



Thursday, 7 September 2017

Australian Competition and Consumer Commission
Consultation Hub
New Car Retailing Industry - a market study by the ACCC

Email: newcars@acc.gov.au

Dear Sir / Madam

***Re: New Car Retailing Industry - market study by the ACCC
Draft Report August 2017***

1. Introduction

1.1 The Motor Trades Association – Queensland (MTA Queensland / the Association) responds to the Australian Competition and Consumer Commission’s (ACCC) invitation for submissions to its August 2017 Draft Report *New Car Retailing Industry - a market study by the ACCC* (the draft Report or the study).

1.2 The MTA Queensland’s comments are submitted on behalf of its constituent divisions and are confined to issues which relate to the interest of Queensland’s automotive value chain which includes franchised new vehicle dealers, independent mechanical and motor body repairers, recyclers and other discrete automotive professions and services.

1.3 The Association is of the view that the market study may deliver a more comprehensive analysis of Australia’s new car retail industry if it acknowledged that during the 20th century and the first two decades of this century the automotive value chain performed an important socio-economic function in Australia’s growth and development. The decentralisation of Australia’s demographics resulted in a geography that was challenging for socioeconomic advancement; and one of the leading drivers of change and progress was the automotive value chain.

1.4 Both new vehicle manufacturers and the retailers are good corporate citizens through corporate socially responsible philanthropy and sporting and community sponsorships. At the local level, new vehicle retailers as part of their community service responsibility accepted the need to provide financial support for social infrastructure and community amenities.

2 The draft Report

2.1 The MTA Queensland has examined the draft Report in depth to understand the implications of the proposed actions and recommendations for its members.

2.2 As an over-arching comment, the Association observes that the study is based on the architecture of the new vehicle supply chain as it had evolved in the twentieth century. This evolution had been based on business models that are able to sustain the supply of motor vehicles in a sub optimal scale market delivering world’s best practice internal combustion engine (ICE) technology for Australia’s consumers.

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This business model has enabled the supply and servicing of a market that is spatially challenging with its remote and regional economic geography imposing higher logistical and overhead costs on the value chain.

2.3 The market study needs to recognise that while clearly there are serious deficiencies in the retailing supply chain performing its statutory obligations which need to be corrected; in many ways the business model for the latter half of the twentieth century had delivered world class private motoring services in a modest sized market that is spatially challenging.

2.4 The MTA Queensland recognises the comprehensive work that has been undertaken into the development of this study. The Association urges however, the ACCC to extend the scope of the work by extrapolating the review of the new vehicle retail industry into the 21st century for a more complete view and understanding of the future direction the industry may take. Australia's automotive retail market is predicted to experience a wide ranging disruption from the introduction of and consumer adoption of: plug-in-electric (PIE) vehicle technology; the wide spread influence of autonomous vehicle technology; and possible changes to the architecture of Australia's private vehicle motoring market with a transition to a more communally based ownership displacing the high levels of private vehicle operation that is currently the norm.

2.5 These changes can be expected to have a profound effect on the vehicle retailing supply chain. The number of vehicle suppliers and models is likely to contract or be rationalised. In addition, further consolidation in dealerships is likely to result in a higher degree of market concentration possibly resulting in a market more dominated by a number of publicly listed companies. The retail product mix dominated petrol and diesel ICE technology will be displaced by hybrid and PIE technologies.

2.6 The existing automotive value chain will need to respond to the predicted technology evolutions; the business model that has carried the industry through the twentieth century and the first two decades of the twenty-first century is likely to have increasingly less relevance once the technology disruption gains momentum. The advent of collision avoidance technology disruption will rationalise the collision repair industry and the independent repair sector for ICE vehicles; and is likely to be displaced by demand for electrical and electronic expertise.

2.7 The MTA Queensland has long recognised the disruptive effect of structural and technological trends generating change in the automotive value chain. The change from fossil fuels as the main energy source for transportation and the progressive displacement of the internal combustion engine means that Australia's society and the economy will undergo some fundamental transformations. For this reason the Association is working with Queensland University of Technology academics to progress understanding of the emerging technologies and digital disruption so that the membership and automotive value chain stakeholders can access the intellectual capital needed to adjust business models or generate new and more effective business modus operandi.

2.8 The Association has formed a view that if Australia's private motoring public is to get access to world's best automotive technology in the twenty first century, then the value chain will need the intellectual capital to evaluate, acquire and maintain the best electronic PIE and high hybrid motor vehicles on behalf of the consumer.

2.9 With this in mind the Association has conducted two *Carmageddon* Symposiums with the intention of providing the leadership and advance understanding of present and future disrupters to the value chain and to bridge the knowledge gap on the digital economy and the emerging technologies in this sector. The extent and velocity of technological changes for enterprises engaged in the motor trades value chain will be challenging and is likely to demand the adoption of a new and different business model if enterprises are to successfully adapt to the paradigm changes which disruption and autonomous vehicle technology will initiate.

2.10 On a practical basis, the Association is establishing the first automotive innovation hub in Australia at the MTA Queensland's Sir Jack Brabham Automotive Centre of Excellence. The objective of the hub, first and foremost is to equip members so that are prepared for the digital disruption and the impact of emerging technologies. Through *Carmageddon* the interest of six start-ups has been secured that are at different stages of development one of which is a 3D start-up.

2.11 In these circumstances the MTA considers it important that the actions and recommendations the ACCC proposes should take account of the technological and market evolutions the industry will be required to confront in the twenty first century.

2.12 The ACCC's attention is drawn to feedback from the Australian Automotive Dealer Association Queensland. This suggests that the draft Report could be improved by a more robust analysis of the commercial treaties that form the basis of the contractual relationships between vehicle manufacturers and dealers and how this impacts commercial behavior in respect of consumer responsibilities. The outcomes from the architecture of these relationships affect many factors (including competitive conditions), some of which are not under the control of the franchise dealers. These contractual relationships are complex; there is an intention to schedule this as an agenda item for consideration at the roundtable on 25 September at which the MTA Queensland is an invitee.

3. Comments on the Proposals

3.1 The statutory and regulatory changes recommended by the ACCC should ideally have the competence to continue to effectively regulate the new vehicle retailing supply chain through the duration of the next half century and beyond.

3.2 As a general principle, the MTA Queensland is supportive of the ACCC's proposed actions and recommendations in relation to new motor vehicle retailing. The Association's preference in this process is for a 'light touch' regulatory program in the first place and a soft transition to enable unintended consequences to be identified. In particular, the need to educate all stakeholders in the rights and responsibilities of the statutory obligations associated with new vehicle retailing; and the rights and responsibilities of the statutory guarantees that are triggered by a new vehicle sale. It is a necessary precondition to any changes to the regulatory framework.

3.3 The MTA Queensland supports:

- (1) Draft recommendation 3.1 - The draft recommendations on proposed amendments to enhance the ACL.

The MTA Queensland does not support:

- (2) Draft recommendation 4.1- Draft recommendations on access to technical information for new cars.

3.1.1 The thrust of the recommendation that car manufacturers share with independent repairers technical information, on fair and reasonable terms has merit. This should be achieved preferably through an agreed industry code of conduct without resorting to a mandatory scheme. The emerging technological disruption from the introduction of and consumer adoption of PIE technology inevitably will make any mandatory code substantially redundant particularly as demands for ICE repairs and services decline.

3.1.2 This draft recommendation is in conflict with the Commonwealth Government's policy of reducing the compliance burden on business and cutting red tape. A function of the Small Business Ombudsman is to 'cut compliance burdens and reduce red-tape'. Recently, the Association's representatives met with Queensland Senator the Hon James McGrath to discuss practical and achievable regulatory reform ideas. A study by the Institute of Public Affairs estimates that red tape costs Australia's economy \$176 billion, 11 per cent of GDP, each year in economic output

forgone (Wild, D., Fraser, J., Husek, M., Reducing Red Tape in Australia, 'one in, two out rule', Institute of Public Affairs, May 2017).

The MTA Queensland supports:

- (3) Draft recommendation 5.1 - draft recommendations on parts;
- (4) Draft recommendations 6.1 - draft recommendation on fuel consumption and CO² emissions claims;
- (5) Draft recommendation 6.2 - Draft recommendations on the fuel consumption and emissions discrepancy; and
- (6) Draft recommendation 7.1 -Draft recommendation on telematics.

3.4 The MTA Queensland notes:

- (1) ACCC action 3.1 - ACCC action consumer understanding of their rights;
- (2) ACCC action 3.2 and 3.3 -ACCC action on consumer understanding of their rights;
- (3) ACCC action 3.4 - ACCC action on the consumer experience of enforcing their rights; and
- (4) ACCC action 5.1 - Draft action on parts.

3.5 The MTA Queensland urges the ACCC to carefully consider the cost of compliance in any regulatory changes it recommends. The business model the new vehicle retail supply operates is likely to come under increasing stress as new technologies displace the existing standards. There will be a need for a transition to a new supply chain and business model during this period. Consequently the management of compliance costs are likely to be an increasingly important consideration for participants in the chain.

3.6 As the technology proceeds there will be a change in the ranking of priorities. Perhaps the most profound of these will be issues of fuel consumption and CO² emissions declarations. As hybrid and particularly PIE powered vehicles displace the ICE, the issue of fuel consumption priority will gradually decline and the measurement of emissions in the form of CO², Nitrogen Oxide, and Sulphur Dioxide will be accorded lesser rankings. In turn the priority ranking will be taken up by a new generation of environmental issues such as the responsibility for the end of life disposal of lithium batteries and how this is to be financed.

3.7 The MTA Queensland requests the ACCC to take the comments in 3.6 into consideration and support the implementation of a framework in which a compulsory 'star system' and a 'declaration of absolute' fuel consumptions made by the manufacturer in respect of each model available for sale in the Australia be audited by an independent agency available to consumers evaluating the purchase of a new vehicle.

4. Conclusion

4.1 The MTA Queensland requests its submission 1.3 that the market study would be more comprehensive if it acknowledged the contribution the automotive value chain made to the development Australia's society and economy during the twentieth century under challenging business conditions in particular the modest scale of the domestic market.

4.2 In supporting the ACCC's approach (excepting Draft recommendation 4.1 -access to technical information for new cars - a mandatory scheme), the MTA Queensland suggests that for each major recommendation implemented a review period be nominated to allow industry participants to adjust behavioural norms to accord with any statutory obligations and regulatory regimes. There is always an ever present general concern about the management of unintended consequences and suggests a mechanism be established to deal with such circumstances. The Association petitions that at the conclusion of the review period the industry be granted the opportunity to voice its view that may require ACCC's attention or action.

4.3 We would be pleased to provide further comment on any matters in our submission that may require further clarification or amplification.

5 The MTA Queensland Background

5.1 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 14,000 automotive value chain businesses employing in excess of 90,000 persons generating up to \$21 billion annually. 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.

5.2 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 (MTAI). It is the largest automotive apprentice trainer in Queensland employing 35 trainers geographically dispersed from Cairns to the Gold Coast and Toowoomba and Emerald. The MTAI last financial year accredited courses to in excess of 1,600 apprentices and trainees.

Thank you for your consideration.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brett Dale', written in a cursive style.

DR BRETT DALE
Group Chief Executive