



National Automotive Leasing &
Salary Packaging Association

The Future of Australia's Automotive Industry - an Inquiry by the Senate Economics References Committee

Submission

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Contact

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About NALSPA

NALSPA represents the combined interests of Australia's major vehicle fleet leasing and salary packaging providers. The Association was formed in 2014 to provide a dedicated and considered focus on key policy matters relevant to its members and to, importantly, those many thousands of organisations and employees who rely on the products and services provided by the sector.

Our members manage or facilitate a significant bulk of leased employer-provided and salary-packaged vehicles in Australia and the salary packaging arrangements of hundreds of thousands of employees. Combined NALSPA members administer more than 200,000 wheeled assets. Based on these numbers it has the largest representation of any Association of its type in Australia.

As well as providing services to a multitude of small, medium and large private and public organisations Australia wide, NALSPA members are major participants in the NFP Health, Aged Care and Charities sector as trusted providers of outsourced salary packaging/workplace benefit administration services, with up to two decades of experience in the sector.

Submission to Inquiry into the Future of Australia's Automotive Industry

1. Executive summary

NALSPA welcomes the opportunity to submit to the Senate Economics References Committee's Inquiry into the future of Australia's automotive industry.

Our submission focuses on two issues of key importance to NALSPA members which have a direct bearing on that future:

- (a) the economic contribution and importance of the Statutory Formula Method of valuing car fringe benefits to the automotive industry; and
- (b) the current MVSA Review in relation to whether existing barriers preventing the importation of second-hand vehicles into Australia should be relaxed.

In relation to (a), NALSPA believes it is important to recognise the SFM's important and significant role as an instrument of Government policy which directly stimulates demand in the automotive sector and which significantly contributes to new car sales, thereby playing a key role in supporting the upstream and downstream sectors of the Australian automotive industry which rely on a vibrant new car market.

In relation to (b), NALSPA believes there is material evidence that the likely risks to consumers and other adverse consequences clearly outweigh the perceived benefits of lowering such barriers.

2. Overview of recent developments

NALSPA notes that in March 2015 the Federal Government announced it would not proceed with the Automotive Transformation Scheme Amendment Bill 2014 then before Parliament.¹ That Bill had sought to bring to an early end funding to the ATS, as had been recommended by the Productivity Commission.

Whilst that Bill had prompted the current Inquiry by the Committee, NALSPA supports its broader aim of examining the challenges facing the wider Australian automotive industry.

¹ Ian Macfarlane, Federal Minister for Industry and Science, and Simon Birmingham, Federal Assistant Minister for Education and Training, *\$16M investment to drive diversification in the auto supply chain*, Joint Media Release, Canberra, 10 March 2015.

3. Contribution of the Statutory Formula Method to the Automotive Industry

[3.1] Overview

Whilst not specifically referred to as a Term of Reference in the Committee's Inquiry, the Committee did task itself to examine "any other related matters" (Term of Reference (j)) and it is considered the Statutory Formula Method satisfies that criteria.

The Statutory Formula Method (SFM) is one of two ways an employer providing motor vehicle fringe benefits to employees can calculate their fringe benefits tax (FBT) liability in respect of those vehicles.

Currently, it is estimated that there are close to **360,000 vehicles on Australian roads** which are using the SFM. These vehicles consist of:

- **Employer-provided tool-of-trade cars:** cars provided to employees and used as work tools; and
- **Employer-provided 'benefit' cars:** cars provided to employees for work and private use through salary packaging arrangements or in addition to salary.

In late 2014 NALSPA commissioned PricewaterhouseCoopers (PwC), one of Australia's leading professional services firms, to conduct rigorous economic analysis to quantify and articulate the economic contribution of the SFM to the automotive industry, the broader Australian economy and other related sectors.

In summary, PwC found that *"the current SFM arrangements provide a fiscal stimulus that directly impacts aggregate demand in the economy. The design of the current policy specifically induces consumption of new motor vehicles."*²

PwC's report also noted that the automotive industry has been one of Australia's key industries and an important source of employment and economic activity.

PwC noted that there were 233,000 people employed in the repair, maintenance and retailing of motor vehicles and parts in 2013 and that this workforce is not significantly influenced by the extent of automotive manufacturing in Australia. It estimated that in 2012 just over 300,000 persons were employed in the wider automotive sector, with just over 50,000 people being employed directly in automotive manufacturing.

As is discussed at [3.3], amongst other key economic drivers, PwC estimates that the SFM is responsible for **over 115,000 motor cars** being acquired each year.

Given the quantified benefits of the SFM detailed in PwC's analysis, it is apparent that the SFM plays a key role in the long term success and sustainability of the broader automotive industry, and most importantly the wider supply chain sector.

We believe it is therefore necessary for this Inquiry to recognise the current SFM policy arrangements as one of the fundamental pillars of the Australian automotive landscape

² PricewaterhouseCoopers, *Modelling the Economic Contribution of the Statutory Formula Method*, a report prepared for the National Automotive Leasing and Salary Packaging Association, November 2014.

which stimulates consumption of new motor vehicles and is a key factor in promoting growth throughout the entire Australian automotive industry.

[3.2] Background

The SFM was introduced by then Federal Treasurer Paul Keating in 1986 as part of the original *Fringe Benefits Tax Assessment Act* for the specific purposes of being a low compliance cost alternative to the Operating Cost Method (OCM), and to lessen the impact of FBT *on the automotive industry*.

Originally based on a tiered rate scale according to how many kilometres a benefit vehicle travelled in the particular FBT year, the SFM was simplified in 2011 to provide a taxable value equal to a flat 20% of a benefit vehicle's purchase price, regardless of distance travelled. This had been recommended by the Henry Tax Review (2009).³

The fundamental reason provided by Federal Treasurer Paul Keating for introducing the SFM was to provide employers with a **low compliance cost alternative to the administratively-complex log book method**. The SFM formula inputs are easy to determine. Most importantly, they do not require any ongoing tracking and accounting for vehicle costs and/or employee activity.

Treasurer Keating also made it clear when introducing the SFM that it was intended to alleviate the impact of FBT on car sales without creating distortions in the car market. In other words, the SFM was intended to assist the Australian automotive industry as a whole, and it continues to perform that role with its operation as it does not distinguish between locally-made vehicles and imported vehicles.

[3.3] Economic and related contribution of the SFM

The stimulus to the new car market provided by the SFM is significant

In its report for NALSPA, PwC estimated that during the 2013-14 financial year over **115,000 SFM** vehicles were acquired in Australia across all industries and employers.

PwC concluded that the current SFM arrangements provide a fiscal stimulus that directly impacts aggregate demand in the economy, with the design of the current policy specifically inducing the consumption of new motor vehicles. It determined that for **every \$1 of turnover** in the motor vehicle industry created by an SFM vehicle purchase, gross value add of motor vehicles, parts and other transport equipment has an average contribution of **10 cents to Australian GDP**.

Most importantly, PwC noted that if the subsidy provided through the SFM and salary packaging arrangements was no longer available, consumers would be unlikely to substitute that purchase with an alternative purchase elsewhere in the economy.

Under a hypothetical situation where the SFM was no longer available, PwC estimated that between **167,000 to 200,000** new motor vehicle sales would not occur over a four-year period, thereby reducing motor vehicle sales revenue in the range between **\$5.2**

³ Australia's Future Tax System Review (the Henry Review), *Final Report to the Treasurer*, Canberra, December 2009, Part 1, Recommendation 9, at page 47. The Henry Review had been urged instead to consider a larger number of tiers according to kilometres travelled: see the Review of Australia's Automotive Industry (the Bracks Review), *Final Report*, July 2008, page 72.

billion and \$6.3 billion. The flow on effects of this were estimated by PwC to cause a decline in real GDP in the order of **\$1.8 billion** relative to a normative base case, and a net negative taxation impact to the Australian Government of nearly **\$600 million**.

In summary, PwC's direct impact analysis and economy-wide modelling demonstrated that the SFM has a clear positive impact on the wider automotive sector and therefore the economy and taxation revenue as a whole.

Thousands of jobs depend on the SFM

PwC estimated that up to 6,325 jobs would be lost over the forward estimates period should the SFM no longer be available, and that these would mostly come from the automotive industry (maintenance, spare parts, wholesale and retail, finance etc).

Ageing of the Australian car fleet

PwC's report noted that "salary packaging of motor vehicle benefits over time has led to a greater proportion of newer vehicles on Australian roads than would otherwise have been the case. New motor vehicle sales purchased through salary packaging have strong downstream positive impacts for the wider automotive vehicle supply chain and the environment through more fuel-efficient motor vehicles."

PwC calculated the average age of a SFM vehicle to be 3.1 years compared to the average age of the total Australian fleet of 10.0 years in 2013, down from its peak of 10.7 years in 1997. Amongst other things, this means that the **SFM** is making a **substantive contribution to safer cars being driven on Australian roads**.

Also of interest, PwC estimated that under a scenario where the SFM was no longer in place:

- the average age of the Australian fleet would increase,
- there would be an increase in serious motor vehicle injuries, and
- according to international environmental consultancy SLR Consulting, there would be an increase in greenhouse gas emissions due to lost vehicle sales (and thus older vehicles remaining in use) of approximately **183,292 t CO₂** over the forward estimates (estimate based on a most likely scenario of lost vehicle sales).

The SFM is used mainly by ordinary Australian workers

Based on comprehensive NALPSA member data, PwC determined that it was a "common misperception that SFM vehicles are the domain of high income earners with high value automobiles". Instead, PwC calculated that:

- Around two-thirds of NALPSA members earn less than \$100,000 per annum
- Only 6% of NALPSA vehicles are subject to the Luxury Car Tax
- The average purchase price of a SFM vehicle was \$36,511
- In 2013-14, some 25% of vehicles using the SFM were tool-of-trade vehicles

NALPSA also estimates that less than one in 10 of all motor vehicles purchased/operated via the assistance of the SFM is manufactured in Australia.

The NFP sector is a dominant adopter of the SFM

PwC confirmed that Not-For-Profits (NFPs), charitable and healthcare organisations across Australia are significant users of tool-of-trade and salary packaged vehicles and therefore utilise the SFM for administrative ease and to assist in reducing the remuneration gap for their employees. It estimated around **55,000 employees** across these sectors utilise a vehicle provided through the current SFM arrangements, representing amongst other matters a vital segment of aggregate new car demand in Australia. Furthermore, being able to rely upon the SFM to salary package vehicle acquisitions also contributes to a more mobile workforce, which in the NFP and health sectors can make a positive difference to the performance of employees' duties.

4. Importation of second-hand vehicles

[4.1] Overview

Term of Reference (h) to the Committee's Inquiry recognises "the need to synthesise and consolidate the findings, recommendations and knowledge of other reviews and inquiries pertinent to the automotive industry, in order to identify key policy inconsistencies, regulatory burdens and factors for growth and investment."

An issue of relevance to NALSPA and currently the subject of another Government review (the MVSA Review) is whether existing barriers preventing the importation of second-hand vehicles should be relaxed. As discussed below, NALSPA does not support such a change in policy.

[4.2] Background

The Productivity Commission's March 2014 Inquiry Report on the Australian Automotive Manufacturing Industry recommended, among other things, that:

- (a) the Australian Government should progressively relax restrictions on the importation of second-hand passenger and light commercial vehicles, with new regulatory arrangements for imported second-hand vehicles being developed in accordance with the outcomes of the concurrent review of the *Motor Vehicle Standards Act 1989* (the MVSA Review);
- (b) those regulatory arrangements should not commence before 2018, and ensure that reasonable advance notice is given to affected individuals and businesses, (such as vehicle leasing companies), be limited to vehicles manufactured no earlier than five years prior to importation, and be limited to second-hand vehicles imported from countries with vehicle design standards consistent with Australia's; and
- (c) there should be a prior regulatory compliance framework put in place that includes measures to provide appropriate levels of community safety, environmental performance and consumer protection.⁴

⁴ Productivity Commission, *Australia's Automotive Manufacturing Industry Inquiry Report*, No.70, Canberra, 31 March 2014, Recommendation 5.4, page 32.

The MVSA Review had commenced in January 2014 on the instruction of the Assistant Minister for Infrastructure and Regional Development. Whilst its terms of reference did not specifically include any issues relating to the importation of second-hand vehicles, they did require the Review to have regard to the Productivity Commission's Inquiry.

Thus, the MVSA Review options discussion paper issued in September 2014 (the Options Discussion Paper) included questions directly related to the importation of second-hand vehicles – **Option 7**. This option also included questions concerning the feasibility for removal/relaxation of restrictions concerning the personal importation of new motor vehicles.

NALSPA notes that the Government recently announced an MVSA Review decision, being

“to consider possible options to reduce restrictions on the personal importation of new vehicles after further public consultation is undertaken. **The Australian Government is not inclined to take the same approach with used vehicles.**”⁵
[Emphasis added]

NALSPA is aware of consultations undertaken by the Government with key industry bodies. Whilst our Association has not made specific comment to Government concerning any potential relaxation of restrictions pertaining to the ‘personal importation’ of new vehicles, we note that a number of the issues identified below in relation to the potential large importation of second-hand vehicles has equal relevance to the personal importation of new vehicles, mainly in respect of the ultimate risks to the consumer.

[4.3] The case against removing barriers to the importation of second-hand vehicles

NALSPA's October 2014 submission in response to the Options Discussion Paper focused on the proposal to allow the importation of second-hand vehicles into Australia. Our submission included the following comments.

“The Australian motor vehicle market is one of the most competitive in the world, rendering very high levels of domestic affordability of both new and second-hand vehicles. This status has been achieved with defined standards in place for the benefit of consumers to ensure that all vehicles sold in or imported into Australia are safe, environmentally friendly, and are fit to be driven on Australian roads and conditions which are different to many other parts of the world.

The intent of the then Federal Government when introducing the *Motor Vehicle Standards Act 1989* (the MVSA) was to set minimum safety, environmental and other standards for motor vehicles entering the Australian market, and to restrict the importation of used vehicles to those meeting equivalent standards of safety to those of the Australian Design Rules (ADRs).

In our view, no material evidence exists that Australian consumers or the wider Australian automotive sector and its constituent stakeholders would

⁵ Jamie Briggs, Federal Minister for Infrastructure and Regional Development, *Motor Vehicle Standards Review – Safer roads and better cars*, Media Release JB029/2015, Canberra, 16 April 2015.

derive meaningful net benefit from reducing existing barriers to the personal importation of new vehicles or the general importation of second-hand vehicles.

We believe the case for reducing those barriers is weak and ignores the potential for realising the very risks the MVSA is intended to avoid, to the detriment of consumers and the community, together with the potential for significant disruption to Australia's wider automotive sector and its many stakeholders.

The risks to consumers presented by such a reform significantly outweigh any perception cheaper and more affordable cars for the bulk of consumers would be the outcome. Moreover, it is our view that such a perception is misplaced – consumers will, in the overwhelming majority of cases, not be able to buy and import more affordable cars than those already available in the Australian market.

In addition, a consumer buying a personally-imported new vehicle or an imported second-hand vehicle is likely to face a range of issues, including potentially higher repair, maintenance and insurance costs, as well difficulties in determining whether such a vehicle is 'fit for purpose' for Australian conditions, whether overseas warranties will be obligated, whether its safety and environmental performance meets Australian requirements and so on. Critically, the bulk of consumers are unlikely to be unsuspecting of such matters."

Safety concerns

The safety of motor vehicles on our roads and in our communities is paramount. For a *new vehicle* to be sold in Australia it must comply with a range of Australian Design Rules and having done that, a "type approval" is given to that vehicle model. This means that all new vehicles coming off the production line that meet the description of the model in the "type approval" are certified.

These processes mean that consumers currently acquire second-hand vehicles in Australia (which were originally sold new in Australia) with the knowledge and comfort that they meet necessary safety, environmental, theft and related design standards.

Furthermore consumers also know that these vehicles are specified 'fit for purpose' for Australian road and climate conditions, so that their purchase decisions focus ostensibly around vehicle preference, colour, price, engine capacity, visual appeal and condition (in the case of used vehicles). Such purchase decisions do not need to include whether:

- the vehicle meets certain safety criteria,
- they will be able to get it repaired,
- it will cope with local road types and climatic conditions, or whether
- its drive-train and features are as normally found in that model type sold new in Australia.

NALSPA's concern is that the average consumer does not generally have the ability to clearly identify and comprehend the potential unique risk issues associated with imports in the absence of the existing compliance and certification process.

For example:

- How would a consumer know if a given imported vehicle is fit to be driven safely on Australian roads? As described above full volume new vehicles imported to Australia are designed and manufactured to specification to be fit for purpose for Australian conditions (ie to cope with our hot climate, harsh roads, long distances travelled, high incidence of towing compared with countries such as Japan, etc).
- How would a consumer know if a given imported vehicle had been subject to a recall notice?
- How would a consumer be able to confirm the provenance of a given imported vehicle or the genuine nature of any repairs or maintenance? How would such a consumer obtain redress for any problems with the legality of their ownership or with substandard repairs or maintenance? It cannot be assumed that local dealer networks will honour any overseas-sourced warranties, and nor can the consumer assume that parts will be available in Australia or that local repairers have the necessary diagnostic tools.
- Given those matters, will consumers be able to secure insurance or finance in respect of any given imported second-hand vehicle without paying more than would be the case for an imported new vehicle. And would such issues be known to consumers prior to them acquiring such vehicles so that they can make an informed decision?

Reducing barriers to importations of second-hand vehicles will defeat or at best weaken that purpose for little if any consumer benefit.

NALSPA therefore submitted to the MVSA Review that it does not support the implementation of amendments to the MVSA having the effect of lowering existing barriers to the importation of second-hand vehicles. This remains the view of NALSPA and it is pleasing to see the Federal Government (and the Opposition) appears to have adopted the same view, and the very reasons we have noted above.

NALSPA believes it is imperative that the wider Australian automotive industry not only perceives stability on the public policy framework but also receives the necessary support for automotive demand and the subsequent channels which support that demand and continues to provide jobs for the more than 230,000 Australians working across the industry.

5. Summary

To summarise our submission to the Committee's Inquiry:

- The Statutory Formula Method of valuing car benefits makes a substantial contribution to the automotive industry and the broader Australian economy. In this context we believe it is important that the Inquiry recognises the current Statutory Formula Method policy arrangements as one of the fundamental pillar of the Australian automotive industry.
- NALSPA maintains its view that barriers against the importation of second-hand vehicles into Australia should not be lifted.

We would be pleased to discuss these matters directly with the Committee if the need or opportunity arises.