



31 May 2020
Agriculture Machinery Team
Australian Competition and Consumer Commission
GPO Box 3131
Canberra ACT 2601

Email: via ACCC consultation hub on the website

To: The ACCC Agriculture Machinery Team

Re: Agriculture machinery: aftermarket-sales markets

1. Introduction

1.1 The Motor Trades Association of Queensland (the MTA Queensland or the Association) submits views pertaining to the Australian Competition and Consumer Affairs (ACCC) Agriculture machinery after-sales markets Discussion Paper (the paper).

1.2 The comments presented in this submission reflect the views and issues from the perspective of the MTA Queensland's Farm and Industrial Machinery Division (QFM&IMD) and other stakeholders.

2. Overview summary

2.1 Australia's agricultural equipment repair and maintenance market is distinguished by two largely mutually exclusive market segments, these are:

- The technically recent equipment market closely managed by Original Equipment Manufacturers (OEMs) with strategically appointed, vertically integrated and brand dedicated franchised representatives. Inevitably, this equipment is protected by intellectual property provisions and manufacturer's warranty and service, backed by recourse to a highly skilled technical workforce with proprietary data, electronic and mechanical equipment and highly trained marketing and servicing teams.
- The alternative segment, comprises agricultural machinery equipment that no longer have recourse to warranty repairs and maintenance programs. This equipment usually predates 1992 and forms a market that is differentiated from the OEM dominated sector and is serviced and supported by independent equipment service providers.

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- 2.2 Based on anecdotal information available to the MTA Queensland, these market segments are substantially mutually exclusive. Inevitably, there may be some minor spillovers, but it is unusual for major intrusions across segments to occur over a longer term.
- 2.3 Importantly, based on information available to the Association, both these contiguous markets are operating in an effective manner and the ultimate consumers, that is i.e. the farmers, are largely satisfied with the supply of services and the economies generated by these markets. Market share and penetration varies between brands based on a complex weighting of factors including geographic location, technology, regional equipment preferences, cropping and dealer network and service.
- 2.4 While the Association is aware of the debates and demands of the 'right to repair' advocacies in other parts of the automotive value chain, the Association has not been able to detect any general militancy or strident advocacy for a similar restructuring of the agricultural equipment markets. The dealer network usually confines their activities exclusively to one or the other of market sectors and cross overs are usually an exception.
- 2.5 The Association, therefore cautions the ACCC to consider any reform that impacts the structure of this market with extreme care. The agricultural machinery sector along with agriculture generally has suffered considerably due to the recent severe drought conditions and other adverse circumstances. Both franchised and independent equipment service providers have navigated very challenging circumstances as the economics of agriculture deteriorates.
- 2.6 Overall, the agriculture equipment maintenance and repair markets do not display any symptoms of significant market distortion and stakeholders are generally satisfied with the level of service and the associated cost structure they are facing.
- 2.7 The issue that appears germane, is that if a statutory restructure disturbs the delicate sectoral balance that currently exists, service suppliers in either segment may lose viability and exit the industry and the agricultural industry may entirely lose the critical services it needs to operate the equipment the sector relies on.
- 2.8 The submission below provides a detailed and sometimes an empirical explanation of the matters that have been summarised above.

3. The MTA Queensland's policy

- 3.1 The MTA Queensland in general supports the concept of enhancing the competitive operation of the servicing and repair markets of the agricultural equipment sector by effecting the transfer of proprietary technology, servicing programs and operational procedural data to independent service and repair providers on fair and commercial terms to benefit stakeholders.

3.2 This submission indicates a cautious approach to any statutory structural change to the current arrangements. The direct stakeholders including, Farm Machinery Dealers (FMD); Independent agricultural service repair and spare parts businesses (non-vertically integrated and non-franchised businesses) and final consumers (farmers) appear not to be overly pre-occupied with 'right to repair' advocacies that are assuming significance elsewhere in the automotive value chain.

4 Context

4.1 The agriculture machinery: after sales markets discussion paper, ideally should be considered within the framework of the economic, environmental and weather cycles in which the FMDs, independent businesses and farmers operate. For the past three years in many parts of Queensland, severe weather conditions ranging from drought, low precipitation to floods has eroded business conditions.

4.2 Currently, in most of Queensland's grain belt for example, business conditions are 'extremely challenging'. Each sector is waiting anxiously for rain to plant the winter crops of wheat, barley and chickpea, hoping the season will not be a repeat of previous years when there was a deferral of seasonal plantings in the non-irrigated areas. In the words of the former Chair of the QF&IMD referring to 2019: it was 'a year that will be recorded in history that farm machinery dealers hope to never witness again', and that applies to independent businesses and farmers alike.

4.3 In some parts of the Australia's agricultural areas the prospects for machinery sales has improved due to good rainfall allowing for planting. Some Queensland grain growers with some soil moisture profile have planted dry, encouraged by the prospect of a wet winter. Currently, the broadacre market has a long way to go before large tractor and harvester sales return to previous heights. In Queensland, tractor sales compared with the same period last year show a fifteen per cent contraction. Conversely, some members have reported strong baler sales, due to an increased demand for hay and straw – mainly generated because of poor or failed crops.

4.4 Under the National Cabinet's COVID-19 virus directives, agriculture is defined as an 'essential service': meaning FMDs and independent businesses serving the agricultural sector are encouraged to continue trading. Included in the Federal Government initiatives to circumvent the most severe consequences of COVID-19, was the decision to increase the accelerated depreciation taxation provision to \$150,000 and this has been successful in generating some activity for new equipment.

5 Advancements in agricultural machinery technology

5.1 Post 1992 appears to be when Original Equipment Manufacturers (OEMs) research and investments substantially progressed and emerged in new editions and classes of agricultural machinery to meet market competition, the requirements of sustainable broadacre and irrigated farming systems. The technological advancements graduated over the later part of the twentieth century to accelerate into the twenty-first century. These included market leading technologies such as complex computer componentry, embedded software and sophisticated systems designed to support precision agricultural equipment that operates on artificial intelligence and cloud computing. These technologies are OEM's patented intellectual property (IP) intended to create mutually exclusive markets in which IP allows equipment end users to be locked into specific technology cycles and future commitments.

5.2 In lock-step with the OEMs investment in technological advancements has been the outlay in personnel training and skill sets to service this technological advanced agricultural equipment market.

6 Independent aftermarket business

6.1 Independent aftermarket businesses form a vital part of the agricultural machinery supply chain providing important services ranging from technical, mechanical, electrical, provision of spare parts and maintenance which generally relate to non-warranted agricultural equipment. It is a strong contributor to the economies of local communities and the wider regions in which it operates.

6.2 Non-vertically integrated aftermarket businesses are established and reliable operators participating in competitive markets that are well supported by the final consumers comprising the agricultural sector. These businesses, unlike FMDs do not experience the severe economic cycles generated by variable weather conditions confronting most of Australia's agricultural industries.

6.3 The anecdotal information is that there is no strong sectoral wide advocacy from this sector for statutory reform to the services market or to liberalise participation in the repair market of warranted agricultural equipment. Undoubtedly there are individual circumstances where this is the case, but it does not accord with the current mood generally pertaining in this sectoral industry.

6.4 In the instance of either repair or maintenance of non-warranted high-tech equipment, the aftermarket role is limited by the need to access fee-based diagnostic, technical information and codes from the OEMs website. In addition, the repairer must have the interpretative and competency skills to undertake the repair. In some instances, the aftermarket has technical personnel who previously worked for FMDs that have the competencies to service or repair some high-tech agricultural equipment, but again the issue of available recourse and breach of manufacturer's warranty undertakings must be taken into account.

6.5 Overall, the farming community is not advocating for independent aftermarket businesses to repair warranted agricultural equipment but are comfortable with the aftermarket's provision of service, maintenance of non-warranted agricultural equipment.

6.6 There are examples where independent businesses have come to the rescue of a farmer with malfunctioning machinery that has only been serviced by an FMD. In one instance, a farmer with a late model harvester but out of warranty - and only serviced by the FMD - had the issue of the engine regularly cutting out. Each time the FMD service technician attended and seemingly resolved the problem. Not so, it continued to cut out - more than ten times. The constant outage was causing a major disruption to the harvesting cycle and out of desperation, a known and skilled auto electronics independent business was asked to attend to the problem. An obscure fault in the wiring harness was detected, and fixed. No problem has occurred since, but the FMD continues to provide the service and maintenance of that machine.

6.7 A further example relates to a farmer's prime mover for the transport of grain or cattle. Two years into warranty the adblue doser pump (emissions control technology) malfunctioned. It was replaced under warranty. Shortly after the warranty expiring, the pump failed. The farmer contacted the dealer from which the prime mover was purchased for a replacement and was advised the cost was \$4,000. On-line sourcing indicated pumps were available for half the price. The business decision was made to purchase a new pump for \$2,000 and have it installed by an independent business. To date the pump has not failed. The dealer from which the prime mover was sourced, continues to service the vehicle.

7. Franchised Farm Machinery Dealers

7.1 As indicated in the paper, there is competition by a range of manufacturers of agricultural equipment for market share. In major centres there may be several FMD's marketing branded equipment; in smaller centres, there may be two or three in competition for branded equipment.

7.2 It seems, across Australia's agricultural regions, brand dominance and preferences vary depending on geographic location and cropping specification. For example, in Western Australia's cropping region, the brand leader commands in excess of sixty percent of the available market indicating a strong acceptance of the technology, competent marketing and exceptional service performance. In eastern Australia's grain belt, another brand dominates.

7.3 Generally, FMDs are complex businesses and profit relies equally on brand and service. A dealership, that does not have strong sales and product is limited in the investment in technicians to service warranties and undertake the aftermarket needs of clients. Whilst one brand may be the 'best on the market', if it is without market share it may struggle to provide client service and support. This may be exemplified by a technician attending to a late model machine, openly admitting to not being trained and have the skill sets to perform the technical work on the machine.

7.4 Whilst strict repair clauses attach to warranties, there are examples where the farmer can download updates to fix a problem or talk through processes to repair the technical issue.

7.5 With some exceptions, late model agricultural machinery is serviced by FMD's with qualified technicians supported by the brand's licensed diagnostic software and tools and knowledge of warranties, and product information. An FMD outlays to the OEM an annual licence fee of approximately \$5,000 for hardware and licensing and an additional monthly fee of \$140 for updates. Each computer is loaded with the brand's protected service detail, codes, diagnostics and tools for each technician to service agricultural machinery.

7.6 The FMD's investment in technicians, computers and tools must be supported by strong product demand to sustain the business to provide the high standard of service to customers. Failure to do, may cause reputational damage. This can be evidenced by a farmer who had invested in a (brand deleted) \$450,000, 36 metre spray coupe. The brand was the 'best on the market'. At a critical time in the crop spraying cycle the engine, under warranty, malfunctioned. The farmer, urgently, sought and expected a new engine, and if unavailable a loan machine to enable a speedy return to the crop spraying job. The FMD insisted the engine would be repaired with new parts and would take time to access parts and rebuild the engine. Time was of the essence; the farmer requested a loan spray coupe of equal size to continue. It could not be supplied. In desperation a spray coupe was leased for \$13,000 from another FMD and the spray job finished. After a fortnight

of haggling with the FMD, the farmer made a desperate call to the Sydney head office. Immediate arrangements were made for a new engine and installation; but locally, the reputational damage to the FMD and to the brand was significant.

8 The pathway forward

8.1 As indicated in 2.4, the Association is aware of the debates and demands of the 'right to repair' advocacies in other parts of the automotive value chain. The Association has not been able to detect any general militancy or strident advocacy for a similar restructuring of the agricultural equipment markets. The dealer network usually confines their activities exclusively to one or the other of market sectors and cross overs are usually exceptionally.

8.2 The Association, therefore, cautions the ACCC to consider any reform that impacts the structure of this market with extreme care.

9 Background

9.1 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 the State. There are some 15,500 automotive value chain businesses employing approximately 88,500 persons generating in excess of \$20 billion annually. It is an industrial association of employers incorporated pursuant to the *Fair Work Act 2009*. The Association represents and promotes issues of relevance to the automotive industries to all levels of Government and within Queensland's economic structure.

9.2 Australia's first automotive hub, the MTA/Q, has been established in specially prepared space at the corporate office. The hub is an eco-system that supports innovation for the automotive industry.

9.3 The Association is the leading automotive training provider in Queensland offering nationally recognised training, covering technical, retail and the aftermarket phases of the motor trades industry through the MTA Institute - a registered training organisation. It is the largest automotive apprentice trainer in Queensland employing trainers geographically dispersed from Cairns to the Gold Coast and Toowoomba and Emerald. The MTA Institute last financial year accredited courses to in excess of 1,600 apprentices and trainees.

Thank you for your deliberation and consideration of this submission.

Yours sincerely



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