

Chapter 7

Used Vehicles and Auto Parts Trade in New Zealand and Pacific Island Countries

Fukuda Tomoko

Abstract

New Zealand has dominated the world-famous destination for exporting Japanese used cars. A large number of used vehicles are imported for 30 years. The findings obtained from the cases in New Zealand and the Pacific island region can be summarized as follows¹. Firstly, there is the uniqueness of the reason why New Zealand became a major importing country for used cars from Japan. New Zealand has pursued radical deregulation since the 1980s. As a result, import barriers of automobiles have fallen, and many used cars have been imported from Japan since the 1990s. Secondly, New Zealand is a unique case in that it accepted the free trade as a state. Other world-famous used car trade bases were established as ‘special’ free trade zone markets. And they are not allowed to import used cars for domestic use. Used car trading is only a means to gain profits from intermediary trade. On the other hand, New Zealand introduces most of the used cars for itself. Thirdly, there are various destinations of End-of-Life Vehicles (ELVs) that occurred in New Zealand. Second-hand vehicles used for a specified period in New Zealand are distributed into several goals afterward. Some of them may be re-exported to the Pacific island region as a used car or auto parts. We can see the flow of resource circulation. It is evident that the flow of such resources links Japan, New Zealand, and the Pacific island region. (245 words)

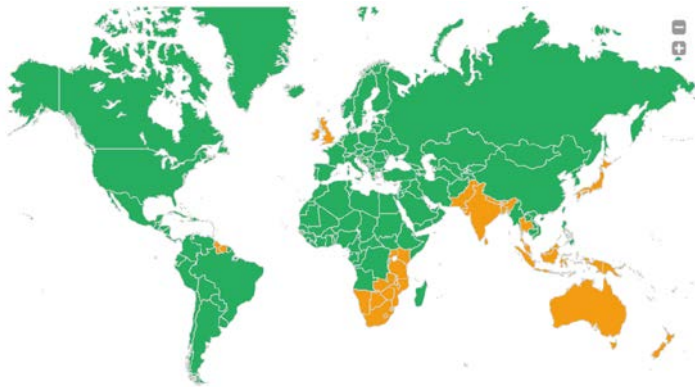
Keywords: used vehicles, auto parts, New Zealand, Pacific island countries, migrant entrepreneurs

¹ This article is based on Fukuda and Togawa (2017).

Introduction

New Zealand is the former British territory, like other Oceania countries. It adopts the same left-driving traffic and right-handle vehicles as UK and Japan (Figure 1). With this condition, New Zealand has dominated the world-famous destination for exporting Japanese used cars. A large number of used vehicles are imported for 30 years mainly through Auckland Port (Photo 1)². As Japanese used cars had a reputation for performance, imports in New Zealand sharply increased since 1989 (Cassells 2004). In 1999-2000, Japan's share of imported used vehicles reached 98% (Togawa 2009).

Figure 1: Map of left- & right-driving countries

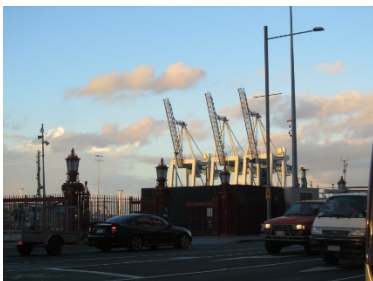


Source: “List of left- & right-driving countries.”

<https://www.worldstandards.eu/cars/list-of-left-driving-countries/>

Note: This world map shows which side of the road traffic drives on. Green colored countries drive on the right; orange countries drive on the left.

Photo 1: Auckland Port

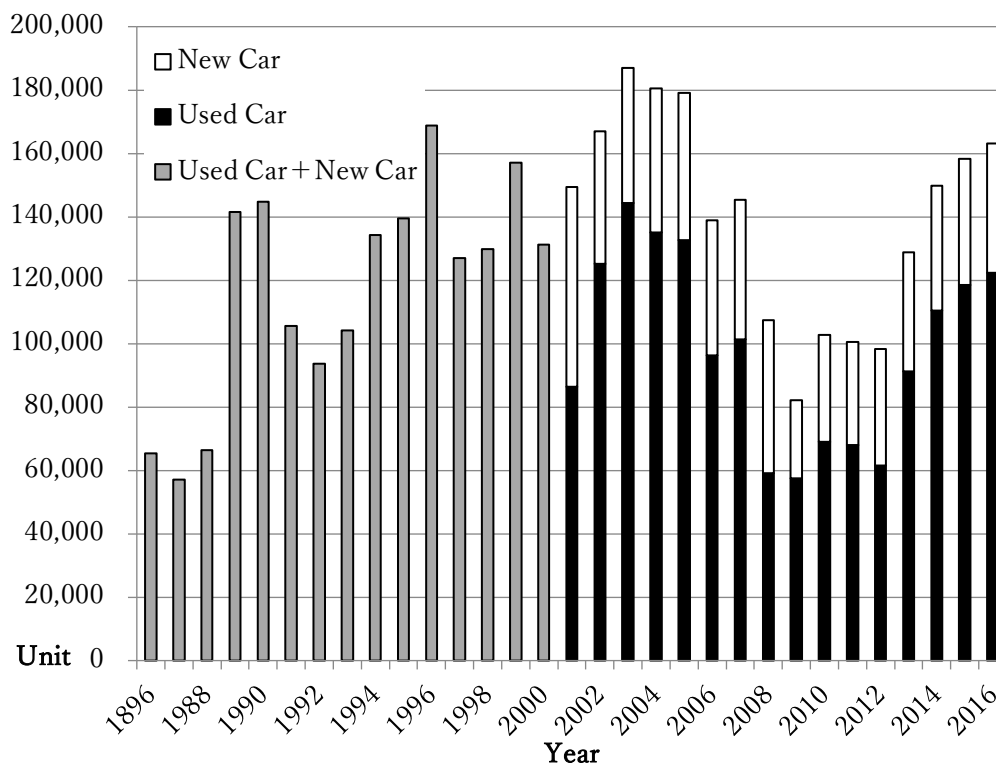


(Photographed by Author on August 2, 2013)

² <http://www.poal.co.nz/> (Retrieved 2018.3.9.)

Nonetheless, from the Japanese side, the export volume for New Zealand is not on an increasing trend compared to the growth in other countries. Looking at the number of automobiles exported to New Zealand by the Japanese side including the new car (Figure 2), although export volume increased sharply from 1989 to 1990, it has repeatedly increased and decreased after that. The decline in the early 1990s and the fall after the Lehman shock in 2008 is noticeable. There has been a marked increase in the number of used cars exported in the early 2000s, the highest in 2003. From 2013 onwards, there is an increasing trend again.

Figure 2 Number of vehicles exported to New Zealand (including knockdown)

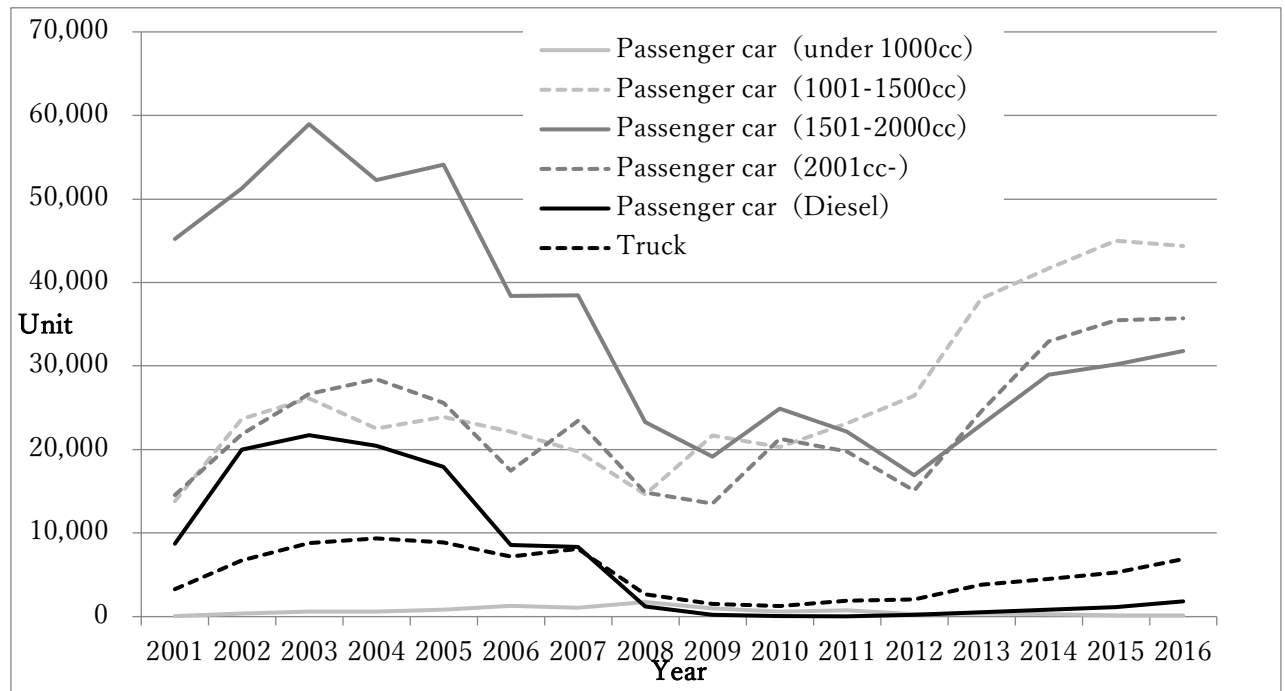


Source: Fukuda and Togawa (2017: 211), Calculated by Asazuma, based on the data from “Trade Statistics of Japan” (Ministry of Finance)

Note: The division of new / used in “Trade Statistics of Japan” has started from April 2001. Before that time the total number of both was shown.

Looking at exports by category (Figure 3), the export volume of gasoline vehicles with a displacement of 1,501 to 2,000 cc was larger from 2001 to 2010 than in others. But after 2010 the displacement of 1,001 to 1,500 cc gasoline cars is the most frequent.

Figure 3: Number of used car exports by category for New Zealand



Source: Fukuda and Togawa (2017: 212), Calculated by Asazuma, based on the data from “Trade Statistics of Japan” (Ministry of Finance)

From the fieldwork research in 2013, Turners was the only one used car auction remained in Auckland (Photo 2)³. There was another auction called Hammer before. These two auctions had been exhibiting around 200 units every month, but in 2004, Hammer was merged into Turners. Turners was a used car dealer founded in 1967 and is one of the leading companies in New Zealand now, with 19 branches throughout the country, holding 25 auctions every week⁴. The auction schedule in Auckland is classified according to the type of vehicle, like used passenger car imported from Japan on Tuesday, domestic used car on Wednesday, used commercial vehicle (bus, truck, van, 4WD, etc.) imported from Japan on Thursday in 2013.

³ Based on interviews with Pakistani entrepreneur Farhan (pseudonym) at Auckland on August 6, 2013. On August 7, we visited Turners.

⁴ <https://www.turners.co.nz/Company/About-Us/Overview/>

Photo 2: Turners Auction



(Photographed by Author on August 7, 2013)

Section 1 History of used car trade for New Zealand

The history of the automobile industry in New Zealand began with the establishment of an assembly plant of General Motors (GM) in 1926 (Abe, Kimura, Togawa 2007a; Abe, Kimura, Togawa 2007b; Abe 2010). Economic policies based on protecting the domestic industry and ensuring employment were also taken after the World War 2, but the economy declined after the 1960s. In the 1970s, there were 16 assembly plants in total. Lange Labor Party government (1984-89) launched a bold deregulation policy, and the protection policy on the automobile industry would be gradually abolished. This economic reform was nicknamed "Rogernomics" with the name of Roger Douglas, Minister of Finance at that time.

In January 1989, when a plan to cancel the import restriction on automobiles and auto parts and gradually reduce import tariffs was announced, the import of used cars increased (Abe, Kimura, Togawa 2007b). Furthermore, in 1998, the policy of tariff elimination for imported vehicles became clear. At the end of the same year, the local assembling plants which continued from 1926 wholly disappeared. New Zealand has become an entire car import market under the free market (Abe, Kimura, Togawa 2007a).

Used car imports in New Zealand has increased further since 1998 but turned downward since 2003. This trend is not limited to the imported car from Japan. It is an overall trend (Abe, Kimura, Togawa 2007a). Regarding this reason, local industry associations saw that (1) crude oil prices were low, (2) the economy was strong, (3) there were many young people (4) there were many immigrants, (5) sightseeing was flourishing in 2003. As of 2006, the economy is decelerating, the used car market is not vibrant, the oil price is rising, and immigration and tourism also stagnated.

Furthermore, as of 2008, the market approached saturation, and due to the

recession after the Lehman shock, the number of used cars exported from Japan decreased sharply (Togawa 2009). While the number of registered automobiles in New Zealand is about 3 million units, the number of End-of-Life Vehicles (ELVs) generated each year is estimated to be around 150,000 units. This number is only about 3% of Japan. Some of the used cars imported into New Zealand were re-exported to Russia, Tonga, Fiji, etc.

Used cars imported to New Zealand as of 2006 have been checked for safety, such as brakes, under the "Vehicle Compliance Certifiers" by the provisions of the Land Transport Act (Abe, Kimura, Togawa 2007a; Abe, Kimura, Togawa 2007b). In the background, rewinding of the mileage meter and illegal importation of used cars by falsely accident-free cars have been regarded as a problem for a while. While emphasizing the need for safety inspections, there was no environmental compliance on exhaust gas.

Section 2 Used car market in Auckland

Auckland is New Zealand's largest city located in the North Island. It faces the Waitemata Bay in the north and the Manukau Bay in the south and is the city with New Zealand's most significant trade port and international airport.

Figure 4: Map of Auckland



Source: Fukuda and Togawa (2017: 215.)

In the Otahuhu district on the outskirts of Auckland (Figure 4), there is an accumulation of used car dealers (Photo 3). Farhan (pseudonym) is a Pakistani entrepreneur who runs a used car dealer there. According to Farhan, when he started a business for New Zealand in 1997, many old junked cars, mainly Australian cars and Mazda cars assembled in New Zealand, were used in New Zealand.

Photo 3 Used car dealers in the Otahuhu district



(Photographed by Author on August 5, 2013)

Farhan began exporting used cars from Japan to New Zealand in 1997. He shipped 50 to 100 vehicles a month to 10 white New Zealanders (Pakeha, Descendants of European immigrants) customers in Auckland and Wellington. Business was good at that time, but the payment collection gradually delayed, and it reached nearly 10 million yen. Farhan decided to go to New Zealand in 2000. Farhan got a "business multi visa" for six months and went to New Zealand. Regarding payment collection, 5 million yen was successful. But the other half could not be collected. The main reason was that the customer in Wellington had arrested with detection of rewinding of the meter. Farhan gave up this collection for 5 million yen.

Although he failed in payment collection, he learned that the educational system of New Zealand was good and started to prepare to move with his family. Firstly, he acquired "Investor Visa." He prepared 10 million yen with his brother who jointly managed the used car trading business. They got "Business Visa" for three years in 2001. At that time, "Investor Visa" holders could apply for permanent residence visa for a year and a half, so they proceeded and acquired permanent residency in 2003. They were also able to obtain their nationality for a year and a half at that time. They also advanced and acquired their nationality in 2004. As importing 100 used cars per month from Japan, the economic basis was stable, and acquisition of nationality was also smooth.

In the Otahuhu district, there are concentrated areas of the Pacific Islanders and Indians. The Pacific Islanders enter in the form of relatives visits and stay in place. Indians (mainly Fiji Indians) consist of Hindus, Sikhs, and Muslims. There are several Halal foodstuff shops and Halal restaurants (for takeaway) for Muslims in the Otahuhu district. Owners of these shops are not only Muslims but also Sikhs (Photo 4).

Photo 4: a Halal restaurant in Otahuhu



(Photographed by the author on July 31, 2013)

Section 3 History of entry of immigrant entrepreneurs and their transition

Among the Pakistani entrepreneurs who first entered New Zealand, the most famous one is Parvez (pseudonym). Parvez was one of the prominent early entry entrepreneurs who had been engaged in used car trading business in Japan since the 1980s and entered the New Zealand market in 1991. Importation of passenger cars was not allowed at the time, so he began with the task of selling commercial vehicles such as vans, diesel trucks, and buses. After he got a New Zealand nationality, he sold the store to another Pakistani entrepreneur and returned to Japan in 1995. There were also several other well-known Pakistani companies, but in 2013 half of them had returned to Japan already.

When Farhan entered the used car market in Auckland in 2000, there were about 100 Pakistani entrepreneurs. However, around 2004 the Pakistani people gradually withdrew. The reason was that the New Zealand licensing system on used car sales had changed.

Before 2004, there was a Licensed Motor Vehicle Dealers (LMVD) system, and it was necessary to prepare a compensation fee of NZ\$100,000 dollars (five million Japanese Yen) to engage in used car sales business, so new entry to the market is demanding. However, in 2004, this system was abolished and changed to the Registered Motor Vehicle Traders (RMVT) system. It became possible to renew the registration at NZ\$ 500 (25,000 Japanese Yen), so many other foreigners could enter the market.

Mainly the Chinese were conspicuous, but the most were Fijian (1st). Chinese (2nd), Indian (3rd), Arab (4th), Afghans (5th), Sri Lankans and other new Pakistani people (about 25 people) followed.

Among the new entrants, the strongest rival is the Chinese entrepreneur. Initially,

they learned work at a Pakistani entrepreneur's store and played independence afterward. They ran a company with the name of others and often returned home after one year. In some cases, they do not collect and pay 15% consumption tax, and the selling price of used cars dropped, so they had a significant impact on the market. Fiji people also enter the country by visiting their relatives and tend to see returning home after working for one year.

Some foreigners newly entering the used car market after 2004 include those who came to New Zealand by ship as refugees. Sri Lankans are the largest, but also Afghans and Somalians. New Zealand has a quota system that accepts about 800 refugees annually. After staying in the refugee center for two years, they can acquire permanent residence right and run their own business.

Some Pakistanis who flowed out of New Zealand after 2004 include those who moved to another country after acquiring New Zealand citizenship. As competition intensified and profits declined, some people jumped to African countries, which seems to be relatively profitable. For example, two major Pakistani entrepreneurs moved to African countries. Also, because New Zealand has high living expenses, some people leave the country hating it as they gradually lose their savings as incomes decrease.

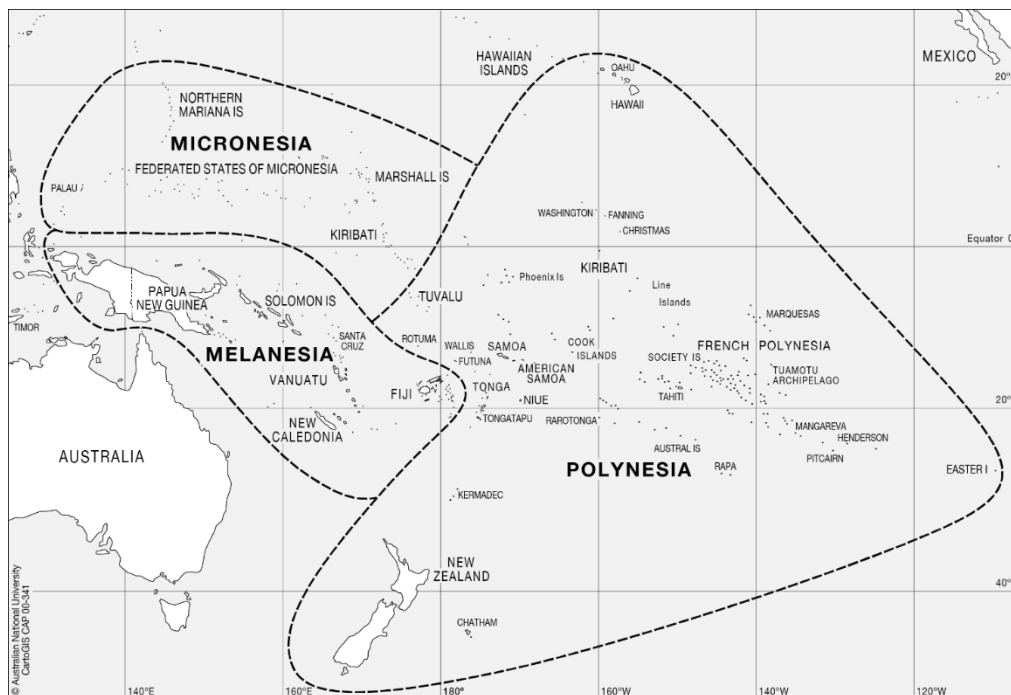
As of 2013, establishing a company in New Zealand became difficult. Because some foreigners enter the country with a tourist visa start a company and return home without paying taxes. For example, before the tax office will inspect their company, they will close them and run away. Showing all the receipt for seven years is difficult. Such deprivation is not limited to foreigners of some specific nationalities, but also included some Japanese people. For example, a company is a used car dealer made up of Japanese, Chinese, and Fijian people, and uses the company's name in Japan. A business style that Japanese people import many scrapped vehicles from Japan, Fijian people repair on New Zealand side, Chinese people use the mass-marketed website on the Internet to sell a used car at a lower price without consumption tax.

Nonetheless, New Zealand has a tight side to withdraw those who have handled illegal activities forcibly. For example, in the case of a Pakistani entrepreneur, he moved to New Zealand with his Japanese wife and was doing business, but he did not correctly process the company's accounting and declared taxes, so he and his family were both removed from the country. Inquiries by the tax office are considerably stricter than in Japan, for example, many foreign entrepreneurs register the company with the name of a white New Zealanders for increasing credit, but that people are caught quickly.

Section 4 Disposal of End-of-Life Vehicles (ELVs) in New Zealand and the Pacific island region

Regarding the New Zealand and Pacific island regions shown in Figure 5, we have abundant prior research on environmental economics and economic geography. For environmental economists, the reason why New Zealand and Pacific Island Region must be caught together is apparent. Used cars and auto parts in New Zealand were transported to Pacific island region⁵. Contrary, scrapped cars (and iron scraps) in the Pacific island region were transported to New Zealand (or Australia) to be processed there (Figure 6). Look at the New Zealand side disposal of waste cars and the iron scrap market (Cassells 2004; Togawa 2009).

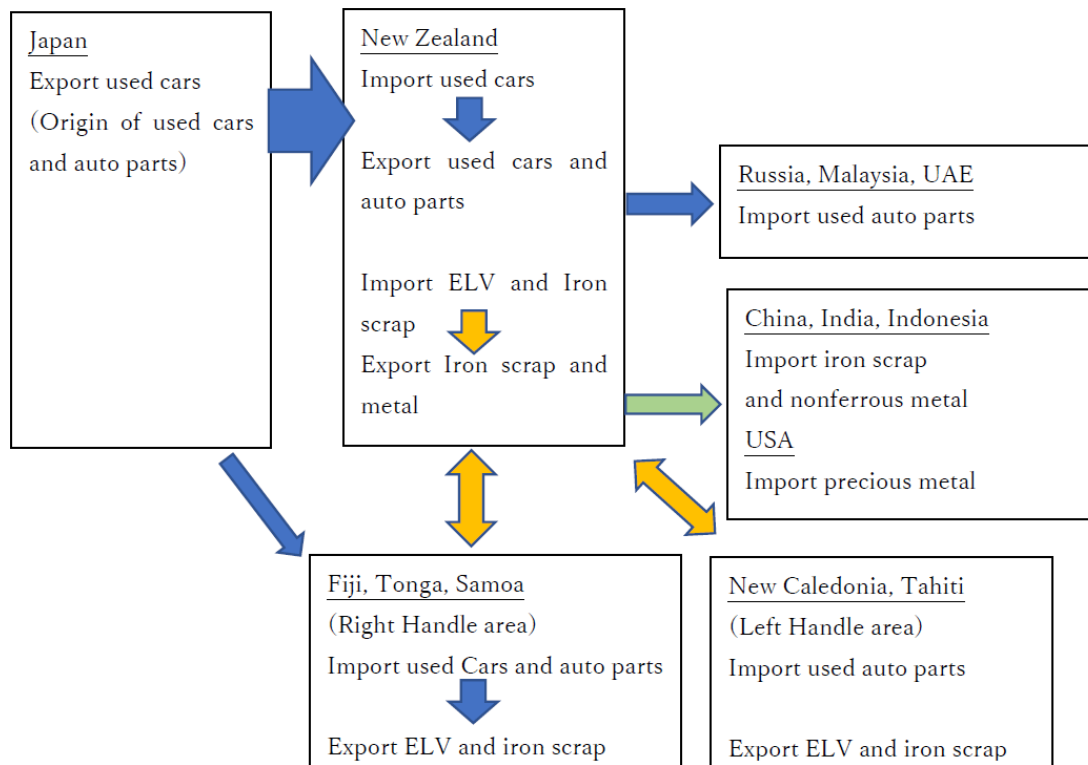
Figure 5: Map of the three districts of the South Pacific Islands: Polynesia, Micronesia, and Melanesia.



Source: CartoGIS Services, College of Asia and the Pacific, The Australian National University
<http://asiapacific.anu.edu.au/maponline/base-maps/micronesia-melanesia-polynesia>

⁵ According to Cassells (2004:78), some dismantlers export car parts to Samoa, Fiji, Papua New Guinea, and sometimes Nigeria and Jamaica.

Figure 6: Diagram of Used cars and auto parts trade relationship



Source: based on the data from Cassells (2004) and Fukuda and Togawa (2017: 215, 221-222).

New Zealand was forbidden to export iron scrap until about 1992, and recycling of scrapped car resources was not entirely taken (Abe, Kimura, Togawa 2007b). Iron scrap discharged in New Zealand was accepted only by steelmakers in the same country. This policy has existed since the 1960s, and it can be said that it is an economic policy of domestic industrial protection rather than environmental policies. However, the amount of iron scrap that can be accepted in New Zealand is limited. Initially, one company received only high-quality iron scrap and was able to keep its price low. Under such circumstances, there was no market to accept an iron scrap of relatively inferior quality discharged from scrapped cars and waste home appliances. As a result, scrapped vehicles were disposed of as landfill, including dumping to the valley floor.

New Zealand vigorously deregulated and trade liberalization as part of "Rogernomics" from the 1980s to the 1990s. But the trade of regulated iron scrap was also liberalized in the movement. In the 1990s immediately after deregulation, the

international market situation of iron scrap was not good, but due to the subsequent sharp rise in global markets, companies entering the iron scrap business appeared. The New Zealand iron scrap was between 15 and 30 dollars in 1995; it was 95 to 150 dollars in 2005. As reasons for this price rise, both international market conditions and the impact of competition can be considered.

In the Pacific island region, motorization has steadily progressed since the 1990s (Togawa 2009). In addition to the influence of industrial structure and income level, procure used cars overseas, not new cars, take it home and use it. This structure is similar to the island department including Okinawa Prefecture in Japan. However, the situation in the Pacific island region is more complicated, because of their handle regulation. Many cases follow mainly the regulations of the former (or present) suzerains. But in the Pacific island region, these rules are complicated. Oceania countries such as New Zealand, Australia, Solomon Islands, Tuvalu, Nauru, Tonga, etc. are right steering wheels, but in some island countries left handles are also used (Ogawa 2017). Due to differences in handle regulation, each island country has its own exporting country.

Figure 7: List of left- & right-driving countries

Three regions of the Pacific islands and Oceania	Left-driving countries with Right handle vehicles: British area	Right-driving countries with Left handle vehicles: American/ French area
Australia	Australia	
Polynesia	New Zealand Samoa Cook Islands Niue Tuvalu Tonga etc.	(American Samoa) (French Polynesia=Tahiti) (Hawaiian Islands) etc.
Melanesia	Papua New Guinea Fiji Solomon Islands etc.	Vanuatu (New Caledonia) etc.
Micronesia	Kiribati Nauru etc.	Palau Federated States of Micronesia Marshall Islands (Marianas=Guam) etc.

Source: based on the data from Ogawa 2017 and “List of left- & right-driving countries.”

<https://www.worldstandards.eu/cars/list-of-left-driving-countries/>

Cassells (2004: 89) shows an overview of waste disposal processing in the Pacific island region centered on Melanesia. Scrap metal, including scrapped cars, is regularly transported from Pacific countries to New Zealand or Australia for recycling. Many of them are manually disassembled on site, and a substantial part is cut for reuse as "used parts" or "recycled materials." Cut recycled materials are transported to New Zealand as metals for recycled materials, from Fiji, Samoa, New Caledonia (rarely from Tahiti) (Togawa 2009).

The progress of motorization in Fiji was remarkable after 1990, at least doubled compared with around 1990. The number of registered vehicles in 2007 is 156,708, of which 94,000 are small bikes. Some scrapped cars are sent to New Zealand to be recycled, but many are discarded (Togawa 2009).

Samoa's motorization is generally understood to be a little behind Fiji. The number of vehicles in 2005 was still 14,238, twice that of 1996. Although Samoa was the left handle country before, it was converted to a right steering wheel and adopted the same steering wheel regulation as Australia and New Zealand. As a result, in 2008 Samoa became the largest importer of used cars from New Zealand. Some of the abandoned vehicles in Samoa are recycled after being transported to New Zealand, but many are discarded (Togawa 2009).

Regarding the Solomon Islands, Cassells points out that reliable data on the number of vehicles cannot be obtained in the first place. Many of the scrapped cars are dumped and disposed of by landfilling or under the name of utilizing for the reinforcement of coastal levees. Vehicles shipped to New Zealand and Australia for recycling have not been confirmed (Togawa 2009).

Since 2001 the scrap market had been on the upward trend, the abandoned vehicles were gradually transported to Australia and New Zealand. Some buyers from China and South Korea visited even after that (Togawa 2009)⁶.

Conclusion

The findings obtained from the cases in New Zealand and the Pacific island region can be summarized as follows.

⁶ Cassells (2004:77) also mentioned that most of the non-ferrous metal was exported to Korea and China.

Firstly, there is the uniqueness of the reason why New Zealand became a major importing country for used cars from Japan. At the beginning of this article, I explained that New Zealand is the same right-handed country as Japan. And due to this condition, it has occupied the world's top export destination of used cars originating in Japan. However, Australia is also the right handle country, and it has a very limited import of used cars from Japan. This is because there are regulations on used car import restrictions in Australia⁷. On the other hand, New Zealand has pursued radical deregulation since the 1980s. As a result, import barriers of automobiles have fallen, and many used cars have been imported from Japan since the 1990s (Abe 2010).

Secondly, New Zealand is a very notable case in that it accepted the free trade as a state. For example, Dubai in the United Arab Emirates and Iquique in Chile are also one of the world-famous used car trade bases, but the opportunity for these trade ports to acquire their position is in the establishment of a 'special' free trade zone. Indeed, because the United Arab Emirates and Chile are both left-handle countries, they do not allow domestic use of used cars with right handle imported from Japan. In other words, it is regarded as a material that is premised on re-exporting to neighboring countries, and it is only a means to gain profits from intermediary trade. On the other hand, New Zealand imports most of the used cars for itself. Therefore, if the domestic car ownership rate becomes saturated, there is no other choice but to leave it to the market supply and demand balance. And the remaining adjustment means will be diverted to another system such as environmental regulation and safety regulation.

Thirdly, there are various destinations of End-of-Life Vehicles (ELVs) that occurred in New Zealand. Second-hand cars used for a specified period in New Zealand are distributed into several goals afterward. The first is disassembled in New Zealand, a part of which is reused as second-hand parts. Some of the used auto parts produced may be re-exported to the used goods market such as Malaysia and the United Arab Emirates. The second is a case where it is recycled in the country as iron scrap after it is disassembled as well. The third is a case where it is re-exported to the Pacific island region as a used car. In the Pacific island region, second-hand vehicles used for a specified period have been subsequently crushed as scrapped vehicles and some returned to New Zealand and Australia as iron scraps. The flow of resource circulation is seen. It is evident that the

⁷ This article couldn't mention Australia, because the situation in Australia is very complicated. The economic impact of Australia in the Oceania region is significant. The more detailed analysis is required in the future.

flow of such resources links Japan, New Zealand, and the Pacific island region

Acknowledgment

This work was supported by MEXT KAKENHI Grant Numbers JP 15K03837 and JP24730412.

References

- Abe Arata, 2010, 'Formation and Development of Used Car Export Markets for New Zealand,' "Yamaguchi Daigaku Kyoiku Gakubu Kenkyu Ronso" 60(1): 7-16.
- Abe Arata, Kimura Mami, Togawa Kenichi, 2007a, 'Automobile Recycling Circumstances in New Zealand,' "Environment and Pollution" 36(4): 45-48 (in Japanese).
- Abe Arata, Kimura Mami, Togawa Kenichi, 2007b, 'New Zealand,' Teranishi Toshikazu ed., "Actual Situation of Automobile Recycling in Asia and Policy Research on International Institutional Design," Toyota Foundation 2005 Research Grant Report (in Japanese).
- Cassells, Susan Mary, 2004, "Toward Sound Management of End-of-Life Vehicles in New Zealand," A thesis presented in partial fulfillment of the requirements for the degree of Doctor of Philosophy in Economics, Massey University, Palmerston North, New Zealand.
- Fukuda Tomoko and Togawa Kenichi, 2017, 'New Zealand and Pacific Island Region,' Asazuma Yutaka et al., "Reuse of Automobiles and Global Markets: International Trade of Used Cars and Auto Parts," Seizando Shoten (in Japanese).
- Ogawa Kazumi, 2017, "Characteristics of Social Economy of Pacific Island Countries," Handout of Asian Used Vehicle Distribution Research (2017.5.27) and Asian Automobile Symposium 2017 (2017.11.4 to 6), Center for East Asian Economic Studies, Graduate School of Economics, Kyoto University (in Japanese).
- Togawa Kenichi, 2009, 'International Comparison of Waste Disposal Systems in Islands: Preliminary Consideration on Case Studies of Taiwan and Pacific Island Countries' "Kumamoto Hogaku" (in Japanese).