AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION

2018-19 PRE-BUDGET SUBMISSION

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Section 1

FORWARD

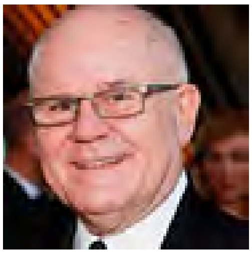
AADA is responding to the invitation from the Assistant Minister to the Treasurer, the Hon Michael Sukkar MP to make a submission for consideration by the Government in the preparation of its 2018-19 Budget. AADA notes the Government's focus on budget repair to ensure the Commonwealth maintains its fiscal trajectory back to balance while also supporting fairness, opportunity and security for all Australians.

AADA's comments are limited to matters of direct relevance to our members and their business interests in the automotive retail sector which is one of the most competitive in the world. In this environment, our members are facing three unstoppable global trends that are washing over their businesses with the force of a tsunami: compression of the average 2 per cent margin on the sale of a new motor vehicle; regulatory intervention; and digital disruption including online selling.

AADA is the peak industry advocacy body exclusively representing franchised new car dealers in Australia. There are around 1500 new car dealers in Australia that operate about 3500 new vehicle outlets. Dealerships range from family-owned small businesses to larger businesses including three public companies operating in regional Australia and capital cities across all States and Territories. It is important to note that the listed entities account for around 12 per cent of total 'rooftops'. Put another way, 88 per cent of franchised new car businesses continue to be owned by individual operators or family groups. This is not a retail industry dominated by large multinational operators or an industry with monopoly market dynamics such as have been allowed to develop in the banking, grocery and dairy sectors in Australia.

The economic impact of the new vehicle retailing sector to Australia is also significant. The industries total turnover/ sales amounts to over $54 billion and the estimated total economic contribution is over $12 billion. The industry also generates over $9 billion in wages and $3 billion in tax revenue.

We urge the Government to consider the points made in our submission and would welcome the opportunity to work with the Government in the coming months as it finalises the budget.

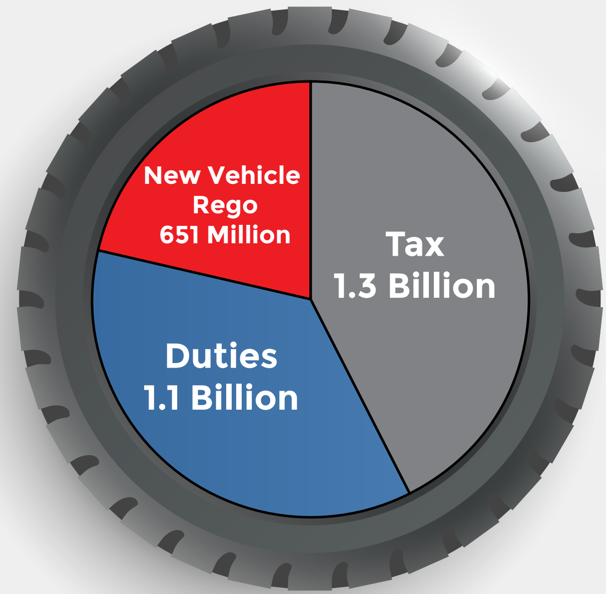


David Blackhall
Chief Executive Officer

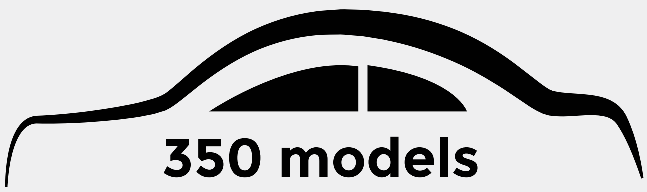
INDUSTRY OVERVIEW

Fifty Four Billion
in turnover and sales

Car dealership businesses are owned by individual operators or family groups



TAX REVENUE TOTAL



INDUSTRY OVERVIEW CONTINUED

Currently, our members are facing three unstoppable global trends that are washing over their businesses with the force of a tsunami:

- compression of the average 2 per cent margin on the sale of a new motor vehicle
- regulatory intervention
- digital disruption including online selling.

Margin compression

In AADA's 2017-18 pre-budget submission we provided a snapshot of the dealership business model and the five important profit centres[1]. The relationship between a multi-national OEM and an Australian resident dealer is characterised by an imbalance of power. OEMs compete in a globalised mainly free trade market with enormous investment in R&D, manufacturing plants, new products and technology. A recoupment of this investment and quest for market share translates into unrelenting pressure on the management of Australian subsidiaries to achieve sales targets set by foreign executives in a business environment such as Korea, Japan, US, EU or UK, the market conditions and business practices of which are different.

This in turn forces Australian management to set unrealistic sales targets on brand franchisees. Shortfalls in OEM targets (and often revised targets) results in a reset of dealer targets with little or no notice. The prospect of securing a generous bonus to meet revised targets, remain viable and retain the franchise has led to margin compression, frequently pushing dealers to the limit of economic viability.

Regulatory intervention

There continues to be unprecedented regulatory intervention into the automotive retail sector by ASIC and the ACCC. The ACCC New Car Retailing Industry Market Study, after an 18-month investigation into the industry, delivered its final report on 14 December 2017 and recommended a mandatory scheme be introduced for car manufacturers to share with independent repairer workshops technical information on commercially fair and reasonable terms. The ACCC did not specify what particular form of regulation should be adopted or which Government Department be responsible for the administration of the scheme.

The ACCC Market Study has brought to light a power imbalance between OEMs and dealers which leaves them vulnerable to financial detriment and disadvantages consumers in the handling of warranty claims and consumer complaints under the ACL. AADA's supplementary submission to the ACCC lists the reasons for the structural imbalance, how it manifests itself and how the imbalance might be mitigated by the introduction of an automotive industry code[2].

Digital disruption

A survey conducted by KPMG in 2017 found that 50 per cent of executives believe battery electric vehicles to be the #1 key trend followed by connectivity and digitalisation[3].

A recent example of disruption was the announcement by classified advertising portal Carsales move into direct vehicle sales through an online platform to be launched in the first half of this year. According to media reports this will allow buyers of new and used cars to complete almost all the steps to secure a vehicle and completely leapfrog a visit to a dealer financed showroom and could in many cases include home delivery. We can expect to see the emergence of channels that allow the 'purchase journey' and complete transaction to be performed online.

Disruption will have enormous implications across the automotive retail sector and some are predicting that the transition from human-driven, internal combustion (ICE) vehicles to autonomous electric vehicles will lead to a new business model named 'transport-as-a-service' (TaaS) which means that far fewer cars will be needed[4]. Existing platform providers such as Uber and Lyft will be joined by other fleets of electric autonomous vehicles with higher vehicle utilisation rates obviating the need to purchase a motor vehicle.

Consumer demand for small cars and SUVs, together with a continued demand for light commercials, have driven Australia's new car retail market to a record sales result in 2017 according to data released by the motor industry's official statistical service VFACTS. The industry posted a record December result to reach a 12-month total of 1,189,116, an increase of 0.9 per cent over 2016. Australians bought 465,646 SUVs during 2017 for a 39.2 per cent share of the total market compared with 450,012 passenger cars with a 37.8 per cent share. 2017 was the first full year in which sales of SUVs outstripped those of passenger vehicles[5].

Overall it would appear from VFACTS that business conditions (measured by sales volumes) for OEMs and dealers are good and the Australian market is close to saturation with vehicle ownership around 713 per 1000 head of population. An underlying concern is that the pressure to maintain volumes further squeezes a dealer's thin margin and reduces overall profitability.

TAXES AND CHARGES

Luxury car tax (LCT)

The current LCT threshold for a fuel efficient ‘green car’ is $75,526 and $65,094 for other cars. Revenue collected from the LCT for the 2016-17 financial year was $664 million and is estimated to raise $680 million in 2017-18. Cars with a GST inclusive value above the threshold attract a tax of 33 per cent.

AADA’s position on the LCT remains unchanged and is well documented in previous submissions and our submission to the Tax White Paper Task Force in 2015. Moreover, the Henry Tax Review in 2009 recommended the LCT be abolished. The LCT is a relic of past policies associated with the introduction of the GST and motor vehicle manufacturing in Australia which ceased in October 2017. The proliferation of Free Trade Agreements (FTAs) and removal of tariff barriers for imported motor vehicles leads to a conclusion that the LCT remains on the statute books for no other purpose than to assist in returning the budget to surplus in 2020-21.

We ask the Government, in its budget deliberations, to give serious consideration to the abolition and phasing-out of the LCT as the budget moves towards balance. AADA would be happy to further participate in any discussion around abolition and phasing out of this discriminatory and ‘absurd’[6] tax.

A discriminatory tax on a ‘luxury’ good (as perceived) is a legacy of obsolete policy and the Federal Government’s retention of the LCT as a revenue measure has been seized upon and duplicated by the Queensland government in its pre-election policy announcement to add an additional 2 per cent of dutiable value to the stamp duty costs for buyers of new cars with a cost of more than $100,000. This additional hit to Queensland motorists is expected to raise $75 million over 3 years. It does little to assist Commonwealth budget repair.

While the perception of goods as a luxury can change over time the Queensland Government has arbitrarily defined a luxury car as costing over $100,000. With around 20 per cent of the price of a new vehicle sold in Australia made up of taxes and other charges the Queensland Luxury Tax (QLT) on cars is a clear example of policy on the run and does little to reduce Queensland’s estimated ballooning debt of $81 billion.

Tariffs

Customs and other duties on passenger motor vehicles is estimated to raise $480 million in 2017-18 rising to $550 million in 2020-21. With the cessation of local passenger vehicle manufacturing, there is no longer a rationale for the tariff as there is no local industry to protect.

The passenger vehicle tariff and the LCT may have implications for Australia’s trade and investment relationships, particularly as we move towards securing free trade agreements with the European Union and the United Kingdom.

Company tax

AADA supports a corporate tax reform agenda that includes a reduction in the statutory corporate tax rate to bring it in line with trends in the US (proposed 21%), EU and the Asia-Pacific region (Japan proposed 21%). Studies have found that Australia has the highest corporate tax burden across every relevant global comparison and it raises substantially more revenue than many other countries in company tax (18 % of all tax revenues).

The Government's Enterprise Tax Plan (ETP) has reduced the corporate tax rate for small business entities with an aggregated turnover of less than $10 million to 27.5 per cent for the 2016-17 income year. The aggregated turnover threshold increases to $50 million in 2018-19 with the corporate tax rate progressively reducing to 25 per cent in 2026-27. The company tax rate remains at 30 per cent for all companies that are not SMEs.

AADA has concerns about the lack of transition rules as the company tax rate is progressively reduced over 10 years resulting in the loss or trapping of franking credits at the higher corporate tax rate.

A company tax reduction based on a turnover threshold will not benefit our members as their businesses are characterised by high turnovers, high cost of stock and thin margins on sales

The Government introduced the Treasury Laws Amendment (Enterprise Tax Plan No. 2) Bill into the Parliament on 11 May 2017. The Bill progressively extends the lower corporate tax rate of 25 per cent to all entities in 2026-27.

Modelling suggests that a lowering of the company tax rate will bring economic benefits to the economy, SMEs and consumers. AADA supports the policy measures contained in the ETP No. 2 Bill but without bipartisan and cross-bench support we share the sentiment that the opportunity may be lost to stimulate job creating investment.

ACCC NEW CAR RETAILING INDUSTRY MARKET STUDY: MANDATED REGULATORY SCHEME

As mentioned earlier, the ACCC in its final report recommended that a mandatory scheme be introduced for car manufacturers to share with independent repairers technical information, on commercially fair and reasonable terms, subject to appropriate safeguards to enable the sharing of environmental, safety, and security-related technical information.

A mandatory scheme does not come without cost to the Government department responsible for the administration of, compliance and enforcement of repair and maintenance information (RMI) legislation or regulation. If a cost recovery model is adopted then independent repairers should bear those costs.

The Government department responsible for administrating the scheme would be required to:

- ensure compliance with the scheme
- establish standardised formats for RMI on manufacturer's websites
- establish protocols for access to vehicle security, safety and emissions data
- work with industry to identify information that could be classified as security or safety related
- manage litigation around protection of intellectual property rights
- ensure proper disclosure regarding the use of genuine and non-genuine parts
- ensure proper training of technicians given different Sate and Territory licencing requirements
- guidance as to fair and reasonable terms
- mediation of disputes and dispute resolution mechanisms.

We are not in a position to estimate the costs of establishment and ongoing administration of a Government mandated scheme but resources will need to be allocated to the department or agency which is given that responsibility. Mandatory schemes generally fall within the Treasury portfolio. There are 67 brands and over 350 models on offer to the Australian consumer with around 25,000 independent workshops requiring access to RMI to service a fleet of over 18 million vehicles.

SKILLS SHORTAGE

A report produced the Victorian Automobile Chamber of Commerce (VACC) Research Unit estimates, for 2016-17, a total shortage of 27,377 skilled personnel across the automotive industry[7]. The report notes that the industry has struggled to attract and retain new workers over the past decade or more. A key factor is the negative perception about the industry and the type of work involved. Across trade and non-trade sectors 115,000 young Australians started an apprenticeship in 2012. This was down to 77,000 by 2016[8].

While we support the continued funding of the Australian Apprenticeship Support Network to the tune of $190 million annually we believe the emergence of electric, hybrids, and automated vehicles will require new and updated skills to repair and service ‘computers on wheels’. We share the view of the national Franchised Dealer Association (NFDA) UK that there is a need to develop an integrated approach to skills and employment in the automotive sector through education, skills (and reskills) training and recruitment to boost the attractiveness of the sector as a place to work.

More recently, the National Centre for Vocational Education Research (NCVER) released a statistical report which showed that there were 268,635 apprentices in training as at 30 June 2017, a decrease of 4.7 per cent from 30 June 2016. Apprentices were down 2.9 per cent to 163,985. Since 2013 commencements were down 29.7 per cent and completions 54.5 per cent.

The automotive industry needs skilled technicians to meet the challenges of the future.

AADA supports a continuance of the Government’s investment of $1.5 billion over five years for the Skilling Australians Fund to address the current skills shortage and renew the focus on apprenticeships as an attractive career pathway.

COUNTERFEIT PARTS

Counterfeit parts could be the next big issue confronting the car industry with Customs and Border Protection finding it difficult to identify fakes and locate the country of origin. A leading manufacturer and importer of cars has been forced to initiate action against parts distributors following concerns about consumer and vehicle safety. The company considers that counterfeiting operations are becoming so increasingly sophisticated that nearly any type of commodity is now at risk of being copied.

In 2016 around 33,000 fake parts, with an estimated value of over $1 million, destined for Australia were seized in a raid conducted by Chinese police acting on information provided by Toyota Australia. Recently, counterfeit oil filters and air bag replacements parts were detected and sold as genuine parts.

Australian motorists are at risk of expensive repairs where counterfeit parts are used for routine servicing (oil filters); and safety in the case of Takata airbag replacement recall (counterfeit airbag spiral cables).

We ask that consideration be given to additional funding to enhance the intelligence gathering and detection capability of Customs and Border Protection in stopping the flow of counterfeit parts into Australia.

Section 7

EMISSIONS REDUCTION INCENTIVES

AADA supports the establishment of the Ministerial Forum on vehicle emissions. We share the view that Australian fuel standards and availability must be defined before CO_2 targets can be set commencing 2020. In the interim a range of complementary measures could be considered through taxation incentives to encourage consumers to purchase energy efficient vehicles and encourage the use of light vehicles to ease congestion in major cities.

A reduction in taxes and charges such as stamp duty, registration and CTP on the purchase of a vehicle would require working with the States and Territories. The LCT could be viewed as a drag on the introduction of fuel efficient and vehicles with alternate energy platforms (electric, hybrids, hydrogen) into the country and pending abolition thresholds could be recalibrated to allow consumer access to such vehicles and discourage segment shift to larger less efficient SUVs. Other consumer measures could include import duty relief, tax rebates and incentives to scrap older vehicles. The average age of the Australian registered fleet is 10.1 years.

CONCLUSION

We would be happy to meet with you to discuss our submission and participate in the budget lockup as in previous years.

If you require further information or clarification in respect of any matters raised please do not hesitate to contact a member of the AADA team.

David Blackhall
Chief Executive Officer
M: 0413 007 833
E: dblackhall@aada.asn.au

James Voortman
Executive Director, Policy and Communications
M: 0452 535 696
E: jvoortman@aada.asn.au

Michael Deed
Policy Director
M: 0417 742 956
E: mdeeed@aada.asn.au

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[2] AADA Supplementary Submission 'The Power Imbalance Between Vehicle Manufacturers & New Motor Vehicle Dealers', 19 October 2017.

[3] KPMG 'Global Automotive Executive Survey 2017'.

[4] 'A RethinkX Sector Disruption Report', James Arbib & Tony Seba, May 2017.

[5] FCAI Media Release, 5 January 2018.

[6] Referred to as 'absurd' by former Secretary to the Treasury, Ken Henry AC.

[7] 'Directions in Australia's Automotive Industry, An Industry Report 2017', VACC on behalf of the Motor Trades Association of Australia and independent state and territory Motor Trades Associations.

[8] Business Council of Australia, 'Future-Proof, Protecting Australians Through Education and Skills", October 2017 p. 124.

AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION

HEAD OFFICE
Level 4, Suite 13,
Office 6,
150 Albert Road,
South Melbourne
VIC 3205

E info@aada.asn.au

W aada.asn.au