



The Office of the
Group Chief Executive

19th May 2008

Manager
Automotive Review Secretariat
Department of Innovation, Industry, Science and Research
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Dear Sir/Madam

Re - Review of Australia's Automotive Industry 2008

The Motor Trades Association of Queensland responds to the Department of Innovation, Industry, Science and Research request for submissions pertaining to the Automotive Industry Review.

Our submission is attached.

Please contact me if there are issues to discuss associated with our submission.

Yours sincerely

A handwritten signature in black ink that reads 'Aivars Blums'.

Aivars Blums
Group Chief Executive

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Summary

MTA Queensland members retail, repair and service motor vehicles and comprise the back end of the automotive industry value chain in Australia.

MTA Queensland does not have members engaged in automobile manufacturing but is a stakeholder in the Review of the Automotive Industry because recommendations made by the Review may result in changes to Federal Government automotive industry policy which could have a significant impact on our membership, their businesses and their employees.

Our comments are intended to address issues that we consider to have direct relevancy to our membership and their role in the automotive industry value chain and therefore a response has not been provided to all of the questions and statements in the Discussion Paper.

MTA Queensland strongly contends that any recommendations proposed by the Review should take account of the whole of the automotive industry value chain because any recommendations based solely on the needs of the manufacturing sector could lead to a national industry policy for the automotive sector which has unintended adverse consequences for our members.

Current industry policy is manufacturing centric and it is MTA Queensland's view that automotive industry policy should be non-discriminatory and provide a level playing field for all participants.

MTA Queensland is generally supportive of existing assistance measures including the Automotive Competitiveness and Investment Scheme for automotive manufacturers but holds the view that an automotive industry policy should address the whole of the automotive industry value chain.

An industry policy developed in this context would be more effective because it could target a number of regressive factors constricting the market and discriminating sales of locally manufactured vehicles.

Any measures proposed by the Review to assist local manufacture should only be considered if the industry can demonstrate that it is sustainable and does not require ongoing assistance or government intervention to survive.

The automobile industry is a global industry and Australian automobile manufacturing has survived because it has concentrated on a niche product peculiar to the Australian and Middle East markets – medium to large, six cylinder, right hand drive vehicles. The global market segment for this product is very small and it is not viable for manufacturers to produce small volume runs of these vehicles at their overseas plants.

The large car market segment is contracting in Australia. Consumer preference is being influenced by higher fuel prices, discriminatory government charges and environmental perceptions and is increasingly favouring small and mid-size vehicles.

This contraction is exacerbating the difficulty of limited market size facing Australian manufacturers and MTA Queensland suggests that the Review explore options to influence the automotive market size by increasing the velocity of transactions.

Structural rigidities such as statutory regulation, Commonwealth and State taxation, environmental requirements, licensing and purchasing policies which compress the value chain should be designed to grow the market instead of redistributing it from one sector to the other and to be consistent with sound and equitable economic policy.

The review process should consider the impact of industry rationalisation on the complete automotive value chain to ensure economical sustainability of all sectors.

MTA Queensland observes that the Productivity Commission has been asked to model a series of tariff scenarios for the Review. It is our preference that any changes should be non-discriminatory between locally produced and imported vehicles. International countervailing and anti-dumping protocols seem to have strayed from their original purpose of ensuring that automotive products and vehicles supplied are at "fair value".

MTA Queensland Submission **Automotive Industry Review**

1. Introduction

- 1.1 The Motor Trades Association of Queensland (MTA Queensland) responds to the Department of Innovation, Industry, Resources and Science request for submissions pertaining to the Automotive Industry Review (Review).
- 1.2 We note the Discussion Paper and the issues to which comment is sought. Our responses reflect our membership in the automotive value chain and are scheduled below.

2. MTA Queensland Background

- 2.1 MTA Queensland is an industrial association of employers incorporated pursuant to the Industrial Relations Act of Queensland. The Association is the peak organisation in the Queensland representing the specific interests of 2,500 businesses in the retail, repair and service sector of the automotive industry value chain.
- 2.2 The Association represents and promotes the issues of the automotive industries to all three levels of government and within Queensland's economic structure.
- 2.3 MTA Queensland comprises 14 separate divisions, each representative of a specialist area of the State's automotive industry. They are –
 - Australian Automotive Dealers' Association of Queensland;
 - Queensland Farm and Industrial Machinery Dealers' Division;
 - Auto Electrical Specialists' Division;
 - Queensland Motorcycle Industry Division;
 - Automotive Engineers' Division;
 - Queensland Tyre Dealers' & Retreaders' Division;
 - Engine Re-conditioners' Association of Queensland;
 - Rental Vehicle Industry Division;
 - Independent Tow Truck Operators;
 - Service Station & Convenience Store Association of Queensland;
 - National Auto Collision Alliance;
 - Used Car Division;
 - Automotive Under Car Division; and
 - Auto Parts Recyclers' Association of Queensland.
- 2.4 The Association is the largest provider of automotive skills training in Queensland offering nationally recognised courses covering all aspects of the retail motor trades industry. MTA Institute of Technology is the largest automotive apprentice trainer in Queensland and has trainers positioned in Papua New Guinea and Fiji to increase the knowledge and skills base of the automotive industry and career opportunities in these countries.

3. MTA Queensland's Perspective

- 3.1 Our comments are confined to issues that have direct relevancy to our membership and therefore responses have not been provided to several questions and statements in the Discussion Paper.

- 3.2 MTA Queensland is a stakeholder in the Review process as recommendations made may result in changes to the Federal Government's automotive industry policy which could have significant repercussions on our membership and their businesses that are at the back end of the value chain.
- 3.3 Queensland does not have an automotive manufacturing sector. Our members operate businesses which retail, service and repair both locally manufactured and imported vehicles.
- 3.4 In Queensland the automotive industry value chain generates in excess of an estimated \$16 billion each year, directly employing more than 60,000 people contributing significantly to Queensland's Gross State Product and the national economy. According to the Australian Bureau of Statistics the automotive trade sector employs more than Mining and Agriculture, Forestry and Fishing sectors - respectively 34,300 and 40,700.
- 3.5 MTA Queensland is of the view that the questions and statements posed in the Discussion Paper should be assessed against three criteria:
 - 3.5.1 Are the questions and statements consistent with Australian Government automotive industry policy and not a sector view and do they protect the national interest of concomitant industries such as tooling which are essential to our strategic economic and defence capability and for other local manufacturing enterprises producing elaborately transformed goods.
 - 3.5.2 Are they consistent with Australia's international obligations in bilateral, multi-lateral agreements and with Free Trade Agreements.
 - 3.5.3 Are they consistent with sound economic policy.

4 Australian Industry Policy

- 4.1 MTA Queensland is generally supportive of assistance measures to automobile manufacturers including the Automotive Competiveness and Investment Scheme but holds the view that Australian automotive industry policy would be more effective if it addressed the whole value chain because it is symbiotic.
- 4.2 From our perspective a seminal issue is that on a value chain basis, part of the economic penalty and the price of any restructuring will be transmitted to dealers and the dealer network. Currently Industry policy stops at the manufacturing unit or node and is not competent, capable or intended to provide assistance further down the value chain.
- 4.3 It appears to our membership that the benefit of current industry policy and grants falls to the manufacturers with the incidence of the adjustment costs transferred by the manufacturers and distributors down to the dealers.
- 4.4 It is MTA Queensland's view that automotive industry policy should be adjusted so that it is non-discriminatory as possible ensuring a level playing field for all participants in the value chain.
- 4.5 Structural rigidities such as statutory regulation, State and Commonwealth taxation, environmental policies, licensing and purchasing policies which compress the value chain should be streamlined or abolished with the objective of growing the market instead of redistributing it from one sector to the other. For example:
 - 4.5.1 Fringe Benefit Tax

Experience shows that when FBT was imposed there was an immediate and significant reduction in motor vehicle sales and the reduced propensity to include motor vehicles in salary packaging remains. If there is structural change to Fringe Benefit Tax (such as change to the statutory mileage requirements for FBT exemptions or reductions it could be expected that:

- (i) the attractiveness to include motor vehicles as a part of salary packaging would increase; and
- (ii) demand for motor vehicles to increase therefore the Australian market would have the appearance of being greater than the current density equivalent of 705 motor vehicles per 1000 resident people.

4.5.2 State Stamp Duty:

Currently state stamp duty is imposed as an ad valorem percentage. Recent stamp duty increases in Queensland have suppressed motor vehicle sales and discriminated on the basis of cubic capacity and the number of cylinders such as 6 cylinder motor vehicles which comprise a significant number of Australian manufactured cars.

4.5.2.1 When GST was introduced Stamp Duty was one of the State taxes to be phased out. This has not happened and State Treasuries have become reliant on stamp duty in their revenue raising structure and are reluctant to dismantle the regime. If there is a Stamp Duty real interest decrease compared to the nominal vehicle market size and phased out over 6 years, it could be expected that the demand for motor vehicles would have the appearance of being greater than the current equivalent of 705 motor vehicles per 1000 resident people.

4.5.2.2 State based on-costs such as licensing and stamp duty imposed on the automotive industry should be harmonised across the Commonwealth. Stamp duty on cars should be reduced to zero across jurisdictions simultaneously.

4.6.3 Environment

An equally important issue is the architecture and configuration of any future Carbon Emission Trading regime. If a significant carbon impost is applied to the automotive sector it could be expected to contribute to a further diminution in motor vehicle production in Australia.

4.6.3.1 The construct of carbon taxation or carbon offset requirements and any form of "cap and trade" regime in relation to liquid fossil fuel will impact significantly on Australian manufactured vehicles and act in favour of lower capacity 4 cylinder motor vehicles. This is a market sector in which Australian manufacturers do not currently have the ability to compete.

4.6.3.2 Other Government policies and decisions which discriminate against locally produced 6 cylinder cars to reduce greenhouse gas emissions also have the effect of depressing the market for locally manufactured cars. For example Queensland Government purchasing policy eliminates Falcon and Commodore vehicles from its fleet.

4.6.3.3 A concerning issue is an interpretation of the Garnaut carbon emission trading scenario that fuel prices could increase by an order of 10 cents per litre. This

constitutes a regressive tax impacting negatively on the automotive value chain. More importantly it will have an inflationary effect on the Australian economy and further reduce our competitive position in manufacturing.

4.6.3.4 Automotive emissions account for only about 8% of Australian greenhouse emissions. It is our view that more effective environmental outcomes could be achieved by implementing a regime that reduces the number of older vehicles in the national fleet because of the disproportionate amount of greenhouse gas emissions they generate.

4.7 State Government's purchasing policies are important to automotive industry policy and should be included in the Review. We submit that any State Government purchasing policy which discriminates against locally manufactured six cylinder cars has only a marginal effect on carbon emissions and should be replaced with a policy designed to eliminate older vehicles from the fleet. In terms of National Competition principles there should not be brand or import inclusions or exclusions with motor vehicle purchases based on merit and suitability for the purpose/s required and the most appropriate vehicle for the purpose.

4.7.1 For example, the Queensland State Government excludes six and eight cylinder Australian made Holden and Ford vehicles from its fleet on the basis of demonstrable environmental benefit but imported vehicles such as Peugeot, Saab, Citroen etc are approved. The environmental gains of excluding Commodores and Falcons are marginal and alternative arrangements could be implemented such as the State Government addressing the age of the general vehicle fleet in Queensland.

4.8 Automotive industry Policy and the Review process should recognise factors that influence the automotive market. The high exchange rate of the Australian dollar and the increase in disposal incomes have influenced consumer choice in automotive vehicles in favour of competitive imported models over locally produced cars and new cars preferred to used cars which has resulted in a contraction of the trade-in / used car market with implications for the whole value chain as car equity devalues.

4.9 MTA Queensland is of the view that if Australia's automotive industry policy is to be value chain specific it should address all these issues. We are of the view the above enunciated matters would not breach international obligations but would reflect a sound automotive industry policy and would constitute effective and robust economic policy that would sustain scrutiny.

5. Tariff Policy

5.1 MTA Queensland notes that the Productivity Commission has been asked to model a series of tariff scenarios for the Review.

5.2 It is our preference that any changes should be non-discriminatory between locally produced and imported vehicles. Currently, due to the high exchange rate of the Australian dollar, the effective level of tariff protection for the automotive sector is de minimus. Any slowdown in the programmed reduction of automotive tariffs is likely to have a minimal effect on the market share of local manufacturers and result in only a marginal increase in the cost of imported vehicles.

5.3 A concerning issue for our membership, anecdotally is that many vehicles may be supplied to Australia at less than "fair value". This has its genesis with multilateral countervailing/ anti-dumping protocols that do not benefit the corporate hub of global manufacturers and therefore are seldom invoked. It appears that there are three considerations to this:

- (i) If imported vehicles are supplied to the Australian market at “fair value” a case for long term tariff protection is difficult to justify under Australia’s international trade obligations although some short term structural assistance is consistent with these protocols.
 - (ii) Industry policy in third world countries provide subsidies to the automotive industry; and
 - (iii) In many cases the achievement of economies of scale is based on exports at marginal cost to destinations such as Australia.
- 5.4 We submit there should be a level policy approach. If imports are at “fair value” they should not be discriminated against and should compete on their merits in the Australian market. If they are not at “fair value” action should be taken to ensure they are at “fair value” and that all our international obligations both multi-lateral and bi-lateral recognise that trade should take place at “fair value”. When they take place at “fair value” they should be allowed to compete on a level playing field.
- 5.5 Free Trade Agreements under negotiation should observe the concept that the attainment of genuine reciprocal sales access and market access for Australian manufactured vehicles and components is a priority.

6 The Economy and the Automotive Market

- 6.1 The Australian automotive manufacturing industry makes an important contribution to Australia’s economy and is vital to sustaining concomitant national interests such as the tooling industry which are essential to our defence capability and for other local manufacturing enterprises producing elaborately transformed goods.
- 6.2 The automotive industry is a global industry and Australia’s automotive manufacturing has survived because it has concentrated on a niche product peculiar to the Australian and Middle East markets – medium to large, six cylinder, right hand drive vehicles. The global market segment for this product is diminutive and it is not viable for manufacturers to produce small volume runs of these vehicles at their overseas plants.
- 6.3 The large car market segment is contracting in Australia. Consumer preference is being influenced by higher fuel prices, discriminatory government charges and environmental perceptions and is increasingly favouring small and mid-size vehicles.
- 6.4 Manufacturers can supply the Australian market with small and mid sized vehicles much more competitively from their overseas plants which have economies of scale, operate lower on the cost curve and are able to take advantage of favourable exchange rates for the Australian dollar.
- 6.5 The Australian automotive industry is small and faces complex challenges that will have implications for the entire automotive value chain and the wider economy:
- 6.5.1 An immediate issue is model “crowding out” due to price compression or price classification of too many models into the one category. There are insufficient transactions (sales per head of population) to support all the models that sit in the price classification and the result is likely to be that over time some models will have to be rationalised out and this is likely to include the Australian 6 cylinder family as it will be in a category that have smaller price bandwidths.
 - 6.5.2 Exacerbating “crowding out” is price sector specific factors in terms of stamp duty, luxury car tax, fringe benefit tax and state government purchasing policies and these are accelerating the current difficulties of Australia’s automotive industry.

- 6.5.3 The result of “crowding out” will be automotive value chain rationalisation. A priority should be to prevent this contraction from becoming a contagion in the industry by ensuring that any rationalisation is progressive and not a rout causing franchise agreement unravelling with dealer and distributor losses and closures, employment dislocations and the demise of some in-house credit facilities that provide finance for personal and business customers for new or used vehicles narrowing competition and consumer choice.
- 6.5.4 Small independent franchisees seeking to insulate their business by becoming a multi-franchise dealer may experience financial difficulties in achieving the expansion and fold.
- 6.5.5 Economic rationalisation of dealerships has the potential to concentrate market power into larger dealerships with eclectic brands with greater market appeal and consumer access rather than a single brand line in the one price range. The scenario is that dealerships in future will be a conglomeration of various brands providing a broader pricing parameter in which to face the market attracting a broad-cross section of the market. Whilst these may be located as individual entities they will be administered from a corporate entity with corporate operations. In the case of Australian made vehicles it is doubtful that stand alone locations will be available for branding purposes.

7 Conclusion

- 7.1 MTA Queensland believes that the current Australian automotive industry policy is manufacturing centric and not consistent with a holistic value chain policy approach. The review process should consider the impact of industry rationalisation on the complete automotive value chain to ensure economical sustainability of the several parts.
- 7.2 MTA Queensland observes that the Productivity Commission has been asked to model a series of tariff scenarios for the Review. It is our preference they any changes should be non-discriminatory between locally manufactured and imported vehicles.
- 7.3 International countervailing/anti-dumping protocols have failed in their purpose of ensuring that automotive products/vehicles supplied are at “fair value”.
- 7.4 MTA Queensland is of the view that for Australia’s automotive industry to be consistent with sound economic policy the Review process should consider State and Federal taxation policies, purchasing and environmental policies, restrictive regulations, rationalisation impacts and should be equitable across the whole value chain.