Submission to the Senate enquiry into the Future of Australia's Automotive industry

17th December 2014

Dear Sir/Madam,

By way of background, the writer has insight and knowledge of business generally and between 1987 and 2003 owned and operated several new vehicle franchise dealerships in Melbourne.

During these years, while attending trade functions, new car releases or factory/importer meetings, both here and overseas, many questions would be asked and afterwards, sometimes over drinks while engaged in private conversation, one would become aware of certain matters.

Coupled with how multinational companies frequently operate, including but not limited to, the licensing of intellectual property, payment of royalties, consulting and management fees, captive or 'in house' insurance, the treatment of warranty costs, interest payments, the domicile of export sales offices and so on, provided some interesting insights.

Monies are then, in various ways, paid to different group entities, frequently domiciled in small and interesting countries, before being disbursed to other entities or loaned back to head office or a subsidiary finance company.

These practices are not isolated and with corporate structures carefully set up to ensure compliance with legislation in the relevant jurisdictions and applicable international tax treaties, corporate cash flows are optimised.

Manufacturing of motor vehicles in Australia, will soon cease and after the plant closures, we will be left with only imported motor vehicles. These activities, on their own, provide little or no direct value adding to the local economy.

It is common knowledge that Australians pay amongst the highest prices for new motor vehicles anywhere in the world.

In order to place the maximum downward pressure on new vehicle prices, the removal of barriers to the importation of new or near new and late model used vehicles is imperative.

The benefits to the Australian economy are massive and will, inter alia include the following.

- minimum $4,000 reduction in the retail price for new vehicles, a substantial saving to private and business consumers
- with current new vehicle sales around 1 million units a year, a reduction of $3,000 per vehicle at the declared imported value results in a $3 billion improvement in our annual terms of trade
- if 100,000 used vehicles were imported each year instead of new vehicles, this would further improve our terms of trade by another $1 billion, and
- employ at least 1,000 additional people in the compliance to local standards, roadworthy and service industries
- a $17 billion boost to annual GDP is envisaged if all savings are spent or invested elsewhere, this is based on a reduction of $4,000 in the retail price of new cars at 1 million units, equalling $4 billion, plus $1 billion for used vehicles equals $5 billion, this is then multiplied by 3.4 being the current velocity of money.

As a consequence of these changes, it is likely strong downward pressure on spare part pricing will occur resulting in significant price reductions. No attempt has been made to ascribe any value to these.

The aforementioned figures have been carefully estimated using industry knowledge, generally available facts and conservative costs. It is likely, that Treasury, with accurate modelling, could more precisely calculate the benefits.

In order that the economy benefits as quickly as possible, It is urged that these changes be adopted as soon as possible. The industry has in the past demonstrated its ability to adapt quickly to change and motor vehicle dealers even more so. The latter will very likely benefit with increased sale volumes due to lower prices.

New employment opportunities would be created immediately as a result of the requirement for imported used vehicles to comply with local roadworthy standards and further employment opportunities will be created by the additional servicing and ongoing maintenance work required which directly benefits small and medium sized local automotive repair businesses.

To maximise the economic value from these proposed changes, Australian vehicle regulations would need to be amended to enable standards for vehicles manufactured in countries such as Germany, France, England, Japan, Korea and the USA to be recognised.

By way of illustration, one of the impediments to importing new or late model cars into Australia outside 'normal' (expensive) distribution channels, is that currently, the importers for BMW, Mercedes and other high end vehicles, have a virtual control over the engineering and compliance requirements for the Australian design rules for vehicles of their respective brands. This is anti competitive, justified under the guise of vehicle safety and only serves to protect their interests.

Obviously, these proposed changes will adversely impact, the predominantly foreign owned motor vehicle manufacturers and importers.

However, the overwhelming benefits to the Australian economy are significant. These changes will increase employment, substantially lift our terms of trade, significantly boost GDP, directly benefit business and private consumers as well as raise the general standard of living for all Australians.

Yours Sincerely

Roland Geitenbeek