AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION

Select Committee on Cost of Living
PO Box 6100
Parliament House
Canberra ACT 2600

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Submitted via email

AADA RESPONSE TO THE SELECT COMMITTEE ON COST OF LIVING

Dear Committee Secretary

The Australian Automotive Dealer Association (AADA) welcomes the opportunity to make a submission to the Senate Select Committee on the Cost of Living Inquiry.

The AADA is the peak industry advocacy body exclusively representing franchised new car Dealers in Australia. There are almost 3200 new car Dealers in Australia which range from family-owned small businesses to larger and publicly owned businesses operating in regional Australia and capital cities across the country. Franchised new car Dealers employ more than 61,000 people directly with a total economic contribution of over $18.6 billion.

Australian businesses and consumers have continued to face significant increases in cost of living as a result of both domestic and international challenges. The Covid-19 pandemic, subsequent rapid increases in inflation and countermeasures such as rising interest rates have caused significant hardship in the community. The AADA considers it to be critically important that the way measures are implemented to overcome some of these challenges are carefully considered and targeted.

In a recent '*EV & Hybrid Vehicle Wave 2 Insights Report*' prepared for the AADA, some 2,000 Australian drivers were surveyed about their vehicle buying intentions. The survey revealed cost of living pressure among the respondents with two-thirds saying they were going to keep their current vehicle for longer than initially planned due to cost of living pressures. In addition, three in five said that they were less open to paying more for EVs due to cost-of-living pressures.

While Australia continues to experience impressive new car sales results, these can be explained by the fact that many of the new car deliveries are fulfilling orders that were placed months and in some cases years ago. Feedback from Dealers is that foot traffic at dealerships has reduced and inventory levels have increased.

The AADA considers there to be a range of areas where effective support for consumers and small businesses can alleviate some of the significant increases in the cost of living experienced recently. These include,

- Reforming automotive taxation to ensure it is fit for purpose in a changing industry landscape fuelled by emission reduction ambitions and accelerating uptake of new technologies.

- Providing targeted financial support for consumers seeking to take advantage of these technological changes through the uptake of lower and zero emission vehicles.
- Support for small and medium businesses facing the same cost pressures as consumers, in order to facilitate a strong and competitive small and medium sized business sector.

Automotive taxation reform

Personal motor vehicles continue to be the primary form of transport for Australians, with more than 87 per cent of households having access to a motor vehicle and around 53% of households having access to two or more motor vehicles[1]. Motor vehicles provide mobility and independence for individuals and families but are also one of the three biggest living expenses incurred within a household.

While the increasing costs of car ownership can be attributed to fuel costs, higher interest rates and increases in insurance premiums, there is still a significant cost burden for motorists in the form of automotive taxes. The Federal Government has recently introduced legislation for the New Vehicle Efficiency Standard aimed at reducing fuel costs for Australian motorists, however, the AADA considers that more needs to be done to address inefficient and outdated automotive taxes.

There are several different automotive-related taxes at different levels of government which are often a relic of an era when Australia manufactured vehicles, these include the Luxury Car Tax and Passenger Vehicle tariff. Each year, Australians pay tens of billions in these taxes with the Bureau of Infrastructure and Transport Research Economics reporting that in the 2021-22 financial year, almost $35 billion in road related taxes and charges were paid.

Development of a fit for purpose automotive taxation regime is critical, particularly as the industry transitions to net zero, facilitated by the uptake of new technologies.

Incentives to assist with the transition to low emission vehicles

- **Incentives and financial support**

In a market which has ambitious plans to reduce transport related emissions and has recently sought to introduce mechanisms to do so, such as the NVES. The introduction of financial and non-financial incentives is critical to realising these goals.

These incentives will be a key component in driving significant EV take up. Research recently undertaken for the AADA by Zing Insights listed the most common reason for being unlikely to consider an electric vehicle within the community as 'a concern

[1] https://profile.id.com.au/australia/car-ownership

around them costing too much'. This demonstrates that the introduction of incentives and financial support will play the most important role in encouraging EV uptake.

One key measure could come in the form of financial incentives for low-to-middle income earners to purchase low and zero emission vehicles. Several state governments have provided subsidies, but these have often ended up being taken up by motorists who are in a position to afford the higher upfront costs associated with EVs.

Furthermore, these grants, subsidies and incentives are being gradually withdrawn by most states. The correlation between incentives and EV uptake is undeniable in other markets and warrants strong considerations for a national purchase incentive regime that is targeted to those who are least able to afford the still significant price difference between EVs and ICE cars.

One such measure is the Fringe Benefit Tax (FBT) exemption for EVs. While the AADA is supportive of this measure and urges its continuation, we consider there to be an urgent need for the Government to revisit excluding plug-in hybrid electric vehicles (PHEVs) from the scheme in April 2025. It is becoming increasingly clear that Australia will have few if any affordable battery electric vehicle (BEV) utes and larger SUVs available in the foreseeable future. For example, the only BEV ute on the market in Australia costs almost $93,000 –more than double that of the petrol or diesel equivalent which comes with the added benefit of off-road capability among other performance features.

PHEVs have a crucial role to play in the light commercial segment particularly over the coming decade while suitable BEV product is developed. There should be an acknowledgement of their transitory role and the ability of these vehicles to reduce emissions over and above what can be achieved by straight ICE vehicles.

Until the time that suitable and affordable BEV alternatives are available, hybrid including PHEV vehicles should have access to FBT exemptions to support their uptake and contribute to the overall goals of reducing light vehicle emissions.

- **Dealerships and charging**

Charging infrastructure is currently being rolled out throughout Australia, but there is a pressing need to significantly increase the number of charging options for EV drivers. A strong charging network is vital for the transition to EVs and the availability of charging stations including fast chargers, ensures that drivers can continue to drive their vehicles in the same manner that they would whether it is an Internal Combustion Engine (ICE) vehicle or EV. This transition will require a significant investment in the infrastructure of charging stations and the subsequent grid upgrades required to facilitate the installation of these chargers. Which means that businesses seeking to install fit for purpose charging infrastructure can often be up for over six or seven

figure investments that often include necessary upgrades to the electrical infrastructure.

The AADA is very supportive of the recent announcement of $60 million in support of car Dealers installing EV chargers as part of a package of measures to support the introduction of the NVES. However, it's important that this is considered within the context of the significant investment required by dealers to support the sale, service and repair of EVs.

Energetics research report titled 'Electric Vehicle Charging Infrastructure Guidance Report' commissioned by the AADA to examine the impacts of the transition to low emissions (LEVs) and electric vehicles (EVs) for Australian automotive dealerships, details how the infrastructure investment required by Australia's franchised new car dealers to support the transition to EVs, is estimated to exceed $1billion. With the capital investment expected to range from $130,000 for a typical regional dealer to $580,000 for a typical rural dealer.

More than 75% of franchised new car dealers are small to medium sized businesses with only 1-5 rooftops, which often limits the ability to readily make significant investments ahead of demand. It will also ultimately increase the need for dealerships to pass on these significant costs to consumers.

When developing policies to accelerate EV uptake, consideration must be given to the investments required by private industries such as charging infrastructure investment, to support the Government's ambitions. While simultaneously ensuring that the significant cost associated with this transition to EVs will not be borne by consumers or small businesses.

Business support

When assessing the impacts of cost of living rises, the focus is generally on consumers, however, businesses are also vulnerable to the same cost pressures. Rising cost of living driven by inflationary pressures both domestic and international, has put significant strain on Australia's small and medium sized businesses.

These ongoing pressures with rising costs will present one of the largest challenges for automotive dealers in the near future. Rising energy and input costs, along with higher interest rates are having an enormous impact on the profitability and ongoing financial security of businesses. As mentioned above, more than three quarters of dealerships in Australia are small or medium businesses, with more than 57 per cent of dealers located in regional and rural areas. Dealers are also significant employers and contributors to economic activity in their communities.

In order to mitigate the burden of rising cost of living pressures without contributing to further inflation, the government should seek to implement policies aimed at driving

productivity and economic activity and fostering a strong and competitive business sector.

Franchised new car Dealers make substantial investments in facilities, machinery, and equipment to improve their ability to sell, service and repair vehicles for the community they serve. These investments also have significant flow-on effects for the communities in which they operate, as they use local builders, contractors, and other service providers. Investment is not limited to cities, with dealers across the country making significant investments that benefit country towns, and regional and suburban areas.

Under the current regime there are limited investment and business incentives available for Dealers, due to the turnover thresholds. While Dealers generally fall outside of commonly used definitions of small or medium sized businesses due to employee count or turnover, Dealers are often family run businesses which operate a vital function in the sale, servicing and repair of vehicles in the community. Often, they are unable to meet these threshold requirements due to turnover, but Dealers have very small profit margins, directly related to the high value of the product they sell.

As part of the accelerated uptake of EVs and other low emission technologies, dealers will have to make significant investments in a range of supporting infrastructure.

This will include things such as charging facilities, equipment and tools for servicing, repair and maintenance of BEVs and PHEVs and training for their employees to ensure they are well equipped to continue to provide the high-level of expertise expected of new car dealerships.

Coming into a period of slow productivity growth and reduced business investment, the AADA would call for exploration of possible mechanisms to support dealerships in this endeavour, which could come in the form of skills and training funding for new technology workforces, investment allowances for depreciation or other targeted support mechanisms for smaller businesses.

If you would like to discuss this further, please do not hesitate to contact me at, jvoortman@aada.asn.au.

Yours Sincerely,

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