

19 August 2002

Mr Gary Banks
Chairman
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Mr Banks

Re: Review of Automotive Assistance

Please find attached Australian Automobile Association's response to the Productivity Commission Position Paper 'Review of Automotive Assistance'.

Yours sincerely

J L McIntosh
EXECUTIVE DIRECTOR

Attachment

REVIEW OF AUTOMOTIVE ASSISTANCE

Australian Automobile Association (AAA) has reviewed the Productivity Commission's Position Paper 'Review of Automotive Assistance' and we offer the following comment in relation to some of the summary findings. AAA's views are based on input from our Constituent members, and in essence represent a view from the perspective of the consumer.

1. Impacts of Automotive Assistance

AAA agrees with the views expressed.

2. Directions for Future Assistance

AAA agrees with the views expressed.

3. Options for post 2005 assistance

AAA supports Options 1 or 2. Both options have advantages for consumers and a target of 5 per cent by 2010 is supported.

AAA also supports the Productivity Commission's views on continuing ACIS as a means of facilitating a reduction in the tariff to 5 per cent. We also support the Productivity Commission's views that there are considerable benefits in avoiding uncertainty associated with significant changes in scheme design.

AAA also considers that irrespective of the form in which assistance is provided to manufacturers, Governments need to make information about it publicly available. Assistance should also be conditional on manufacturers meeting specific improvements in safety and environmental performance and providing information to consumers on crash test results and emission tests.

AAA would also like to reiterate its recommendation in relation to hybrid vehicles, namely that consideration be given to preferential tariff treatment for such vehicles, including grants to manufacturers which would encourage sales of such vehicles. In this context, we note that the NSW Government will soon expand its fleet of the Toyota Prius petrol-electric hybrid car which is highly fuel efficient and 'greenhouse friendly'. (A similar policy could apply to other high efficiency vehicles). The Productivity Commission should report on the fleet discounts, if any, which are being made available.

We also note that the same vehicle has qualified for a \$2000 clean-burning fuel tax break in the United States. The Internal Revenue Service announced that purchasers of the Prius model sedan for model years 2001, 2002 and 2003 may claim a one-time income tax deduction for the year the car was first put in use.

4. Taxation

As stated in our initial submission, AAA recommends that consideration should be given to removing the luxury car tax 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.

5. Vehicle and Related Standards

The Productivity Commission makes the point that 'lower fuel quality standards in Australia could conceivably hinder the uptake of new engine technologies in the domestic industry, as well as resulting in higher emission levels'. We agree. However, the Commission has not put forward any options for addressing this issue. Apart from the points made above in relation to hybrid vehicles, we recommended in our initial submission (Recommendation 10) that 'in order to realise the benefits of tighter emission standards much earlier than 2005, the Government could provide incentives for the early introduction of Euro3 and Euro4 compatible fuels and vehicles ahead of the legislated dates'.

On the safety front, we are disappointed that the Commission has not acknowledged the high levels of safety in new, imported vehicles and that reducing the cost of new cars will assist in transferring safety benefits to a greater number of motorists and help to reduce the cost of road trauma to the community.

6. Fuel Consumption Targets

The Productivity Commission states that 'revisions to current fuel consumption targets should only occur after consultation with the industry to determine what improvements in the fuel efficiency of local vehicles can be achieved without compromising commercial viability'. AAA agrees with this principle, but we are surprised that the Commission, on the basis of evidence, has not attempted to determine what improvements could be achieved and what should be done to achieve them.

As we noted in our initial submission (page 31), European legislation demand that vehicle CO₂ emissions must be down to the level of 140 grams/km by 2008. This corresponds to a fuel efficiency of about 5.8 litres/100km for petrol and 5.3 litres/100km for diesel.

We also note in our submission (page 30) that there has been very little progress in negotiations between Government and industry since 1997 when negotiations were expected to start following the Government's Climate Change Policy *Safeguarding the Future*. That is five years ago. At that time, targets for National Average Fuel Consumption were expected to yield improvements of 15 per cent against projections based on business-as-usual.

As noted earlier, assistance to the industry should be conditional on the Government and industry reaching agreement on this issue.

7. Market access

The Productivity Commission discusses in some detail the issue of market access. However, very little attention is focussed on the global sourcing policies of the parent companies of the local manufacturers. We recommend that the Productivity Commission report in more detail on this issue in its final report.

Concluding comment

AAA would like to once again draw the Commission's attention to the 16 recommendations in our initial submission and to express concern about the limited emphasis by the Productivity Commission on the issue of the safety and environmental performance of locally manufactured vehicles, including how intelligent transport systems (ITS) can play an important role in this regard. These issues were addressed in detail in our initial submission.

The issues of unrestricted and standardised access to OBD systems (our recommendation 14 refers) should also be addressed in the Productivity Commission's final report.

AAA would also like to reinforce the view expressed earlier, namely that assistance to the industry should be conditional on manufacturers achieving specific improvements in safety and environmental performance of locally manufactured vehicles.