



AUSTRALIAN
AUTOMOTIVE
DEALER
ASSOCIATION

INQUIRY INTO THE UTILISATION OF BENEFITS UNDER AUSTRALIA'S FREE TRADE AGREEMENTS

JUNE 2024



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FOREWORD

The Australian Automotive Dealer Association (AADA) welcomes the opportunity to respond to the Trade and Investment Growth Committee's inquiry into the utilisation of benefits under Australia's free trade agreements.

The AADA is the peak industry advocacy body exclusively representing Australia's 3,179 franchised new car Dealers. New car Dealers are predominantly privately owned family businesses operating in cities, suburbs and regional towns across the country. The industry directly employs more than 61,000 people making a total economic contribution of over \$18 billion.

Free Trade Agreements (FTAs) play a pivotal role in enhancing the competitiveness of Australia's automotive industry and providing greater access to new technologies from major automotive exporters. FTAs facilitate the reduction or elimination of tariffs or non-tariff barriers, making automotive imports more cost-effective and providing greater choice for Australian consumers.

FTAs have had a positive influence on the safety of our national fleet by making new vehicles with state of the art safety technology more affordable. FTAs have also delivered an environmental benefit, allowing Australians access to more affordable EVs, which are now all tariff exempt.

We are currently seeing several major automotive manufacturing countries engage in severe protectionist measures by significantly increasing tariffs on vehicles manufactured in China. Australians are fortunate that they have not been subjected to such inflationary protectionist measures.

One key drawback from the lack of FTAs with major automotive exporters is the application of import tariffs which are applied on motor vehicles that are manufactured in, or imported from countries with which Australia does not have an agreement. This is particularly so for countries within the European Union (EU).

The AADA is hopeful that the vehicle tariff will naturally fall away as part of the inevitable Free Trade Agreement with the EU. However, we consider that consumers and industry deserve immediate relief for new vehicles, particularly those new car dealerships which have a disproportionate amount of product on their showroom floor which just happens to be manufactured in a non-FTA country. As Australia becomes ambitious in its goals to reduce transport emissions, access to efficient new vehicles at competitive prices becomes critical to achieving these goals.

This submission explores the benefits FTAs bring to Australia's automotive industry, including economic benefits, technological changes and advancements and improved market access for Australian industry participants.

James Voortman
Chief Executive Officer

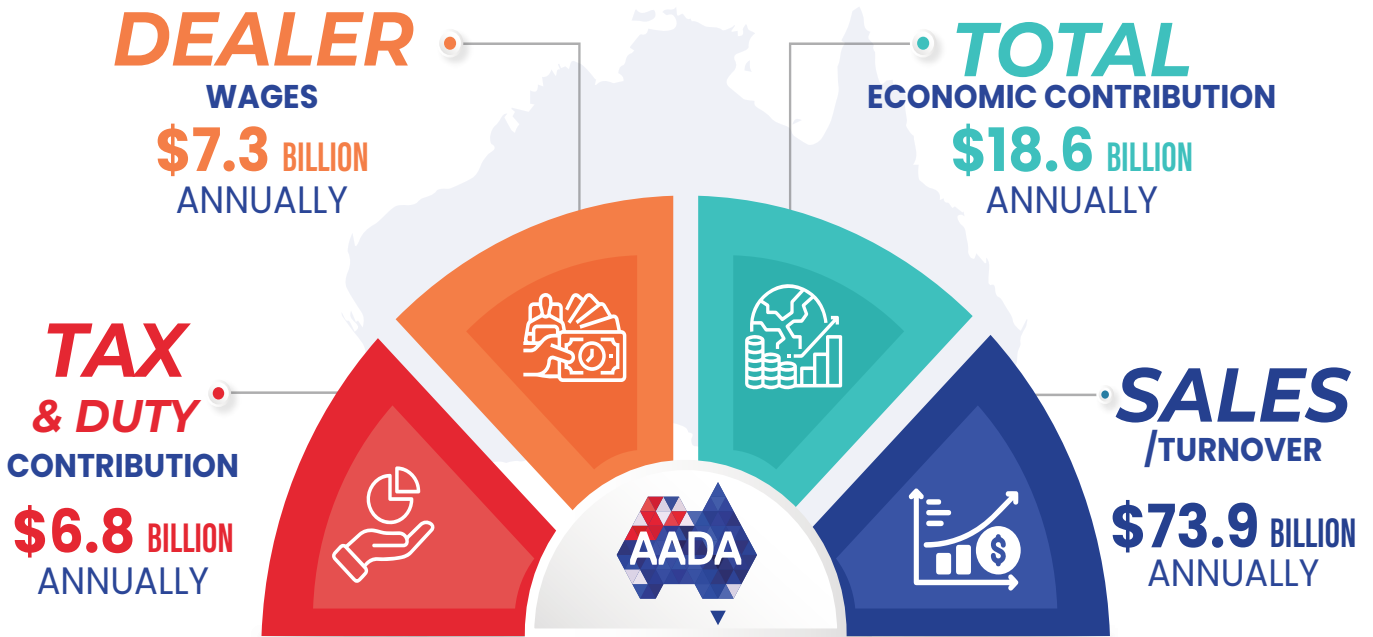




AUSTRALIAN
AUTOMOTIVE
DEALER
ASSOCIATION

DEALERNOMICS

CONTRIBUTION OF
NEW CAR DEALERS TO
AUSTRALIAN ECONOMY



DEALER EMPLOYEES

55,917



APPRENTICES

5,530



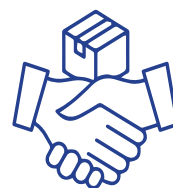
TRAINING
INVESTMENT
\$31 MILLION
ANNUALLY



WORKSHOP JOBS
COMPLETED
OVER 48 MILLION
ANNUALLY



CUSTOMER FINANCE
CONTRACTS
FACILITATED
476,978
ANNUALLY



NUMBER OF
DEALERSHIPS
3,179
TOTAL



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AUSTRALIAN AUTOMOTIVE INDUSTRY LANDSCAPE

The Australian automotive new car retailing industry can be broadly defined into two categories. Vehicle manufacturers or OEMs, which are largely multinational businesses supplying vehicles into the Australian market. Car Dealers, which are generally Australian privately owned or family businesses who enter franchise agreements to purchase vehicles from these manufacturers to retail to Australian consumers. This system is known as the franchising model and has largely underpinned the way Australians buy cars for decades.

Over the years, high protectionist measures in the 1980s, the strengthening of the Australian dollar and considerable growth in vehicle sales in Asian economies in the 2000s distorted the domestic automotive manufacturing sector in Australia. This ultimately resulted in the complete shutdown of domestic passenger vehicle manufacturing in 2017.

Since then, Australia has been an import-only market, and legacy taxes, including vehicle tariffs and the Luxury Car Tax originally introduced to protect local manufacturing, are now redundant. These taxes merely result in higher vehicle costs, disadvantaging consumers from accessing significant benefits through the purchase of safer, more environmentally friendly and more fuel-efficient vehicles.

As consumers are making these efforts to shift to more fuel-efficient and lower emissions vehicles, Australia needs to review its automotive taxation regime to be more fit for purpose. The current tariff structure imposes a 5% duty on vehicles sourced from countries without Free Trade Agreements (FTAs) with Australia compared to zero tariffs from countries with existing FTAs.

Customs duties on passenger motor vehicles, namely the Passenger Vehicle Tariff is estimated to raise A\$380 million in 2023-24. With the cessation of local passenger vehicle manufacturing in 2017, there is no rational basis for the ongoing application of the tariff as there is no longer a local manufacturing industry to protect.

While Australia has signed FTAs with the majority of the countries exporting vehicles to our market, a large portion (mainly EU countries) are still subjected to tariffs. Consumers deserve immediate relief and should not bear the brunt of the long FTA negotiation process with a union of 28-member states.

Additionally, the tariff regime adversely affects local dealerships which are engaged in franchise agreements with brands that manufacture vehicles in non-FTA countries. These dealerships will have a significant product stock on their showroom floor manufactured from a non-FTA country, which are subject to import tariffs.

ADDRESSING THE TERMS OF REFERENCE

The level of understanding of social and economic benefits provided by FTAs

The Australian automotive industry's level of understanding of the benefits provided by FTAs has evolved significantly over the years, particularly as Australia has entered into FTAs with many significant automotive manufacturing exporters.

FTAs provide a range of social benefits including improved business confidence and people-to-people links between partner countries, and provide substantial economic benefits by expanding market access and reducing costs associated with tariffs and other customs duties. Economic benefits for the automotive industry include lower trade barriers, such as zero tariffs, resulting in competitively priced and up-to-date vehicles, greater economies of scale from larger market share, higher investment in facilities and more consumer choice.

While car dealers have a good understanding of the benefits derived from FTAs due to their contractual agreements with OEMs, consumers typically don't consider country names and subsequent tariffs or taxes that may apply when making purchasing decisions. Instead, purchasing decisions are informed by factors such as vehicle price, brand reputation, performance, technology, safety, and environmental features.

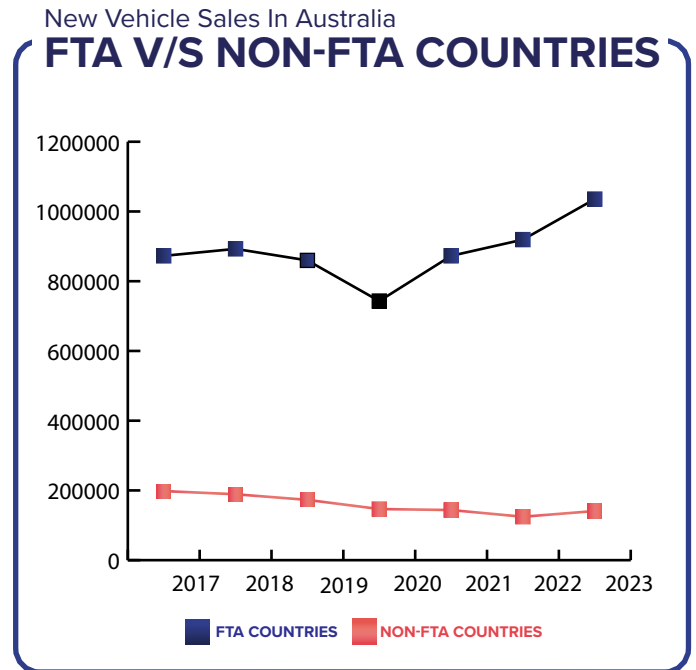
Due to the nature of customs duties and tariffs being indirect taxes, consumers are often unaware of their application on a purchase that they make. These taxes are also regarded as regressive, as they are applied uniformly irrespective of the income level of individuals. As a result, low-income consumers shoulder a disproportionate share of tax and consumers with higher incomes will be paying a relatively small share of the tax.

Section 3

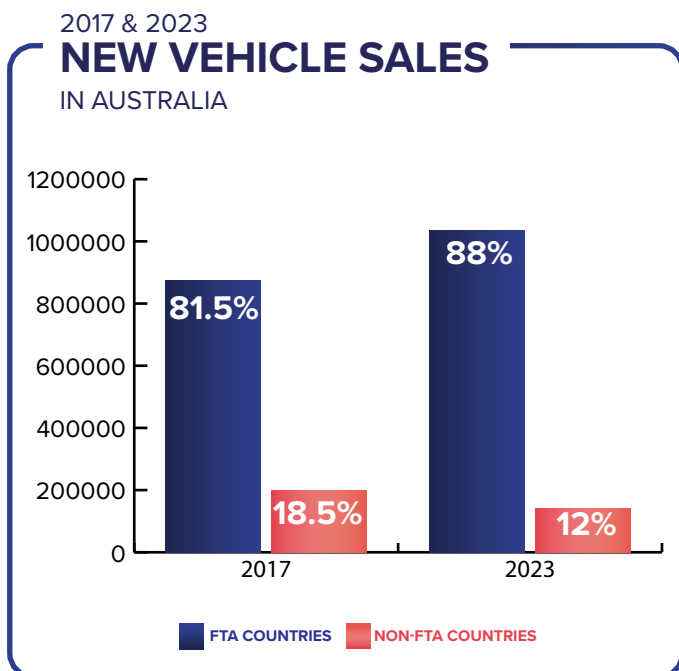
Uptake of economic benefits to Australian businesses created by FTAs across Australia

There has been considerable uptake of economic benefits, in terms of greater market share and volume of sales, by countries that have signed an FTA with Australia. Cars sourced from countries with existing FTAs with Australia, such as China, the US, Japan, Korea, and Thailand, enjoy a significant share of the Australian market compared to non-FTA countries, as illustrated in Graphs 1a and 1b. These cars are imported tariff-free, allowing them to be more competitively priced than brands from countries with which Australia does not have an FTA. The EU-Australia FTA has been under negotiation for many years, and as Graph 2 shows, new vehicle sales from European countries have declined over the years.

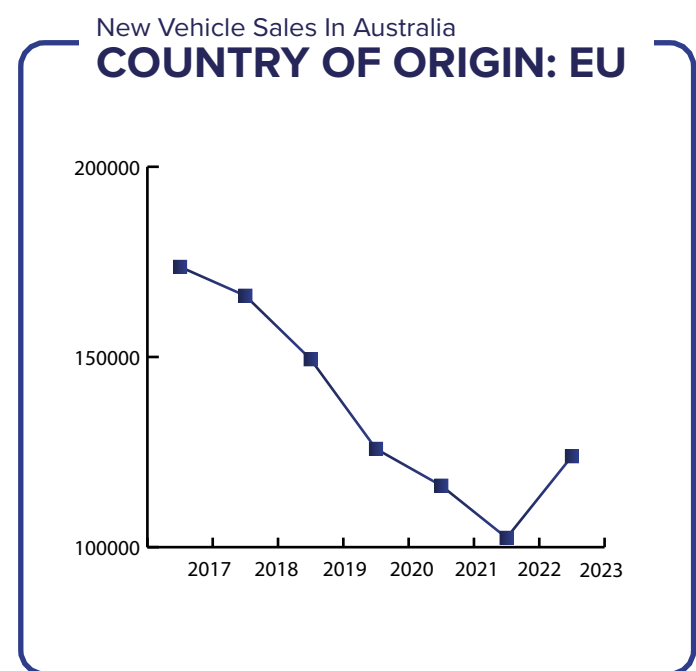
Graph 1a



Graph 1b



Graph 2



Section 3

As described above, the key economic component affecting Australia's automotive industry as a result of the lack of FTA with automotive exporters is the application of the passenger vehicle tariff on vehicles originating from non-FTA countries.

The Passenger Vehicle Tariff (PVT) is applied on approximately 140,932 new vehicles sold in Australia each year which averages out to around A\$2,696 tax per vehicle. The main intention of the introduction of the PVT was to encourage local production in preference to imports. However, since 2017 when automotive manufacturing in Australia ended, the PVT essentially serves no purpose other than acting as an additional tax, thus negatively affecting the affordability of vehicles purchased by Australians.

“indeed the only time that tariffs do not have this effect is where there is no domestic production, in which case the tariff is equivalent to a sales tax on the product.”

Industry Commission's final report on the Automotive Industry¹

Tariffs limit consumer choice. As seen recently with the US increasing import tariffs from 25% to 100% on Chinese EVs overnight, in order to protect their own domestic manufacturing industry.² This has diverted Chinese vehicle stock away from the US to other markets, especially Australia (where China has become the third most popular source country for new cars). High tariffs reduce vehicle affordability, limiting the options of vehicles consumers can choose from.

Tariffs also affect affordability by inflating the base price point upon which further taxes such as stamp duty and sales tax are levied. This is because these taxes are levied on the value of the car which includes the tariff, and therefore car prices essentially include a tax on the tariff component of the purchase price. In these ways, tariff reductions have a much broader effect on vehicle affordability than that what is paid in terms of the tariff component in vehicle prices. The existence of other taxes levied on the purchase price actually enhances the case for the tariffs removal. This is because tariffs compound the losses to consumers of other taxes, lifting the overall tax rate on passenger motor vehicles.

The AADA welcomes the recent removal of customs duties on electric vehicles, plug-in hybrid vehicles and hydrogen fuel cell vehicles with a customs value less than the fuel-efficient Luxury Car Tax (LCT) threshold, and sees this as a positive step towards the complete removal of customs duties on motor vehicle imports.

However, as the AADA has continued to advocate, the LCT threshold is far too low, and essentially encompasses many vehicles which are far from luxury vehicles. New technologies such as EVs, PHEVs and hydrogen fuel cell vehicles are often more expensive than their ICE counterparts. While most electric cars below the LCT threshold are manufactured in China, Japan, and South Korea, the majority of battery-powered models above the LCT threshold are made in Europe.³

Section 3

Extent to which regional, diaspora and First Nations communities take advantage of trade opportunities including the benefits created by FTAs

The AADA has no comment

Difficulties faced by Australian businesses, workers and communities in accessing the benefits created by FTAs, including non-tariff trade barriers.

Coming into a period of significant change within the automotive industry through the introduction of measures such as the New Vehicle Efficiency Standard and the accelerated uptake of EVs and low emission vehicles, Australia needs to modernise its automotive taxation regime. Non-tariff trade barriers, such as the Luxury Car Tax (LCT), are outdated and should be abolished. Currently, a punitive tax rate of 33% applies to vehicles valued over \$89,332 for fuel-efficient cars and \$76,950 for other vehicles, and in the 2023-24 financial year Australians paid over \$1 billion in LCT.

The LCT threshold often acts as a deterrent, discouraging consumers from purchasing cleaner, more fuel-efficient, and therefore lower-emission vehicles to avoid tax. Additionally, consumers often forgo advanced safety features to keep the car's price below the LCT threshold, further undermining transition efforts to greener cars. The tightened definition of a fuel-efficient vehicle for the LCT through the reduction of the maximum fuel consumption from 7 litres per 100km to 3.5 litres per 100 km, means a drastic increase in the tax paid on a range of vehicles that are generally considered more fuel-efficient than average.

The LCT is currently the country's main non-tariff barrier for EU automotive exporters to Australia. The LCT is a particularly arbitrary tax, and the AADA's position is that the LCT should be abolished as it is a relic of past policies associated with protecting Australia's motor vehicle manufacturing which ceased in October 2017.

Section 3

How the Australian Government monitors and measures utilization of FTAs

The Australian government monitors new vehicle sales figures through VFACTS published monthly. VFACTS also publishes data on new vehicles sold by country of origin, which can help the government track the volume of sales from different countries and compare and contrast between FTA and non-FTA countries.

How the Australian Government works with stakeholders, including States and Territories Governments, to promote trade including benefits created by FTAs

The AADA has no comment.

CONCLUSION

We would be happy to meet with you to discuss our submission and participate in any further consultation. If you require further information or clarification in respect of any matters raised, please do not hesitate to contact me.

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