



30<sup>th</sup> January 2014

Budget Policy Division  
The Treasury  
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Dear Sir/Madam,

**MTA Queensland Ideas and Priorities Pre-Budget Submission - the 2014-15 Federal Budget**

**1. Introduction**

1.1 The Motor Trades Association Queensland (MTA Queensland) **responds to the Treasurer Hon Joe Hockey's invitation to submit ideas and priorities for consideration in the preparation of the 2014-15 Budget.** Our comments are confined to matters that have direct relevance to our automotive industry value chain membership and their business interests which includes vocational training.

**2. Background**

2.1 The MTA Queensland is the peak organisation in the State representing the specific interests of businesses in the retail, repair and service sector of Queensland's automotive industry located in Queensland. In Queensland there are some 14,000 automotive value chain businesses employing in excess of 65,000 persons.

2.2 It is an industrial association of employers incorporated pursuant to the Industrial Relations Act of Queensland. The Association represents and promotes issues of relevance to the automotive industries to all levels of government and within Queensland's economic structure.

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2.3 The Association is the leading automotive training provider in Queensland offering nationally recognised training, covering all aspects of the retail motor trades industry through the MTA Institute of Technology (MIT). The MIT is the largest automotive apprentice trainer in Queensland employing 26 trainers based from Cairns to the Gold Coast and Toowoomba and Emerald. MIT last financial year accredited courses to in excess of 1500 apprentices and trainees.

### **3. Budgetary Context - Government**

3.1 The MTA Queensland recognises the Federal Government's fiscal constraints as it prepares the 2014-15 Federal Budget. The December 2013 Mid -Year Economic Fiscal Outlook (MYFEO) provides a "comprehensive and transparent picture of the Commonwealth's financial and economic position."

3.2 The MYFEO indicates that Budget deficits totaling \$123 billion are now unavoidable across the forward estimates, with a \$47 billion deficit forecast for 2013-14. We recognise that there must be policy change and fiscal repair to achieve a sustainable budgetary position across the forward estimates. We accept that the Coalition Government has to make hard decisions to return the budget to surplus and to pay down debt. We acknowledge the significant fiscal management challenges to achieve this outcome. This is a mutually challenging circumstance for both the Government and tax payers of Australia.

3.3 The Government has established the National Commission of Audit (NCA). Its remit "to examine the scope for efficiency and productivity improvements across all areas of Commonwealth expenditure and to make recommendations to achieve savings sufficient to deliver a surplus of 1 per cent of GDP prior to 2023-24" will in large measure and shape the fiscal architecture of future budgets in the current cycle. The anticipation is that the NCA will provide the fiscal parameters for the preparation of the 2014-15-budget.

### **4 Budgetary Context - Automotive Value Chain**

4.1 The MYEFO indicates that the domestic economic outlook is softening across a range of indicators including low trend growth and unemployment and the Australian Bureau of Statistics January Consumer Price Index for the September-December quarter indicated that inflationary pressures have emerged. The changes to each of these indicators have significant implications for the automotive value chain.

4.2 The automotive value chain operates in an economic environment distinguished by relatively high compliance costs in comparison to world standards. These are generated by a complex domestic regulatory regime, a burdensome workplace relations system, continuing skills shortages, and federal, state and local government charges cost drag.

4.3 Anecdotal market intelligence from members indicates that they expect some volatility in the future circumstances that the value chain will face. Generally the automotive value chain is experiencing demand conditions below the long term trend and this circumstance is likely to persist over the forward estimates. Consumer demand along the automotive value chain has been

supported by contracting margins and some discounting but there is a limit for enterprises to continue to absorb costs and stimulate demand in this manner. In the medium term without fiscal support, prices along the value chain will need to adjust and consumer demand is likely to stagnate.

- Farm machinery sales were encouraging on the back of a reasonable winter crop but the prolonged dry weather has machinery agents concerned about the prospects for summer crops and prospective sales;
- truck sales have shown some recovery but not to the extent of surpassing 2012 units sold;
- strong oligopolistic competition prevails to the detriment of independent operators in the fuel and convenience store markets generated by the actions of the supermarket majors with their programs of continuing fuel and food discounts regimes;
- Original Equipment Manufacturers' components sales have to contend with "grey competition" from cheaper overseas online purchases aided by the exchange rate of the Australian currency;
- Small to medium business such as the repair industry report slow but improving economic circumstances. Their abiding concerns are the costs imposed by the inflexible workplace relations system closely followed by statutory compliance costs.

4.4 Overall, the view within the Queensland automotive value chain is that business conditions are slowly returning to the long term trend but this is likely to take some time to achieve and may not be attained in the life of the current budget cycle.

4.5 Labour conditions are improving but skills shortages remain an ongoing reality for the automotive value chain. The resource sector's downturn and the possibility that some of the skill labour release by the resources sector could be absorbed by the automotive value chain have not been observed.

### **Regulatory Reform**

4.6 The escalating cost of doing business is a concern for members. We welcome the Government's focus on deregulation and note that 19<sup>th</sup> March 2014 has been designated as the first repeal day with the introduction of an *Omnibus Red Tape Reduction Bill*. This is the first step towards cutting \$1 billion in red and green tape each year to benefit business and not-for-profit organisations. The Queensland Government has made significant inroads into state-based red/green tape with measurable results. With the Commonwealth Government committed to regulatory reform, the potential exists for new sectoral efficiencies and productivity gains to be secured for the benefit of the economy.

4.7 We support the Government's repeal of both the Carbon Tax and the Mineral Resources Rent Tax (MRRT) effective from 1 July 2014 as significant regulatory and taxation reform measures that will deliver benefits across Australia's economic landscape.

4.8 The impact of the Carbon Tax on the automotive value chain is both direct and indirect. Directly the impact is transmitted through higher energy costs, higher supplier costs, higher cost of goods at the retail level and increased environmental charges and indirectly the incidence is apparent through increased compliance costs.

4.9 We recognise that the Coalition during the election campaigned to prioritise the repeal of the MRRT and the tax concessions linked to the revenue from the tax which failed to meet the estimated forecasts for this budget item. We support the repeal of the MRRT but have serious reservations about the dismantling of the attendant tax concessions to save \$13 billion over four years. Our reservations include:

- Loss carry back provisions (with effect from 1 July 2013)
- Threshold for the small business instant asset write-off reduced from \$6,500 to \$1,000 and limited to assets that are first used or installed ready for use on or after 1 January 2014

4.10 Undoubtedly there is a near term budgetary gain that can be applied to fiscal repair. In the medium to longer term, it is our view that rescinding these tax concessions will increase compliance costs, impede capital investment, mitigate future growth and contract investment returns. The timing of the removal of these concessions is unfortunate as industry surveys indicate a protracted return of sales and profitability to the long term trend which is likely to require continued counter cyclical fiscal support.

4.11 In the context of taxation reform we recommend that the dismantling of the tax concessions should be reviewed.

### **Workplace relations system**

4.12 As a policy emergency, legislative and administrative amendments must be made to the *Fair Work Act* in the near term to stimulate productivity, job growth and to reduce the disincentives such as penalty rates and make more reasonable the onerous employing obligations that detrimentally impact economic growth. Businesses in the automotive value chain require, consistent with the protection of the safety net, flexible workplace relations and a penalty rates regime that are mutually accommodating and reasonably protect worker's interest by allowing enterprises to be competitive and profitable.

4.13 Unfair dismissal laws in the *Fair Work Act* should be reviewed to reform and restructure the onerous obligations on small / medium businesses to dismiss an employee in regard to employee dismissal provisions. The financial cost burden of unfair dismissals on the small business owner is one-sided. Under the current workplace relations regime, business is cautious to employ, therefore limiting job creation and productivity.

4.14 Workplace reform that is fair to both the employer and employee is a priority. Flexible workplace arrangements, awards that engender confidence to employ are essential for productivity. The current *Fair Work Act* is an impediment to growth and a contributor to businesses relocating

offshore. Business has the inclination to employ but without change the reservations to act on employment opportunities will remain.

4.15 Changes to the *Fair Work Act* effective from 1 January 2014 are employment disincentives and should be repealed. These include excessive anti-bullying provisions, evasive right to entry measures, onerous penalty rates, consultation demands about changes to rosters or working hours, excessive superannuation provisions in enterprise agreements, and inflated apprentice trainees and junior wage rates.

### **Training and Skills Shortages**

4.16 The labour force is a key economic indicator. The MYEFO states that “employment growth remains subdued, and the unemployment rate is forecast to rise to 6¼ per cent by mid-2015.” As an employer, the entire automotive supply chain which includes manufacturing, retail, design etc. is important to the economy. As indicated in 2.1, the Queensland automotive value chain employs in excess of 65,000 persons. This could be expected to increase if the *Fair Work Act* was reformed.

4.17 Essential for our businesses is a trained workforce. The MIT delivers the full suite of automotive trade courses and now has in excess of 1700 apprentices and trainees with a graduation rate of more than 400 tradespersons for the automotive industry in each cycle. Over 1,000 workplaces are serviced in Queensland.

4.18 The National Workplace Development Fund (NWDF) has our strong support. In the 2012-13 financial year through the NWDF over 400 trade’s people were up-skilled in various sectors of the industry including parts interpreting, vehicle loss assessing and hybrid and battery electric vehicle technology. These courses have helped organisations identify their future business and workforce development needs and supported them through training existing and new workers.

4.19 An ongoing concern is that apprenticeship completion rates remain low. It is our experience that approximately 55% of apprentices do not complete their trade. This is a significant economic cost for the employer and the training entity in terms of time and resources invested. Additionally there is potential loss of skills to the industry.

4.20 Factors for the low completion rates include low wages but worryingly many apprentices do not have the foundation skills of literacy and numeracy which are the essential building blocks on which to either enter or complete a trade apprenticeship and to become successful trade’s people. The Australian Apprenticeship Mentoring Program - a National Automotive Industry project - is utilised to improve apprenticeship retention rates. We support its continuation.

4.21 MIT has engaged actively with Auto Skills Australia providing feedback into the development of the new automotive training package. We contributed to the development of the new AUR12 training package and for the foundation training agenda for apprentices and trainees over the upcoming years in the automotive industry.

4.22 The automotive chain requires training that addresses the skill requirements of the industry. Flexibility in training delivery and entry are both important to effectively respond to the changing skill needs and skill demands of the industry. The 2013 Automotive Environmental Scan Survey indicates that 54.8% of Queensland automotive value chain businesses respondents were suffering skilled labour shortages. Furthermore 65.7% of respondents expect that skill shortages will affect their operations over the next 12 months.

4.23 The development of more flexible training options in response to existing skill shortage issues is required. The greater use of school based apprenticeship and traineeship options is supported. MIT also supports the Australian Apprenticeships Access Program. This continues to provide an entry point for people considering a career in the automotive industry and, likewise, supporting employers looking to provide vocational placements within this program to assess the calibre of the student before potentially offering them full time employment. This opportunity will reduce the likelihood of a student's 'not knowing what type of work they were getting themselves into' and having employers confident the candidate would complete their apprenticeship.

### **Taxes and Charges**

4.24 Much economic comment is made about new motor vehicle and motor bike sales. In Queensland for the 2012-13 calendar year, there were 233,139 new units sold - 1,886 less than the previous year. Had it not been for the previous Labor Government's disastrous Fringe Benefits Tax (FBT) policy which eroded sales, the 2012-13 result may have surpassed the previous year's state wide sales figure.

4.25 The 2012-13 new motor vehicle sales are a remarkable outcome for the sector. This result has been mainly achieved because the whole of the value chain has improved its performance and particularly new motor franchise dealers have restructured their businesses to achieve greater efficiencies, contracted margins and financial product costs to stimulate consumer demand in a very competitive business environment.

4.26 Having ridden out the Global Financial Crisis, the FBT debacle and the high AUD, new franchise motor dealers face a new business challenge. That is the falling AUD which will increase the price of imported motor vehicles and increase inflationary pressures in the economy. That puts a focus on the Luxury Car Tax (LCT) quantum and the LCT policy.

4.27 Unabashedly, the MTA Queensland's policy is for its abolition. We are not alone. The final 2008 Report of Review into Australia's Future Tax System recommended the abolition of the LCT.

In the current Australian context, a tax on luxury cars is not a desirable means of raising revenue. It discriminates against a particular group of people because of their tastes. It is not an effective way of redistributing income from rich to poor. Its design is complex and becoming more complex over time.

Additionally, the June 2011 Henry Review of the Australian Tax System recommended its abolition on the basis of its inefficiency and Henry, speaking at the October 2011 Tax Forum referred to the LCT as “totally absurd”. The 2010 Henry Tax Review questioned whether the Government, via the LCT, actually achieves equity in terms of effective redistribution of income. It also queried the narrow, discriminatory nature of the tax, given that the LCT targets consumers who prefer expensive cars over most other luxury items such as jewellery and yachts.

4.28 As indicated in 4.4, we acknowledge and understand the Commonwealth Government’s fiscal constraints. That surely should not rule out an objective evaluation of revenue raising measures such as the LCT. In the current circumstance of a depreciating AUD, the LCT represents a substantial drag on business. It has the propensity to impede productivity over the medium to long term conflicting with the Commonwealth’s economic growth and trade liberalisation policies.

4.29 The ideal outcome is the abolition of the LCT. Failing that, the circumstance exists for the LCT to be reformed in a way that provides for the removal of the discriminating threshold that distinguishes between luxury cars on the basis on fuel efficiency. There should be a single exclusive threshold. We recommend it should be set at \$75,375 - the current threshold for fuel efficient cars.

4.30 When introduced in 2008, the fuel efficient car threshold was merely a political concession expressed in policy terms to placate the Australian Greens. It was an anachronism then and more so now. It suggests that luxury cars that have a fuel efficient tag and are environmentally friendly have a greater social and community value than other luxury cars. This is a dubious unsubstantiated distinction. Modern motor vehicles have achieved environmental efficiencies such as lower emissions and efficient fuel technologies that meet the ‘green challenge’ including high safety and antitheft standards. The definition of ‘fuel efficient’ vehicles confined simply to fuel consumption comparisons has the capacity to distort the pursuit of incentives of other leading edge innovations such as passenger safety.

### **Excise and Custom Duties**

4.31 We submit that the diesel and petrol excise and import duties for motor vehicles, vehicular parts and farm and industrial machinery remain unchanged in the 2013-14 budget.

### **Tariff Policy**

4.32 An issue of concern, philosophically, is that vehicles may be exported to Australia at less than fair value. This has its genesis with the mutual amnesty amongst automotive manufactures under which they collude to evade international countervailing / anti-dumping protocols that benefit the national entity but not the home base corporate hub of the automotive manufacturer. It appears that there are two components to this:

- (i) Industry policy in third world countries provide subsidies to the automotive industry; and

- (ii) In many cases the achievement of economies of scale is based on exports of marginally costed vehicles to markets such as Australia.

4.33 We are of the view that there should be some levelling of the playing field. If imports are at fair value, they should not be discriminated against and should compete on their merits in the Australian market. If not at fair value, action should be taken to ensure prices are adjusted to fair value and that all our international obligations both multi-lateral and bi-lateral recognise that trade should take place at fair value. When exports take place at fair value – they should be allowed to compete on a level playing field in all jurisdictions.

4.34 Free Trade Agreements under negotiation should observe the concept that the attainment of genuine reciprocal market access for Australian manufactured vehicles is a necessary precondition for a mutually beneficial trading relationship.

### **Infrastructure**

4.35 The sequence of drought, floods and cyclones have accelerated the physical depreciation of the national highway infrastructure. It is our experience that inefficient road infrastructure detrimentally impacts productivity and imposes unnecessary and avoidable costs through delays to logistics, damage to vehicles and are harmful to safety.

4.36 We submit that consideration be given to additional funding to upgrade and maintain the essential national highway infrastructure including the A1 Bruce Highway, A2 Barkly Highway, Landsborough Highway, Warrego Highway, A15 Cunningham Highway, Leichhardt Highway, A39 New England Highway, and Gore Highway.

### **Harmonisation of regulations**

4.37 As a general submission the MTA Queensland strongly urges the harmonisation of regulations of the automotive sector across the states and territories of the Commonwealth.

4.38 Through the Council of Australian Governments we support a consensus for an effective program to deregulate and to dismantle compliance regimes and costs that do not contribute to the protection of stakeholders. This should be a priority as an industry support for this sector.

### **Goods and Services Tax (GST) online threshold**

4.39 We support the proposal to have the GST applied to overseas purchases in excess of AUD \$1,000. The Association's experience is primarily with the inability to compete with spare parts purchases from overseas. Consumers 'check out' the product and its catalogue number in store but actually purchase on-line from an off-shore source.

4.40 The Association is aware that the Federal Treasurer has commissioned a joint working group to prepare proposals for lowering the threshold for imposing the GST for the March Treasurer's meeting.



## 5 Summary

5.1 The automotive value chain operates in an economic environment with relatively high statutory compliance costs in comparison to world standards. MTA Queensland:

1. Supports the Federal Government's focus on deregulation and red tape reduction.
2. Supports the repeal of the Carbon Tax and the MRRT.
3. Recommends the reinstatement of the tax concessions linked to the MRRT.
4. Recommends emergency policy amendments to the *Fair Work Act* that support productivity and job growth and that remove disincentives such as excessive penalty rates and the onerous employment conditions.
5. Prefers the changes to the *Fair Work Act* effective from 1 January 2014 be repealed.
6. Supports the continuation of the National Workplace Development Fund.
7. Supports the continuation of the Australian Apprentice Mentoring Program.
8. Supports the continuation of the Australian Apprenticeships Access Program.
9. Supports Auto Skills Australia and its policy goals.
10. Recommends the abolition of the LCT.
11. Recommends, failing the LCT's abolition, the LCT be reformed by the removal of the discriminating threshold that distinguishes between luxury cars based on fuel efficiency. There should be a single threshold set at \$75,375 - the current threshold for fuel efficient cars.
12. Recommends that the diesel and petrol excise and import duties for motor vehicles, vehicular parts and farm and industrial machinery remain unchanged.
13. Urges consideration of tariff policy to ensure that imports are at fair value and must compete on their merits in the Australian market.
14. Supports additional funding to upgrade and maintain essential national highway infrastructure.
15. Urges the harmonisation of regulations for the automotive sector across the Commonwealth.
16. Supports the proposal to have the GST applied to overseas purchases which exceed AUD \$1,000.

Thank you for your consideration.

Yours sincerely



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