



Australian Fleet Lessors Association

Incorporated - ABN 78 059 998 533

Mr Ben Dolman
General Manager
Small Business, Competition and Consumer Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

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By email: competition@treasury.gov.au

Dear Mr Dolman

COMPETITION POLICY REVIEW: RECOMMENDATION 13 – PARALLEL IMPORTS

The Australian Fleet Lessors Association (AFLA) has Members operating nationally with a combined funded and managed portfolio of some 600,000 vehicles with over \$14 billion of funding provided. The Government's policy settings on the quantity and/or quality of new or used imported motor vehicles for Australia is of key interest to our Members.

This submission is in response to the Competition Policy Review Final Report *Recommendation 13 - Parallel Imports* to the extent it relates to second-hand cars:

Restrictions on parallel imports should be removed unless it can be shown that:

- *the benefits of the restrictions to the community as a whole outweigh the costs ; and*
- *the objectives of the restrictions can only be achieved by restricting competition.*

Consistent with the recommendations of recent Productivity Commission reviews, parallel import restrictions on second-hand cars should be removed, subject to transitional arrangements as recommended by the Productivity Commission.

Should the Government materially alter existing policy on the importation of second-hand vehicles in Australia it has the potential to produce profound and long lasting direct and flow-on impacts. Any change in current policy-settings would therefore need to fully consider the risk to the value of our second-hand car market; either risk to the sales price directly or indirectly from a perception of reduced quality across the car-park. Decrease in value will detrimentally impact any beneficial owner of a used vehicle. For AFLA members, the decrease is multiplied (e.g. a drop of \$2,000 per vehicle equates to a deficit of \$0.5 billion across the operating lease portfolio).

This position has been noted in previous AFLA submissions in response to other reviews, including to the Productivity Commission's *Review of Australia's Automotive Manufacturing Industry* and the Department of Infrastructure and Regional Development's *Review of the Motor Vehicle Standards Act [MVSA]*.

We are therefore heartened that Recommendation 13 appears to recognise the significance of this and anticipate the Government's support. By this we are not saying that the restrictions should be lessened (in fact our position is to the contrary for reasons that follow), but that it is appropriate for the Government to periodically test them to ensure their currency and validity to facilitate a dynamic and competitive market.

And, in short, only when a rigorous cost/benefit analysis sees a net benefit should the Government consider changing its current policy settings on the importation of second-hand cars. Further that the *MVSA Review* currently underway in parallel with this Review is the appropriate means to inform the more granular level of the Government's decision.

It is the AFLA position¹, based on findings from extensive independent analysis commissioned and undertaken for AFLA that:

- the Government's current policy settings on second-hand car importation contained in the MVSA appears to have worked exceptionally well with cars meeting high levels of community and consumer protection safety. As a minimum, cars meet ADRs that are similar to international standards or that set it (e.g. ADR 34: for child restraints in cars). And, for other reasons including: management of (1) regulatory risk (e.g. from the Australian Consumer Law [ACL] consumer guarantees), (2) commercial risk (e.g. potential loss of brand / reputation) or (3) consumer safety expectations (e.g. ANCAP ratings), the outcome sees cars manufactured not just to the ADRs but to be of a quality or standard above that to ensure fitness for Australian conditions and consumers.
- Australia has one of the most competitive new car markets in the world, with a broad range of vehicle choice and pricing that flows on to the second-hand market. This has been confirmed through pricing comparisons conducted by RedBook for a range of popular makes of cars sourced from Japan, UK, NZ and Australia which shows for the overwhelming bulk of used imported cars, there would be no apparent cost benefit to consumers. In fact most would be more expensive (e.g. \$4000 - \$5000 more for the Japanese import than for the Australian equivalent).
- For a small number of segments (approximately 2%² of the total market), most notably selected European manufactured high-end / luxury cars, there may be some up-front price benefit. But the distortionary impact of LCT is relevant and needs consideration through the Tax Review.
- Importantly also when the price benefit is balanced against other factors that may add cost through the effective life of the car, the consumer may be worse off (e.g. car ADR-compliant, but not fit for Australian conditions with appropriate fuel systems, increased cooling capacity, revised suspension, tyre specifications requiring expense to fix). Also many of these are not easily identifiable to consumers consequently the price comparison is not like-for-like cars. It is also unclear whether, and to what extent, these risks and costs can be managed through accessible and enforceable consumer protections (e.g. ACL).
- Further, modelling conducted on the assumption that current restrictions were lessened with the resultant potential large-scale importation of used cars suggests overall Australia's economic position would likely be detrimentally impacted.

¹ Detailed in the AFLA Submission to the Department of Infrastructure & Regional Development: MVSA Review Options Paper - available from:

https://www.infrastructure.gov.au/vehicles/mv_standards_act/files/Sub210_AFLA.pdf

² Based on FCAI VFacts Report (as at September 2014)

In conclusion, AFLA acknowledges the value of the position that is reflected in Recommendation 13 and would encourage the Government to support that recommendation on the basis that it is appropriate to test policy-settings including in relation to parallel importation of second-hand cars to ensure they remain appropriate for the contemporary market place to minimise potential adverse outcomes including to competition.

Further, that the work informing the *MVSA Review* will likely enable the Government to conclude that there is ostensibly no price or other benefit for the average Australian consumer for a range of popular makes of cars that would justify lessening restrictions on second-hand car imports into Australia in high volumes. There may be some price benefits for the relatively small high-end / luxury segments of the market but any savings may be eroded by costs incurred in the post-sale operation of the car in Australia (eg because it is not "fit for purpose") with the consumer potentially worse off.

The absence of clear benefits and potential for community detriment through increased road-safety and environmental risk from an aging carpark, the current policy settings would appear appropriate.

We look forward to continuing to work with the Government on this important and valuable reform and thank you, again, for the opportunities provided. We would also be happy to discuss our comments in more detail. Please feel free to contact me through 02 9232 1238 or helen@afla.com.au.

Kind regards.

Yours truly

A handwritten signature in black ink, appearing to read 'Helen M. Gordon', with a horizontal line underneath.

Helen Gordon
Executive Officer