
FCAI submission to the Department of Foreign Affairs and Trade – Australia- European Union Free Trade Agreement



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February 2016

INTRODUCTION

The Federal Chamber of Automotive Industries (FCAI) welcomes the opportunity to respond to the Department's exploration of the prospects of an Australia-European Free Trade Agreement.

The FCAI is the peak industry organisation representing vehicle manufacturers and importers of passenger motor vehicles, SUVs, light commercial vehicles and motor cycles in Australia.

TARIFFS

The Australian automotive industry supports an Australian-European Free Trade Agreement. The Australian passenger car market is now one of the most open and progressive automotive markets in the world in relation to tariff levels and overall protection. Australian automotive tariffs reduced on 1 January 2010 from 10 per cent to 5 per cent, resulting in an average tariff rate significantly less, as cars imported from countries with which Australia has FTAs are landed without being subject to any tariff. This has contributed to more choice and better prices for Australian consumers. Today, there are 67 brands in the Australian new car market selling more than 400 different models and thousands of variants.

More than 1.1 million new passenger motor vehicles were sold in Australia in 2015, of which 91 per cent were imported. Around 72 per cent of Australia's current imports originate from Asian trading partners, with which Australia has a number of free trade agreements. Approximately 5.8 per cent of total imports in 2015 came from the United States, with which Australia also has an FTA.

In contrast, around 11 per cent of new passenger motor vehicles were sourced from European countries (EU and non-EU). A further approximately 3 per cent of motor vehicles were sourced from Argentina and South Africa, with these being predominantly European brands. Vehicles sourced from these markets currently attract the 5 per cent tariff.

Australia will cease all domestic motor vehicle manufacturing by the end of 2017, with Ford, GM-Holden and Toyota Motor Corporation of Australia all ceasing their production activities. In an import-only market, it makes no sense to discriminate one import source against another. The FCAI supports the reduction to zero of the existing 5 per cent tariff immediately upon an FTAs entry into force between Australia and the European Union.

LUXURY CAR TAX

An additional factor that unfairly impacts predominantly European-sourced motor vehicles is the unfair application of the Luxury Car Tax (LCT). The Luxury Car Tax has a long and chequered history in Australia.

For the purposes of the application of the LCT, a *luxury car* is defined in terms of whether the value of the car exceeds the LCT threshold. A car is defined as a motor vehicle (except a motor cycle or similar vehicle) designed to carry a load of less than 2 tonnes and fewer than 9 passengers or limousine (regardless of the number of passengers it is designed to carry). There are exemptions for emergency vehicles, specially fitted out for transporting disabled people in wheelchairs, a commercial vehicle that is not principally designed to carry passengers, or a motor home or campervan. The LCT does not apply if the vehicle is more than two years old. The LCT threshold is set inclusive of GST and was initially set equal to the motor vehicle depreciation allowance.

The FCAI and member brands consider that the LCT is an inequitable and anachronistic tax. As the Henry Tax Review identified, the LCT fails to meet any of the five underlying principles of a 'good' tax, namely:

- Equity
- Efficiency
- Simplicity
- Sustainability
- Policy consistency

Furthermore, the presence of the LCT unduly distorts government and consumer views as to the true price of a motor vehicle. This has been highlighted in particular through the Government's in-principle approval to parallel imports of near-new motor vehicles through the review of the 1989 Motor Vehicle Standards Act. During that process the industry notes both government representatives and media commentators made misleading comparisons of vehicle prices in Australia versus other international markets, without appropriate consideration given to the unfair imposition of the 33 per cent tax on the purchase cost of a new motor vehicle. It also drives an enormous degree of angst amongst consumers, dealers and distributors, not least for the fact that the indexation arrangements the tax apply to many vehicles that do not meet the intent of the original scheme.

Finally, we note that in the context of advancing and improving vehicle CO2 emissions in Australia, serves as a tax on technology and sustainability. At a time when Australia is considering a mandatory CO2 target, the LCT acts as a brake on new environment technology, leaving Australian consumers and the environment worse off.

RULES OF ORIGIN

Given the multiplicity of free trade agreements Australia now has, the FCAI and member companies consider that greater focus be given to the origin of a motor vehicle, and its constituent parts. As an import-only industry, it would be of benefit to consumers if there was consideration of more commercially relevant rules of origin.

The FCAI would support further investigation to reform this area. The FCAI is aware that currently final goods imported into Australia are failing to meet regional value content provisions within free trade agreements on the basis that they incorporate components from another country (where that country also has an FTA with Australia). The FCAI supports consideration to allow accumulation of eligible content from other countries with which we have an FTA or RTA. For example, were components from Japan (with whom Australia has an economic partnership) to be shipped to the EU in order be incorporated into vehicles for export to Australia, we would support the Japanese content being treated as eligible content when assessing regional value content of the complete good from the EU so long as the component itself would have qualified for concessional treatment were it shipped direct from Japan to Australia. The FCAI would support extending this principle to other trading partners, including those with whom Australia has a Free Trade Agreement in place.

CONCLUSION

The FCAI supports a comprehensive Free Trade Agreement with the European Union, which encompasses an immediate reduction to zero upon entry into force. The FCAI believes that as a matter of good policy, the Australian Government should abolish the Luxury Car Tax, and that this could also form part of the negotiations between the two parties. Finally, the FCAI believes that serious consideration be given to reforming the various and inconsistent rules of origin requirements given the various source markets Australia acquires its new motor vehicles.