



Nichibo Australia Pty Ltd
ACN 602 443 363
821 Pacific Highway
Chatswood NSW 2067

Tel: +61 (0) 408 297 112

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Dr Jane Thomson - Committee Secretary

Senate Rural and Regional Affairs and Transport Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

rrat.sen@aph.gov.au

Inquiry into the Road Vehicle Standards Bill 2018 and related bills

Thank you for providing the opportunity to make a submission in respect of the proposed *Road Vehicle Standards Bill 2018* and related bills.

Nichibo Australia is a wholly owned subsidiary of Optimus Group based in Tokyo Japan. Optimus participates in the mobility industry through vehicle trading, logistics and inspection services in a number of countries. Nichibo Australia is presently undertaking research in the Australian market in respect of business opportunities.

We are very passionate about vehicles and in particular we are keen to see Australia take a more active role in respect of Environmental Vehicles and the promotion of free trade. We feel that Australia is lagging the rest of the world in both and we would like to see the Federal Government foster a market that encourages greater consumer uptake in Environmental Vehicles and encourages fairer competition.

We welcome the new legislation and support the process of modernising the legislative framework and improving enforcement powers that will encourage better business practices and improved consumer protections. However, we note that this legislation contains broad heads of powers and the bulk of its provisions are contained in a delegated regulatory framework. It is this framework that is of most interest to us and we are concerned that these associated Rules need to be drafted in such a way as to foster a more open trading system that offers the Australian consumer a greater range of safe, modern and environmentally-friendly vehicles. Accordingly, our comments and submission are more aimed at informing the Committee in this regard.

We sincerely appreciate the opportunity to comment on the proposed reforms and I would be happy to meet with your team to further discuss our recommendations at a convenient time. If you require further information, please feel free to contact me.

Regards,

Don Rossell

Director - Nichibo Australia Pty Ltd



1. Introduction

- 1.1. Our comments below are more in relation to the proposed concessional pathway of importation. Specifically we are concerned about the restrictions in respect of the Specialist and Enthusiast Vehicle Register (SEV's). The intention of the SEV's is to allow the Minister a discretionary power to establish rules and regulation that allow the importation of road vehicles that are assessed as being "genuine specialist and enthusiast vehicles".
- 1.2. As drafted, the Rules also include Environmental Vehicles and Mobility Vehicles in the definition of "genuine specialist and enthusiast vehicles". Given the undersupply of these vehicles in Australia it is hard to understand why they would be classified as "genuine specialist and enthusiast vehicles", however given the application of the Rules, we have no objection to this classification, except to say that we think this label gives the wrong impression of these vehicles.
- 1.3. In the case of Environmental Vehicles, we do not believe they are genuine "specialist and enthusiast vehicles". In fact, we believe that in coming years such vehicles should be a growing segment of the market and if Australia is to meet its long-term emission targets, such vehicles will need to eventually outnumber vehicles powered by the traditional internal combustion engine.
- 1.4. Our submission below will focus on two matters:

Environmental Vehicles - The first is our request to help improve the uptake rate of Environmental Vehicles in Australia by using this legislation as one small way to improve competition and vehicle supply in this area.

Authorised Vehicle Verifiers - The second is in support of the concept of creating Authorised Vehicle Verifier (AVV), however we would like to see improvements made to the proposed rules to improve the business case to become an AVV in Australia.

2. Environmental Vehicles

- 2.1. Official figures published by the Federal Chamber of Automotive Industries (FCAI) show that only 1% of new vehicle sales in 2016 and 2017 were either hybrid or electric powered (Environmental Vehicles). In 2017, the total number of new Environmental Vehicles sold in Australia was only 12,333. This was almost 5% lower than 2016. It is evident from these figures alone that the take up in Australia of Environmental Vehicles is very slow and in fact has reduced in the last 12 months.
- 2.2. We believe a contributing factor to the low take up is that the cost of Environmental Vehicles in Australia is artificially high compared with other countries. A key factor contributing to high prices is a shortage in supply of affordable alternatives and a lack of competition perpetuates this issue.
- 2.3. In other comparable countries there is a vibrant new and used vehicle market for Environmental Vehicles offered at a far more affordable price. For example, in New Zealand, you can see that the range, choice and price competitiveness of Environmental Vehicles is greater than that offered in Australia. This depth in diversity and supply has greatly contributed to a faster uptake of Environmental Vehicles in that country compared to here.
- 2.4. New Zealand allows importation of used Environmental Vehicles and this has seen the formation of specialist support for such vehicles in the private sector. This increased volume of vehicles is encouraging the private sector to invest in infrastructure and support for these vehicles. And whilst the role of government in supporting the development of infrastructure is crucial, the increased supply of vehicles and investment from the private sector helps reduce the financial burden on government.
- 2.5. By way of comparison, a 2014 Nissan Leaf in New Zealand is regularly available to the public for about NZ\$18,000 (AUD\$17,200). By contrast, a recent search of carsales.co.au showed only two Nissan Leaf vehicles available for sale in Australia. Both were 2012-year models and were selling for around \$23,000. If Australia were to allow importation of Environmental Vehicles in greater numbers, we are confident there would be a significant reduction in prices for both new and used Environmental Vehicles.
- 2.6. At present, the volume of Environmental Vehicle supply is determined almost exclusively by new vehicle importers. If the new vehicle importers choose not to increase supply (this could be for good commercial reasons), then prices remain high, the take-up rate by the Australian public is constrained and private sector investment is made more difficult. This in turn puts more pressure on government to provide subsidies to make such vehicles more attractive to the consumer. The main financial beneficiaries of this approach are the new vehicle importers.
- 2.7. Moreover, Australia is being neglected in its Environmental Vehicle offerings by manufacturers. It is a small and isolated market and a secondary priority compared to the markets of the United States, Asia and Europe. Providing a regulatory environment that allows independent importers to compete with new vehicle importers, would shift this dynamic, resulting in a greater range of vehicles available for market at a lower price.



- 2.8. By allowing independent importers the ability to compete with new vehicle importers, we believe that small and medium sized businesses will be encouraged to invest in this important vehicle sector. In our case, Nichibo Australia would likely invest in Australia to support the increased supply of Environmental Vehicles should policy settings change. This will create employment and benefit the Australian motoring public.
- 2.9. Whilst the market for Environmental Vehicles may be small at present, we believe that setting the right regulatory foundations at the early stage of this sector evolution is critical. At present the market is very small and under current regulations too small for most new vehicle importers to justify large investments. By contrast, we believe that small and medium sized businesses could be well placed to service this sector should the policy framework be adjusted. Growing this market by allowing small and medium sized businesses to compete in a fair way will set the basis for a strong competitive market in the future.
- 2.10. A common myth of allowing independent importers the ability to compete with new vehicle importers are the concerns about vehicle servicing, warranty and the administration of recalls. In our case, we are confident that service and maintenance needs can easily be met through partnering with independent workshops to support customer requirements. In Australia there are several franchised repair chains that are competent and able to support independent importers and customers.
- 2.11. Similarly, we believe that partnering with such repairers will provide the ability for independent importers to deal with warranty and recall obligations. We understand the obligations of the Australian consumer law and are able to meet them.
- 2.12. **Specific Recommendations** - To support the further expansion of Environmental Vehicles in Australia, we recommend the following:

2.12.1. Environmental Vehicles

We suggest including an exemption in the draft rules to allow greater numbers of Environmental Vehicles to be entered onto the SEV's Register. This could be done by offering vehicles that meet the Environmental Criteria (as described in section 119 of the draft rules) an exemption from having to comply with Rule 117(1)(a)(i). This rule, as currently written, effectively prevents direct competition with other models of similar kind already available in Australia.

In our view this exemption should apply to new and used vehicles alike as we believe this approach provides the best benefit to Australian consumers. Should this approach be too bold, another option is to allow the exemption to apply to used vehicles that are older than one year.

This approach to used vehicle would still see OEM's produce more competitive pricing for new Environmental Vehicles and it will encourage them to provide a wider range of new Environmental Vehicle stock. If they choose not to do so, independent importers could fill the market gap quite quickly. This suggestion would increase supply of Environmental Vehicles but at a price that is within reach of the buying public.

2.12.2. Cost Recovery

At present, the cost recovery proposal recommends a fee of between \$680 and \$800 for Applications for the entry of a road vehicle onto the SEV. We see two problems with this:

- This will act as a disincentive on small business and it seems unfair that the first applicant pays the fee and other businesses can subsequently import the same vehicle without paying the fee after it has been entered onto the SEV's Register;
- There will be cases where an application will be declined and while this is understandable, this will see the effective cost to business increase as it needs to be factored into the business case for a specific model variant.

We would recommend reducing this fee to an amount between \$50 to \$100. To make up the cost recovery, we would recommend a slight increase in the per vehicle cost to enter a vehicle onto the Register of Approved Vehicles (the RAV). The impact of this when spread across the total vehicle population in our view appears minor.

2.12.3. Expiry of entries on the SEV Register

Currently, the draft Rules stipulate that an entry onto the SEV Register expires after two years. This will add cost to business in having to reapply and considerably impact the business case to support the import of Environmental Vehicles. We recommend that this be amended to five years in line with the Model Approval pathway.



2.12.4. Model Approval Pathway

The rules as drafted could see a Model Approval given for five years for a particular variant that is never imported or is imported in restricted numbers. We express this fear, since the draft Rules do not define “available to market”. Our concern is that vehicle manufacturer will abuse this provision by releasing a token number of vehicles to Australia and assert, incorrectly, that a particular model has been released here and is therefore not available for SEV Register referral. Such tactics could be used to limit competition and deny opportunities to the consumer. We recommend that you consider ways to reduce the possibility of such gaming by expanding the rarity criteria. We suggest that a vehicle be defined as rare if it accounts for less than two per cent of new car sales in a 12 month period.

3. Authorised vehicle Verifiers (AVV's)

- 3.1. We welcome the concept of introducing AVV's for road vehicles entering Australia through the concessional pathway. We believe that correctly implemented the AVV will play a vital role in ensuring vehicles are of appropriate quality and any work performed on a vehicle is completed to an acceptable standard of quality.
- 3.2. A key consideration to become an AVV is the business case required to support investment by the industry. In 2017 there were approximately 7,000 vehicles imported into Australia via the Registered Automotive Workshop program (RAWS). This includes cars, trucks, motorcycles and trailers. These road vehicles arrive through a number of ports throughout Australia including Fisherman Island in Brisbane, Port Kembla in New South Wales, Webb Dock in Melbourne as well as ports in Adelaide and Fremantle Western Australia.
- 3.3. Based on the current draft rules, we expect the volume of vehicles entering Australia through the concessional pathway to reduce significantly (up to 50%) once the new legislation is in full effect.
- 3.4. Logically an AVV will need facilities close to the customer, meaning along-side the arriving ports in Australia. But given the competencies required, it is difficult to support a business case for an AVV based on prospective volumes.
- 3.5. In our case, if we were to apply to become an AVV, we would likely prefer our operations to be based in Australia. This will lead to job creation and better support domestic wholesale and retail customers. However with the projected low import volumes that we consider are inevitable under the current draft Rules, the business case for AVVs is not viable. To better inform our commercial assessment, we would need to understand any modelling completed by the Department to validate the potential market size. Based on our modelling, there is no possible case to support the deployment of AVV facilities. We would be interested in considering any statistical analysis or market projections prepared by the Department when it developed the AVV proposal.
- 3.6. Also, the Rules as drafted require an AVV to reapply for authorisation every two years. This limits the period available to earn a return on investment and introduces commercial uncertainty. We ask this authorisation be extended to at least 5 years.
- 3.7. We believe that the implementation of AVV's is a crucial step to support industry maturity and instil consumer confidence and ensure road vehicles imported through the concessional pathway are of a safe and reasonable standard before being allowed on Australian roads. We are keen for this proposal to work, but it needs to be based in commercial reality if businesses are to take up this worthwhile policy suggestion.
- 3.8. **Specific Recommendations** - To support the development of Authorised Vehicle Verifiers, we recommend the following:
 - 3.8.1. **Vehicle Volumes** – We need to better understand the Department's views in respect of the prospective vehicle volumes they believe the draft Rules will generate. We are of the view however that the Department should target through the Rules a minimum volume to ensure a viable market. We would be happy to discuss our thoughts on this, but to support an AVV business case, we believe minimum volumes should be at least three times the size of the current market.

In addition, a predictable and higher level of motor vehicle volumes would support AVV's being established in specific locations, but consideration needs to be given to areas where import volumes are lower (eg. Adelaide and Fremantle). Given the current low levels of trade, there is a risk that smaller ports will not prove viable for an AVV and this may see development limited to the eastern seaboard of Australia. Under this scenario, smaller ports elsewhere are likely to miss out.
 - 3.8.2. **Renewal Period** – We suggest that an AVV authorisation stand for a period of five years rather than two years. This allows a business investing in an AVV service to enjoy certainty and a reasonable period of time to recover the cost involved and reduces ongoing compliance overheads. We accept, during this proposed five year period, that the Department should keep its right to revoke licence in the case of a breach of obligations.



3.9 Conclusion

In summary, Nichibo requests that when the Federal Government submits the Rules that will be made under the authority provided by this legislation, that the Rules provide opportunities for greater trade volume of for Environmental Vehicles in the manner suggested. This will not only assist in cleaning up Australia's motor vehicle fleet and meeting Australia's greenhouse emission targets, but provide benefits to the consumer by offering greater vehicle choice at more affordable prices. Our propoals will aslo provide commercial job-creating opportunities for businesses in a post-domestic car manufacturing era and offer the trade volume to make the accompanying AVV proposal viable.

Nichibo thanks the Senate Rural and Regional Affairs and Transport Legislation Committee for its consideration of our suggestions.