manufacture.

The RACV supports the alignment of the ADR's to the UNECE standards as long as these standards allow open trade to occur and are not at a lower safety level than those required under the existing ADR's and available to Australian motorists.

The RACV recommends that the Commission support bilateral agreements that allow mutual recognition of vehicle standards and testing regimes to establish conformity with these standards. These changes would remove the incentive to remove safety features from overseas manufactured vehicles in an attempt to reduce their cost in Australia, greatly benefiting Australian motorists and reducing compliance costs for vehicle's imported into Australia.

4. Fuel Quality and Vehicle Emissions

Australian fuel quality and emission standards are well behind those applying in Europe. Australian vehicle emission standards are around 7 years behind those currently applying in Europe. For example, Euro 2 standards, implemented in Europe in 1996, are to apply in Australia in 2003. Euro 3, which applied in Europe in 2000, will not be introduced in Australia until 2005. There is no date yet set for the introduction of Euro 4 in Australia, which will apply in Europe in 2005.

The application of these standards in Australia needs to be brought forward so that we can import and use the cleanest and most environmentally friendly technologies sooner rather than later.

One of the significant barriers to introducing these standards in Australia is the poor quality of Australian fuels. Australian fuels have a lower octane rating and a higher sulphur content than fuels sold in a number of the world's major automotive markets. Due to the poor quality of Australian fuels several imported motor vehicles need to be 'detuned' to be able to accept Australian fuels, an additional cost to manufacturers which is not only inefficient but also a poor outcome for the environment.

The RACV recommends that the Productivity Commission support the early adoption of European fuel quality standards within Australia to promote the uptake of new engine technologies. This will not only support the introduction of new, cleaner vehicles into Australia but also provide an incentive for Australian manufacturers to introduce new engine technologies in the domestic market. By introducing these new technologies in Australia, domestic manufacturers will overcome a significant technological barrier for entry into those markets where the higher standards apply.

5. 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 vehicles 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. Any support for these fuel-efficient or hybrid 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.

Any incentives for the introduction of fuel-efficient and hybrid vehicles in Australia must be examined in the light of Australia's fuel quality and vehicle emission standards. As mentioned previously, this mismatch between vehicles manufactured in Australia, to lower standards, produces significant barriers to Australian exports and to Australia's uptake of new technologies.

6. 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.

7. 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 extend its review to examine the extent and consumer implications of “vertical integration” within the automotive industry.

8. 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 for the downstream repair and service industries, and (related to the previous point) having access to such skills. Although perhaps beyond the scope of this inquiry the RACV recommends that the Commission in its findings draws attention to this skills needs in the repair and service industries as well as the impact that vertical integration has on the ability of third parties to provide these services.

9. 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 supports the Productivity Commission's second option for tariff reductions for the automotive manufacturing industry in Australia.

Option 2: *Leave the tariff at 10 per cent until 2010 and then reduce it, in one step to 5 per cent, with no further reductions before 2015.*

RACV believes that using a phased approach to obtain the 5 per cent level of tariffs by 2010 (Option 1) would cause unnecessary complications within the system which may lead to additional pressures on the manufacturing industry, as well as adding complexity into the system for the final consumer, the motorist, in making a purchasing decision.

RACV supports the overall reduction in tariffs to 5 per cent on the basis that this is the average for the Australian manufacturing sector. It is also the current rate for four wheel drive vehicles which are increasingly being used solely as PMV's in urban areas, significantly increasing safety and road wear concerns for all road users.

RACV believes that by giving the automotive manufacturing industry 5 years to accommodate an additional reduction in tariffs would appear reasonable and allow manufacturers to better tailor their products to a more open, competitive and less protected market environment in 2010. This timed reduction will also allow overseas manufacturers time to develop strategies for entering the Australian market in 2010 and beyond. Again, RACV supports the Commissions views that there is an underlying need for transparency and predictability in any assistance and protection regime that is introduced.

RACV supports the notion that ongoing tariff protection should be conditional on demonstrated productivity improvements, so that benefits are gained by consumers and exporters, not absorbed within the industry.

Automotive Competitiveness and Investment Scheme (ACIS)

The RACV supports the Productivity Commissions views on continuing the Automotive Competitiveness and Investment Scheme after 2005 to help facilitate the reduction in tariffs to 5 per cent in 2010. The form and level of this assistance should be determined in a manner that is transparent and see that any uncertainty in production and investment decisions is minimised.

Ad Hoc Assistance

Ad hoc assistance from both the Commonwealth and State Governments and the lack of transparency in how this assistance is given has created uncertainty and inefficiencies for supporting manufacturers and suppliers to the motor vehicle industry. With state governments effectively competing, through generous assistance packages, to induce large vehicle manufacturers to invest in their respective states, significant inefficiencies may result throughout the industry. This includes infrastructure investment and economies of scale for parts manufacturers. These inefficiencies could lead to a higher final product cost, which again will be borne by the Australian motorists.

RACV supports the recent agreement between the Victorian and New South Wales governments not to enter into such 'bidding wars' to induce or 'win' investment in their respective states, and believes that greater transparency is needed in informing the industry and the public on ad hoc assistance provided to the industry.