AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION

2019-20 PRE-BUDGET SUBMISSION

CONTENT

FOREWORD

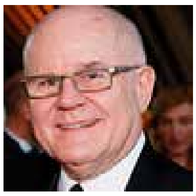
AADA is pleased to respond to the invitation from the Treasurer, the Hon Josh Frydenberg MP to make a submission for consideration by the Government in the preparation of its 2019-20 Budget. AADA notes the Government's success in budget repair while also supporting fairness, opportunity and security for all Australians.

In the year since our last Pre-Budget submission, business has become tougher for Australia's new car Dealers. In 2018, the number of new cars sold in Australia dropped, but still remained above one million vehicles. Consumer sentiment has softened due in part to the housing downturn, but also because of the perception of tough times ahead for the global economy.

Nevertheless, Australia's new car Dealers and their customers have continued to support the job of getting the Budget back into surplus through tax contributions of many billions of dollars over the last financial year. While we do not object to paying our fair share of tax, we do think that our customers are being penalised through a number of inefficient and antiquated taxes, such as the Luxury Car Tax, and Vehicle Tariffs applied to cars sourced from non-FTA countries. We believe that these taxes were put in place to support a car manufacturing industry that no longer exists, and therefore should now be abolished.

AADA's comments are limited to matters of direct relevance to our members and their business interests in the automotive retail sector. Our market is one of the most competitive in the world and our business environment is one that is being buffeted by the winds of technological change, changing customer expectations and tighter regulation. Despite these challenges, the AADA and its members believe that with hard work, a clear view of our intended future, and solid policy support we can continue to play a significant role in enhancing Australia's economic wellbeing. We commend this submission for your consideration.

David Blackhall
Chief Executive Officer



SUMMARY

1 A MODERN NEW VEHICLE TAXATION REGIME

- Abolish or modify the Luxury Car Tax (LCT).
- Abolish tariffs on passenger vehicles.
- Road use and Congestion charges.

2 A CONSUMER-FOCUSSED VEHICLE EMISSIONS POLICY

- An achievable CO_2 target for passenger vehicles.
- Expediting the introduction of Euro6 emission standards and of mandatory fuel efficiency standards
- Education for new vehicle buyers

3 PROTECTING OUR VEHICLE FLEET FROM CRIMINAL ELEMENTS

- Provide additional funding for intelligence and interception operations to stem the flow of counterfeit motor vehicle parts into Australia.
- Fund research and analysis from the Australian Cyber Security Centre, Australian Signals Directorate and any other relevant agency, on the detection and management of cybersecurity threats as they apply to the current and future passenger vehicle fleet in Australia.

Section 3

BACKGROUND

AADA is the peak industry body exclusively representing franchised new car Dealers in Australia. There are around 1,500 new car Dealers in Australia that between them operate about 3,500 new vehicle outlets. Those dealerships range from single-site family-owned small businesses to larger multi-site 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 only around 15 per cent of total ‘rooftops’. Put another way, 85 per cent of franchised new car businesses continue to be owned by individual operators or family groups. This is not an industry dominated by large multinational operators or an industry with monopoly market dynamics such as have developed in the banking and grocery in Australia.

The automotive retail sector is an important contributor to the Australian economy. Our members employ almost 70,000 men and women across Australia, and are a major provider of apprenticeships, particularly in the mechanical trades.

The economic impact of the new vehicle retailing sector to Australia is also substantial. The industry’s total turnover/ sales amounts to over $65 billion and the estimated total economic contribution is almost $15 billion. New car Dealers also generate over $10 billion in wages and almost $3 billion in tax revenue.

The industry is a significant contributor to Australia’s wealth, and ongoing wellbeing, particularly in rural and regional Australia, where new car Dealers are among the biggest employers and contributors to the local economy. All across Australia, Dealers sponsor local sporting clubs, community groups and charities.

Like many other segments of the Australian economy, new car Dealers are facing and overcoming significant challenges arising from technological change, evolving consumer expectations, and national economic pressures. More specifically, our members are under pressure from issues such as the continued government reliance on taxes and tariffs that were developed to support a motor vehicle manufacturing industry that no longer exists.

69,173	DEALER EMPLOYEES
$65.53 billion	TURNOVER/SALES
$14.91 billion	TOTAL ECONOMIC CONTRIBUTION
$10.11 billion	TOTAL OF WAGES & OTHER EXPENSES
$2.42 billion	TAX CONTRIBUTION
$6.08 billion	DEALER WAGES
$4.03 billion	DEALER OTHER EXPENSES
$1.73 billion	DUTIES COLLECTION
$642.68 Million	NEW VEHICLE REGISTRATION

A MODERN NEW VEHICLE TAXATION REGIME

The Government should be congratulated on the progress it has made in returning the budget to surplus. New car buyers have made a significant contribution in recent years as federal new car taxes have poured into the Treasury coffers during a period of record new car sales. A considerable part of that tax revenue has been drawn from the Luxury Car Tax and the vehicle tariffs that are applied to new cars sourced from countries with which Australia does not a Free Trade Agreement (FTA).

These taxes are outdated and have been discredited by various independent taxation reviews. The Government should abolish or restructure these taxes to provide consumers and local Dealers with some relief, particularly as the new car market softens.

Federal taxes on new cars, such as the import tariff and the luxury car tax highlighted above disadvantage consumers seeking to buy new cars which deliver safety, environmental and fuel efficiency benefits. These legacy taxes were introduced in an era when Australia still manufactured passenger cars and maintaining them only disadvantages consumers and local businesses.

Domestic passenger vehicle manufacturing no longer exists, but the tax structures that were there to support it continue to make passenger vehicles in Australia more expensive than they should be. Australia needs to modernise its automotive taxation regime to encourage affordable safe, clean and efficient new cars. The Government has identified road safety, lower energy costs and emissions reduction as priorities – renewing the national fleet by selling new cars supports these priorities.

The AADA notes that technological and societal changes to our personal modes of transport, whether it be the broad acceptance of electric vehicles or the move to shared transport under a “Mobility As A Service” (MAAS) model, will undercut current Commonwealth, State and Local Government taxation revenues. We urge the Federal Government to commence a program of consultation and design to establish an automotive taxation regime fit-for-purpose for these new realities.

Luxury car tax (LCT)

The LCT is a poorly structured tax and acts as a barrier to the renewal of the passenger vehicle fleet at a time when technological improvements continue to make new car models safer, more energy-efficient and more environmentally friendly. The threshold for the tax currently applies to vehicles such as the Toyota Landcruiser rather than truly luxury vehicles. Furthermore, it is disappointing that the LCT applies to optional features which discourage consumer uptake of safety features due to concerns it will push their new vehicle over the threshold.

Individuals purchasing expensive vehicles are already paying more by virtue of the GST contribution they make on the final sale price. Furthermore, it is not clear why the luxury new vehicles attract a tax when other luxury products such as yachts, private jets and furs attract no such charge.

The LCT is also a hurdle to good relations with our trading partners. In particular, the EU is disproportionately affected and has repeatedly criticised the Australian Government's application of the tax at various trade forums.

The AADA understands that the LCT is a useful source of revenue, and that its removal would be seen as giving a free kick to the wealthier elements in society. Consequently, if the total abolition of the LCT cannot be contemplated within the next Budget cycle, then we propose the adoption of one or more of the following options:

OPTION 1: Raise the treshold for LCT to target truly luxury vehicles

As it stands, the LCT is set at a level intended to protect the premium models of cars manufactured in Australia, that is the Holden Statesman and the Ford Fairlane[1]. A slightly higher threshold exists for cars that claim a fuel consumption of less than 7lts per 100km. As car manufacturing no longer takes place in Australia, it is unclear why the thresholds remain at current levels, particularly when they capture vehicles such as the Toyota Landcruiser or even some variants of the Mazda CX-9 SUV.

One useful definition of a 'luxury car' comes from Loureiro and Kaufmann:

> *A luxury car brand provides desirable characteristics beyond strict functional "bare necessities". A luxury car distinguishes by style, high quality, performance, as well as strong emotional and symbolic associations congregated to give comfort, reliability, pleasure and social status to the owner. Luxury cars are unique and distinctive within the market in terms of brand, price, and number of extra accessories, engineering requirements, performance, technology and available options.*[2]

Adopting such a definition opens the door to two approaches for defining which cars should be liable for LCT. One approach, as used by the EU makes a list of cars deemed to meet the definition and incorporates them into a vehicle segment (Segment-F) for the purposes of the tax. A second approach, which we think more appropriate, is to escalate the threshold upon which the LCT is payable until only cars that meet this definition are left in the market.

Our review of car prices and models indicates that a nominal threshold of $100,000 would meet the above definition. Interestingly, this is the level at which the Queensland Government's state luxury car tax also applies.

While the AADA is strongly opposed to the Queensland Government's recent introduction of a state tax on luxury cars we acknowledge that the threshold has been set at a level that more accurately reflects the luxury status of the motor vehicles at, and above, that price point.

Increasing the threshold of the LCT to target true luxury vehicles should in our view, be the prelude to the eventual abolition of the LCT. The AADA understands that forgoing the revenue raised by the LCT is challenging, so our proposal is for a staged abolition, where the rate at which the tax is paid is progressively diminished over a period of five years until it is no longer collected. This approach would show the government's good faith while allowing a progressive adaptation to the loss of revenue and preventing a consumer boycott to avoid the LCT until it was removed.

Adopting Option 1 would both restrict the tax to cars that are more appropriately labelled as luxury vehicles and lead to the eventual abolition of the tax in a staged and controlled fashion.

OPTION 2: Exempt low emissions vehicles

Without a doubt the biggest factor constraining demand for low emission vehicles (that is those with fuel economies better than 3 litres/100 Kilometres) particularly Electric Vehicles (EVs) in Australia is the high up-front cost of purchase. Despite the significant savings in running costs and the relief from taxation, many motorists are put off by the fact that EVs are nowhere near price parity with Internal Combustion Engine (ICE) vehicles. For example, the Hyundai IONIQ is Australia's most affordable EV at $44,990 (before on-road costs). A similar ICE vehicle would be the Hyundai Elantra which can start from as little as $21,950 (before on-road costs).

The reason for the price disparity is the high cost of the lithium-ion battery which is expected to decline over time. In the meantime, some countries have sought to bring down the cost of EVs by offering financial incentives. The question of incentives is, in essence, a philosophical one, and it distracts from the real factors distorting the price of EVs namely the Federal Government's taxes on new cars, which falls disproportionately on EVs.

Despite having no domestic vehicle manufacturing industry, the Government levies a five per cent tariff on vehicles being imported from countries with which Australia has no free trade agreement (FTA). As Australia doesn't have an FTA with the EU, all vehicles manufactured in EU member countries incur this senseless charge, and unfortunately for potential EV buyers the overwhelming majority of EVs available in Australia are manufactured in the EU. More onerously, EVs, because of their high purchase price, are almost all subject to the Luxury Car Tax.

Table 1 has listed the EVs currently available for purchase in Australia as identified by the Electric Vehicle Council (EV). We have also included the Hyundai IONIQ which has only recently become available for private buyers and the Jaguar I-Pace which was launched recently in Australia.

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TABLE 1 - FEDERAL TAXES APPLYING TO EVS AVAILABLE IN AUSTRALIA

VEHICLE	COUNTRY OF ORIGIN	MANUFACTURER SUGGESTED RETAIL PRICE	TARIFF	LUXURY CAR TAX
Audi A3 E-tron	Germany	$62,490	✔	
Audi Q7 E-tron	Slovakia	$139,900	✔	✔
BMW 330e	Germany	$70,900	✔	
BMW 740e	Germany	$229,900	✔	✔
BMW I3	Germany	$68,700	✔	
BMW I8	Germany	$303,300	✔	✔
BMW X5 x Drive40e	United States	$118,855		✔
Hyundai IONIQ	Korea	$44,990		
Jaguar I-Pace	Austria	$119,000	✔	✔
Mercedes Benz C350e	South Africa	$75,900	✔	✔
Mercedes Benz E350e	Germany	$131,600	✔	✔
Mercedes Benz GLE500	United States	$131,000		✔
Mitsubishi Outlander PHEV LS	Japan	$50,490		
Porsche Cayenne S E-Hybrid	Germany	$143,055	✔	✔
Porsche Panamera 4 E-Hybrid	Germany	$248,500	✔	✔
Renault Zoe	France	$47,490	✔	
Tesla Model S	United States	$124,502		✔
Tesla Model X	United States	$133,602		✔
Volvo XC90 T8	Sweden	$122,900	✔	✔

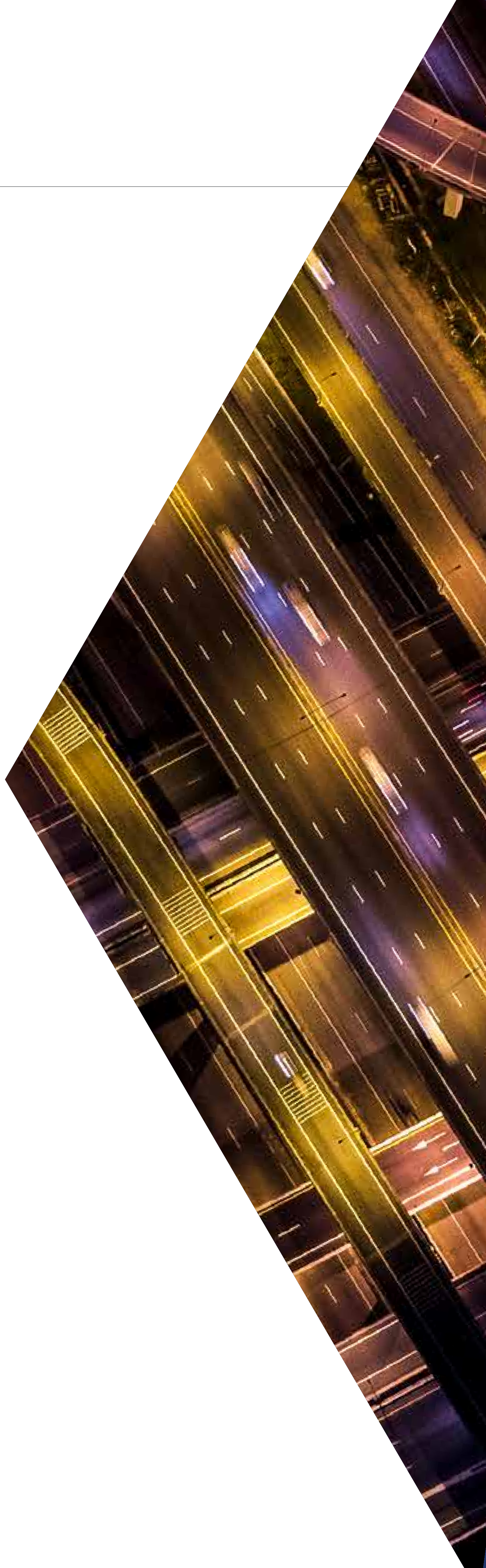
Thirteen of the nineteen vehicles listed are paying a tariff due to the fact that they have been manufactured in non-FTA countries, mainly within the EU. Thirteen of the 19 vehicles listed are also paying the LCT as they cost more than the fuel-efficient threshold of $75,526.

EVs are more likely to be manufactured in Europe and are more likely to be priced above the LCT threshold and as such are more likely to be subject to additional Federal Government taxation. While the policy intent of these taxes is not to target low emissions vehicles, the unintended consequence of these legacy taxes is that EVs are more expensive than they should be.

Adopting Option 2 would make electric vehicles and potentially other low emissions vehicles more affordable and encourage their broader acceptance into the Australian fleet. Given the very small numbers of vehicles involved, this option would not significantly affect the revenue raised annually by the LCT. Additional revenue balancing could be achieved by linking an LCT/tariff exemption with the introduction of Road Use Charges initially for EVs only as discussed in a section below.

OPTION 3: Exclude accessories from the calculation of whether a vehicle hits the threshold for paying the LCT

Adopting this option would modify the calculation of the LCT to ensure that it is calculated solely on the price of the base-level variant of a vehicle, rather than include all accessories present in other variants. This is of particular importance for vehicles that are marginally below the LCT threshold, that mostly only cross it because their new owners have chosen a variant with greater safety features. One example of this being the Mazda CX-9, where only the variant with the highest level of safety features falls within the LCT purview. This situation is particularly problematic for many 4WD vehicles, where aftermarket safety or work-related accessories (winches, lights, bullbars, etc) are added to the price of the vehicle and thus take it above the LCT threshold. The result, is that consumers will still get their accessories, but source them after they have purchased their vehicle, and potentially not use genuine parts, with associated effects on the safety of the vehicle's driver and passengers. Alternatively, we would offer the suggestion that, if the base version of a vehicle does not breach the LCT threshold, then none of the versions featuring more extensive options, would breach the threshold either.



Road Use Charges

It is well known that the predicted growth in low emissions vehicles will increasingly diminish the government revenue currently raised through fuel excises. Consequently, we recommend that the government considers a move away from its dependence on fuel excises to fund the development and maintenance of transport infrastructure towards a more targeted road user charging approach. Implementation of these changes might be undertaken with a staged approach where BEVs are targeted first for the road use charge system, that can later be expanded to include all road vehicles, as outlined in Option 2, earlier in this paper.

We note that other technological advances, such as the wide adoption of automated vehicles (AVs) and “Mobility as a Service” (MAAS) will also likely erode the Commonwealth tax revenue over the coming years. The AADA is strongly of the view that a full-scoped review of automotive related taxes should be undertaken as a matter of priority.

Passanger Vehicle Tariffs

Currently, import tariffs are applied on motor vehicles that are manufactured in, or imported from countries with which Australia does not have a Free Trade Agreement. Given the growing number of FTAs, including the prospective trade agreement with the EU, we believe that the Australian public would be best served by the government removing existing tariffs from all passenger vehicles imported into Australia.

Vehicle tariffs are an invisible and discriminatory tax that is applied on approximately 400,000 new vehicles sold in Australia each year. On average, this is estimated to be $1,900 tax per vehicle. The sale of new cars brings significant societal benefits as they are safer, more environmentally friendly and more fuel efficient. Improving road safety, reducing vehicle emissions and bringing down energy costs are all Government priorities and these taxes hinder progress towards these goals. There is an estimated $1,500 in import tax for a mid-range VW Golf, one of the more popular small cars sold in the country. A similar amount of tax is now paid on the Holden Commodore after its production moved from Adelaide to Germany. Many models from popular brands such as Ford, Nissan and Suzuki are built in non-FTA countries and thus subject to this hidden import tax.

The Volvo XC60, a five-star ANCAP rated vehicle which is highly regarded for its state-of-the-art safety features and is ranked on the Government's Green Vehicle Guide as one of the cleanest most efficient vehicles on sale in Australia attracts an extra $2,350 in duties. Significant duties are applied to some electric vehicles, such as the new Jaguar I-pace and the Renault Zoe – cars with zero tailpipe emissions. There are countless other examples of the price of various vehicle models being inflated by the tariff.

Trade policy aficionados say that the vehicle tariff will naturally fall away as part of the inevitable free trade agreement with the EU. However, free trade agreements can drag on and motorists should not be asked to hold their breath in the case of the EU where Australia is negotiating with a Union of 28-member states and which is also currently managing the departure of the United Kingdom. Consumers deserve immediate relief for new vehicles and so does industry, particularly those new car dealerships which have a disproportionate amount of product on their showroom floor which just happens to be manufactured in a non-FTA country.

EMISSIONS

An achievable CO_2 target for passenger vehicles

AADA supports the ongoing work of the Ministerial Forum on vehicle emissions. In terms of CO_2 vehicle emissions we are supportive of a fleet-wide CO_2 standard as is applied in other industrialised countries. However, it is critical that Australia develops a standard that is appropriate for Australia. We need a standard which is achievable and will not lead to a restriction of vehicle choice or a sharp increase in the cost of new vehicles. This will have the effect of stymying much needed renewal of the fleet and could have an adverse effect on local businesses. The mechanism used to enforce compliance with a CO_2 standard is a financial penalty and it is crucial that this policy does not seek to simply fill the Treasury coffers as it will fall on consumers and local businesses.

The Government has flagged the need for CO_2 standard to reduce emissions in the transport sector which will assist in Australia meeting its Paris commitments. While the AADA is supportive of this goal, we are concerned that previous models for a CO_2 standard put forward by Government are unachievable without putting serious pressure on vehicle prices and local businesses.

We need a standard which is appropriate for Australia's fleet and our unique circumstances. The standard needs to be designed with features which are common in the systems used in the US and Europe. For example, light passenger vehicles and light commercial vehicles need to be treated differently. Manufacturers should be given flexibility by being allowed to trade credits, make use of features like super credits and to include certain off-cycle credits.

Most importantly, the standard should be set at an appropriate level and industry should be given an appropriate amount of time to transition to the standard. All of these features are consistent with what has been done in the US and the EU.

Australia is a late mover in this space as local manufacturing prevented earlier government from adopting a standard. However, consumers and local businesses should not be punished with an unachievable target which leads to higher new car prices and consequently reduced vehicle choice and sales.

Section 5

Expediting the updating of Australia’s fuel refineries

Australia’s currently poor fuel standards have become a barrier to the introduction of vehicle engines that meet Euro6 emission standards. The AADA considers that there is now an urgent need to bring Australian fuel standards up to what is expected from an advanced nation and enable the importation and sale of new vehicles that will contribute to the reduction of noxious emissions. The poor quality of Australian fuels means that it exceeds recommended levels of sulphur and aromatic contents and have too low a minimum octane number. This affects the ability of new vehicles to operate effectively and to meet the required emission standards.

The harmonisation of Australian fuel standards with European standards will enable the entry into Australia of vehicles with advanced emissions technologies. Consequently, like other motoring organisations such as the Federal Chamber of Automotive Industries (FCAI), the AADA recommends the adoption of Option B in the government’s 2018 draft Regulatory Impact Statement. We further believe that funding consideration should be given to support the accelerated upgrading of Australia’s fuel refineries to harmonise Australia’s fuel standards with current European standards.

Reducing noxious emissions can be addressed through the expedited introduction of Euro6 technology for both passenger and heavy vehicles. This, however, cannot be done without having appropriate quality fuels. This requires the updating of Australia’s fuel refineries.

Education for New Vehicle Buyers

The change from conventionally-powered passenger vehicles towards electric vehicles is a substantial matter for the Australian consumer, and that affects not just their buying preferences, but also their daily habits and, more importantly, their safety. Education campaigns, such as the one relating to the mandatory use of seatbelts in passenger vehicles, have shown themselves to be effective in both raising public awareness and changing personal habits. Consequently, the AADA recommends that the Federal Government considers the funding, development and implementation of a comprehensive education campaign about all aspects of buying, using and maintain 'plug-in' vehicles in the Australian context.

Given their consumer-facing nature, Australia's new car Dealers are in an excellent position to assist in this regard, much as we do in supporting recent information campaigns by the ACCC. Consequently, we would recommend that you consider providing funding for the AADA to develop an educational resource to educate Australian consumers directly at the coal-face, about the benefits and implications of the coming transition to an electric-powered vehicle future.

CUSTOMS AND BORDER PROTECTION

Counterfeit Parts

The importation of counterfeit parts has in recent years become a significant issue confronting the car industry with Customs and Border Protection finding it difficult to identify fakes and locate the country of origin. Major vehicle Manufacturers have recently been targeted by sophisticated counterfeiting operations, with components ranging from oil filters and brake pads to badges and floormats being sold to consumers through dodgy networks or through online sales. The evidence suggests that counterfeiting operations are becoming so sophisticated that nearly any type of commodity is now at risk of being copied.

Australian motorists are at risk of expensive repairs where counterfeit parts are used for routine servicing (oil filters and brake pads); and safety in the case of Takata airbag replacement recall (counterfeit airbag spiral cables). Similarly, ineffective or substandard oil filters or brake pads also impact directly on road safety, and the condition of the car.

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

Malware and Vehicle Data Vulnerabilities

Even before autonomous cars become a reality, the flow of data – and the security of that data – are becoming of concern due to the potential consequences of malware in navigation or safety systems, or just the phishing of personal data as drivers and passengers use their vehicles on a day to day basis. These threats will become considerably more serious over the coming years as vehicles increase their level of autonomous operation. Consequently, the AADA recommends that the Federal Government consider funding research and analysis from the Australian Cyber Security Centre and any other relevant agency, on the detection and management of cybersecurity threats as they apply to the current and future passenger vehicle fleet in Australia.

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.

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REFERENCED MATERIAL

1. In FY 2018/19, the Luxury Car Tax threshold is set at $75,526 for fuel-efficient vehicles, and $66,331 for all other passenger vehicles.

2. Sandra Maria Correia Loureiro & Hans Ruediger Kaufmann | Len Tiu Wright (Reviewing Editor) (2016) Luxury values as drivers for affective commitment: The case of luxury car tribes, Cogent Business & Management, 3:1, DOI: 10.1080/23311975.2016.1171192

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