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# FCAI submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Australia's Trade and Investment Relationship with the United Kingdom

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## INTRODUCTION

The Federal Chamber of Automotive Industries (FCAI) welcomes the opportunity to respond to the Joint Standing Committee on Foreign Affairs, Defence and Trade inquiry into Australia's Trade and Investment Relationship with the United Kingdom.

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.

Like the broader European Union, the United Kingdom is one of Australia's most important trading partners. Both the European Union and the United Kingdom are important source markets for Australian-market motor vehicles. In light of the UK's decision to leave the European Union (EU), the FCAI believes it is critically important to provide certainty to business, and that Australia maintain the current trade and investment relationships with the UK. The FCAI therefore encourages the Australian government to work closely with the UK government to ensure that our bilateral trade relationship is maintained during the UK's transition, and to explore opportunities for further growth and mutual benefit between the two economies.

The FCAI has previously urged strong support for an Australia-EU Free Trade Agreement. Given that the UK's decision to withdraw from the EU, the FCAI similarly supports a stand-alone FTA with the UK, following its withdrawal from the EU. A properly conceived bilateral agreement with the UK will unlock opportunities for expanding economic activity, to the benefit of both countries. The FCAI encourages Australia to expedite negotiations with the UK in a timely manner.

## TARIFFS, THE UK, AND EUROPE

The Australian automotive industry sources new motor vehicles from around the world.

Almost 1.2 million new passenger motor vehicles were sold in Australia in 2016, of which less than 8 per cent were domestically manufactured. Australia will cease all domestic motor vehicle manufacturing by the end of 2017. From 2018 all new motor vehicles for sale in Australia will be imported.

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 well below 5 per cent today, 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, including many from the United Kingdom.

Currently, around 76 per cent of Australia's total new car imports originate from trading partners with which Australia has a free trade agreement.

In contrast, 19 per cent of new passenger motor vehicle imports (204,000 units) were sourced from EU countries. This includes the United Kingdom, which made up 17 per cent of all EU imports. The majority of the remaining 5 per cent of new motor vehicle imports were sourced from Argentina, South Africa and Turkey. Vehicles sourced from these markets currently attract the 5 per cent tariff.

In 2015/16 automotive vehicle imports from the United Kingdom into Australia were valued at more than \$1.5 billion.<sup>1</sup>

Year	Total number of UK sourced motor vehicle imports into Australia
2006	9,825
2007	9,222
2008	9,554
2009	9,633
2010	15,026
2011	20,165
2012	27,698
2013	35,106
2014	32,881
2015	32,084
2016	35,581

In 2016, more than 40 different makes and models were imported from the United Kingdom. Manufacturers importing motor vehicles from the UK include:

Jaguar-Land Rover	Honda	Caterham	Mini
Nissan	Lotus	Bentley	Aston Martin
Rolls Royce	Morgan	Infiniti	

The FCAI supports the removal of the existing 5 per cent tariff on all new motor vehicle imports, including those from the United Kingdom. Reducing the tariff to zero will deliver even greater competition to the Australian market, which in turn will provide more safety and environmental features into the Australian market.

## LUXURY CAR TAX

An additional factor that unfairly impacts predominantly European-sourced motor vehicles is the unfair application of the Luxury Car Tax (LCT). This also affects many models sourced from the United Kingdom.

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.

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

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<sup>1</sup> <http://dfat.gov.au/trade/resources/Documents/uk.pdf>

- Simplicity
- Sustainability
- Policy consistency

We also note in the context of advancing vehicle CO2 emissions and improved safety technologies, the LCT serves as a tax on technology and sustainability. At a time when Australia is considering a mandatory CO2 target and is experiencing a rise in the road toll, the LCT acts as a brake on a wider cross section of the Australian society having access to new environmental and safety technologies.

## **RULES OF ORIGIN**

Given the multiplicity of free trade agreements Australia now has, the FCAI and member companies consider that as it relates to rules of origin, greater focus should be given to the origin of a motor vehicle, than its constituent parts. As an import-only industry, it makes little sense that componentry for a vehicle may have duty applied to it, because the vehicle itself does not meet the necessary country of origin requirements.

The FCAI would support further investigation of reforming these hurdles 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 UK in order to be incorporated into vehicles for export to Australia, we would support the Japanese content being treated as eligible content when assessing regional value content. This would be on condition that the component (if re-exported to Australia) would have qualified under the rules of origin between Australia and Japan. 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 potential comprehensive Free Trade Agreement with the United Kingdom, which encompasses an immediate reduction to zero of the tariff rate 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.